15 March 2012

POWERFLUTE OYJ

Preliminary Results
For the year ended 31st December 2011

Powerflute Oyj ("Powerflute" or the "Group"), the packaging and paper group, today announces its preliminary results for the year ended 31 December 2011. Powerflute is quoted on the AIM market of the London Stock Exchange (Ticker: POWR) and on NASDAQ OMX First North, the alternative market of the NASDAQ OMX Helsinki (Ticker POW1V).

Financial Highlights:

- Revenues from continuing operations increased by 15% to €121.5 million (2010: €105.4 million) and operating profit doubled to €14.3m (2010: €7.1m)

- Disposal of the loss-making Graphic Papers business segment in May 2011 generated cash proceeds of €32.5m

- Financial position improved by €48.2 million during the year to a net cash position of €19.1m (2010: net debt €29.1m), including cash and cash equivalents of €45.6m

- EPS improved to 3.5 cents per share (2010: 13.3 cents loss)

- The directors intend to recommend a dividend for 2011 of 1.3 cents per share (2010: 1.0 cents per share) representing a yield of approximately 5%

- Share repurchase programme of up to 25 million shares representing 8.6% of issued share capital to be initiated, subject to market conditions

- Application to be made to Helsinki Stock Exchange for delisting from First North with effect from 30 June 2012

- Share consolidation on a one for ten basis to be proposed to an Extraordinary General Meeting to be held once delisting from First North is completed

Operational Highlights:

- Significant progress made with delivery of the Group's strategy of maximising returns through improved market positioning, operational efficiencies and targeted capital investment

- Strong recovery in demand in most markets and attractive pricing levels resulted in robust growth, improved profitability and strong cash generation

- Management action to reposition the Group and its products in more attractive markets, together with returns from capital investment projects, contributed significantly to the improved performance

- Disposal of Graphic Papers has transformed the Group, strengthening its financial position and providing funds for investment in continuing businesses and the pursuit of new opportunities

Commenting on the results, Dermot Smurfit, Chairman of Powerflute said:

"Powerflute enjoyed a profitable and successful year and made considerable progress with the implementation of its business strategy during 2011. Favourable market conditions, operational improvements and returns from capital investment contributed to much improved levels of profitability. The disposal of Graphic Papers in May 2011 made a significant contribution and helped to return the Group to a robust net cash position at the year end. Our intention to return capital to shareholders through an increased dividend and a share repurchase programme reflects the Board's belief that Powerflute's current market value does not reflect its true intrinsic business worth.

"The Group has made an encouraging start to the year and while market conditions are expected to remain challenging in 2012, recent announcements of price increases suggest that confidence may be returning, providing grounds for cautious optimism. With significant cash balances available to us we have the financial resources to continue with investment in our remaining businesses where there is still scope for further improvement. We remain focused on our acquisitive growth strategy in the paper and packaging sectors and the Group's strong financial position will enable us to take advantage of opportunities as they arise."

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About Powerflute

Powerflute Oyj ("the Company" or "Powerflute") is a paper and packaging group quoted on the AIM market of the London Stock Exchange (Ticker: POWR) and on NASDAQ OMX First North, the alternative market of NASDAQ OMX Helsinki (Ticker POW1V). 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 locally sourced birch. Corrugated boxes manufactured using Nordic semi-chemical fluting demonstrate strength and moisture resistance and are used for transportation of fruit and vegetables, high-value industrial goods such as electrical appliances and automotive components. The Kuopio mill is one of only three suppliers of Nordic semi-chemical fluting in Europe.

CHAIRMAN'S STATEMENT

Powerflute enjoyed a profitable and successful year and made considerable progress with the implementation of its business strategy during 2011. Packaging Papers benefited from favourable market conditions for much of the year and this, together with operational improvements and returns from previous capital investment contributed to much improved levels of profitability. The disposal of Graphic Papers in May 2011 transformed the Group's financial position and we now have considerable funds available to us for investment in the development of remaining businesses and for the pursuit of new opportunities.

Revenue from continuing operations increased by 15% to €121.5 million (2010: €105.4 million) and operating profit from continuing operations doubled to €14.3 million (2010: €7.1 million). The operating margin improved to 11.8% (2010: 6.7%).

Basic earnings per share improved to 3.5 cents (2010: 13.3 cents loss) and basic earnings per share from continuing operations of 3.4 cents was also a significant improvement on the prior year (2010: 1.8 cents). In recognition of the strong performance, the directors intend to recommend the payment of an increased dividend of 1.3 cents per share (1.0 cents per share) for the year ended 31 December 2011.

Although we expect macroeconomic conditions to be more challenging in 2012, we look to the future with optimism and are confident that the Group is well positioned to benefit from any improvement in conditions as the year progresses and has the financial resources to take advantage of opportunities as they arise.

Disposal of Graphic Papers

The successful and profitable disposal of the Graphic Papers businesses in May 2011 for total consideration of €38.5m was the most significant development for the Group during the year. After performing well in 2009, Graphic Papers encountered more challenging market conditions in 2010 and as a non-integrated paper producer was heavily impacted by the dramatic increase in pulp and other raw material costs experienced over the last two years. We believe that the disposal to Paper Excellence, which has both pulp and paper production assets, represents a successful outcome for both the Graphic Papers business and the Group.

Results of continuing operations

The Packaging Papers business experienced favourable market conditions for much of 2011 and performed very strongly. Robust demand and attractive pricing continued in many of the markets in which the Group's products are sold and this, together with management action to improve penetration into more profitable markets, resulted in revenues from continuing operations increasing by 15% to €121.5m (2010: €105.4m). Higher volumes, better average prices and returns from capital investment made during 2010 and 2011 all contributed to an improvement in operating profit from continuing operations to €14.3m (2010: €7.1m). Although market conditions became more challenging as the year progressed, Packaging Papers continued to perform well and we believe that the actions taken during 2010 and 2011 have improved the underlying competitive position and resilience of this business.

Harvestia, the Group's wood supply organisation in Finland, continued to develop well and grew very strongly during 2011. In January 2011, we welcomed Vapo Oy as an equal partner alongside Powerflute and Myllykoski Corporation. During the year, Harvestia continued to expand its operations into new business areas and this, together with wood supplies to Vapo, contributed to an 85% increase in revenues which now exceed €200m per annum. Following the acquisition of Myllykoski by UPM-Kymmene, Powerflute and Vapo agreed to purchase Myllykoski's interest in Harvestia. The transaction was completed in January 2012 and the Group now has a 45% interest in Harvestia.

Strategy

The Group will continue to invest in the development of its existing businesses. Recent capital expenditure in Packaging Papers has delivered returns in line with our expectations and there are further attractive projects that we will pursue during 2012 and beyond. Harvestia continues to grow rapidly into new and potentially lucrative areas and has become an influential participant in the Finnish wood market. We continue to actively seek opportunities for further acquisitions, either to complement our existing businesses or to achieve penetration into new sectors of the paper and packaging markets where the Group can bring to bear its management expertise and insight.

Financial position

Strong cash generation from Packaging Papers and receipt of the proceeds from the disposal of Graphic Papers transformed the financial position of the Group. The net funding position improved by €48.2 million during the year and by 31 December 2011 the Group had net cash of €19.1 million, including cash and cash equivalents of €45.6 million and borrowings of €26.5 million, equivalent to only 1.4 times EBITDA. This represents an improvement of more than €70m from the peak level of borrowings at the end of 2009 and the Group now has a strong financial platform from which to pursue further development of its existing businesses and to consider strategic investments in new areas.

Dividend

The directors intend to recommend to the Annual General Meeting to be held in Kuopio on 26 April 2012, the payment of a dividend of 1.3 cents per share (2010: 1.0 cents per share) for the year ended 31 December 2011. The ex-dividend date would be 26 April 2012. The record date for the proposed dividend would be 2 May 2012 and the payment would be made on or about 18 May 2012. The proposed dividend would represent a yield of approximately 5% based on the Group's closing share price on 14 March 2012.

Share repurchase, consolidation and intention to delist from First North

In view of the current low valuation of the Group's shares, the directors consider that repurchase and cancellation of own shares would represent an attractive and value enhancing use of the Group's financial resources. In accordance with the authority granted to them at the Annual General Meeting held on 27 May 2011 and subject to market conditions, the directors intend to initiate a share repurchase programme involving up to 25,000,000 shares representing 8.6% of the issued share capital. The programme will be undertaken by way of market purchases and the authority to repurchase shares will be renewed at the forthcoming Annual General Meeting to be held on 26 April 2012.

In February 2008, the Group applied for a secondary listing of its shares on First North, the alternative market of the OMX Nordic Exchange. The volume of trading of the company's shares on First North does not currently justify the additional expense and administrative burden associated with a secondary listing. Accordingly, the directors have informed the Helsinki Stock Exchange that it is their intention to apply for delisting from First North and to concentrate trading of the company's shares through its primary listing of depositary interests on the Alternative Investment Market of the London Stock Exchange. The current intention is that delisting should become effective from 30 June 2012. The formal application for delisting is expected to be made to the Helsinki Stock Exchange during April and further details of how this will affect shareholders and of the steps necessary for conversion of direct shareholdings into depositary interests will be communicated to shareholders at this time.

Following fundraising activities in December 2008 and November 2010, the number of shares in issue has increased from 88,000,000 at the time of the Initial Public Offering in May 2007 to the current level of 289,818,174. With this number of shares in issue, small changes in the Group's share price can have a significant impact on market capitalisation. In order to address this, the directors intend to recommend to shareholders a share consolidation on a one for ten basis. Detailed proposals will be presented for consideration by shareholders at an Extraordinary General Meeting to be held once delisting from First North has been completed.

People

On behalf of the directors and shareholders, I would like to thank all of our employees for their continuing commitment and dedication. It is through their hard work that we have been able to achieve the significant progress made during the year and to deliver such a strong financial performance. The Group remains committed to the continued development of a talented, motivated and fulfilled workforce.

Dr Ulrich Scheufelen, who was appointed as a director in April 2009 shortly after the acquisition of Papierfabrik Scheufelen, has indicated that following the successful disposal of the Graphic Papers businesses he does not wish to offer himself for re-election as a director of the Group at the forthcoming Annual General Meeting. He continues to be involved with Papierfabrik Scheufelen in an advisory capacity to the new owners and I would like to take this opportunity to thank him for the contribution that he has made to the development of the Group and its businesses and to wish him every success in his future endeavours.

Outlook

The Group has enjoyed a profitable and successful year and made considerable progress with the implementation of its strategy. The disposal of the Graphic Papers business in May 2011 has transformed our financial position and we now have considerable funds available for investment in the development of remaining businesses and the pursuit of new opportunities. The Packaging Papers business enjoyed a particularly successful year as favourable market conditions, operational improvements and returns from previous capital investment contributed to much improved levels of profitability.

Speculation over the future of the Eurozone and the strength of major economies affected many of the markets in which the Group operates during the second half of 2011. Following a period of some weakness, paper and packaging markets have shown signs of improvement during the first quarter of 2012 and recent announcements of price increases suggest that confidence may be returning, providing grounds for cautious optimism. The Group has continued to perform well and has made an encouraging start to the year.

Whilst we expect market conditions to remain challenging throughout 2012, we are confident that Powerflute is well placed both financially and strategically to take advantage of opportunities as they arise, and to benefit from any improvement in trading conditions as the year progresses.

Dermot Smurfit
Chairman
15 March 2012

CHIEF EXECUTIVE'S STATEMENT

During 2011, we delivered on many of the objectives established ahead of the rights issue and placing undertaken in November 2010. Considerable progress was made improving the performance and competitive position of our Packaging Papers business and many of the actions taken in 2011 will continue to deliver benefits in 2012 and beyond as we progress towards best-in-class performance in this business. The disposal of Graphic Papers leaves the Group in a much improved financial position and this has created a strong platform from which to pursue growth and development opportunities in both the medium and long term.

Our operational excellence programme in Packaging Papers concentrated on three main areas during 2011: investment in product performance and operational efficiency, improving customer focus and technology and innovation. Using the proceeds from the rights issue and placing, we completed a number of major investment projects intended to reduce cost or enhance our service offering. Several of these projects were already delivering considerable benefits by the end of the year. Greater focus on understanding the needs of our customers has resulted in changes to formulations and specifications which have improved the performance and usability of our products and this, together with enhancements to service levels, has further strengthened our competitive position. We continue to invest in improving the performance of our products and exploring opportunities to reduce manufacturing costs through innovation.

During the year, many of the improvement programmes operating in Packaging Papers were consolidated into “Operation Ilmarinen”, which now provides a coherent framework for future development of this business, with clear objectives and complementary strategies for delivering sustainable performance improvement in the medium term.

In September 2011, our semi-chemical fluting business Savon Sellu celebrated production of the eight millionth tonne of paper since the mill began operation in 1968. This was marked by a number of celebrations, including a conference which was attended by many of our major customers, agents and suppliers. The level of interest in this event was a testament to the strength of the relationships that the business has with its major stakeholders.

The decision to proceed with the sale of Graphic Papers to Paper Excellence BV, a privately owned producer of pulp and paper, was taken after much deliberation by the Board. Graphic Papers had been under our control for a little over two years and during this period good progress had been made despite very challenging market conditions. Following adverse developments in worldwide pulp markets, we concluded that this business would be better able to tackle the challenges it faces as part of an integrated group with its own pulp production. The disposal to Paper Excellence for total consideration of €38.5m, including the assumption of €6.0m of debt by the purchaser, has transformed our financial position and provided us with the financial platform necessary to further invest in Packaging Papers and to pursue other development opportunities.

Speculation over the future of the Eurozone and macroeconomic challenges faced by major economies created considerable uncertainty in many of our markets during the second half of 2011 and we, like most of our customers and competitors, experienced softening demand and some price erosion as the year progressed. Despite this, Packaging Papers continued to perform well and has made a good start to 2012. We look to the future with a degree of optimism as there is scope for further improvement in our own business and we are well positioned to benefit from any improvement in market conditions.

BUSINESS REVIEW

GROUP

The Group enjoyed a profitable and successful year and made considerable progress with the implementation of its strategy as favourable market conditions, operational improvements and returns from previous capital investment contributed to much improved levels of profitability.

Revenue from continuing operations increased by 15% to €121.5 million (2010: €105.4 million) and EBITDA from continuing operations increased by 70% to €18.8 million (2010: €11.1 million), due principally to the impact of strong demand and attractive selling prices in most major markets.

Operating profit from continuing operations improved to €14.3 million (2010: €7.1 million) due to the strong performance of Packaging Papers and the inclusion of an exceptional gain of €1.9 million realised on the sale of Harvestia shares in January 2011. The profit for the period attributable to shareholders improved to €10.1 million (2010: €23.4 million loss, or €1.3 million loss before impairment of Graphic Papers assets).

PACKAGING PAPERS

Packaging Papers performed very strongly during the year, achieving EBITDA of €18.8 million (2010: €7.1 million) on revenues up 15% to €121.5 million (2010: €105.4 million). This included an exceptional profit of €1.9 million from the sale of shares of Harvestia. On an underlying basis EBITDA from continuing operations was €16.9 million, representing a margin of 14% (2010: 14%).

Savon Sellu

Through its subsidiary Savon Sellu, the Group operates a paper mill in Kuopio, Finland, which produces a specialised form of semi-chemical fluting for use in the construction of corrugated case materials. Nordic semi-chemical fluting is made from locally sourced birch and boxes manufactured from it demonstrate exceptional strength, rigidity and moisture resistance and are used extensively for transportation of fruit and vegetables and high value industrial goods such as electrical appliances, automotive and other machinery components. The Kuopio mill is one of three large suppliers of semi-chemical fluting based in the Nordic region.

Demand during the first half of the year was very strong, with most customers and producers operating at close to full capacity due to a combination of restocking and strong recovery in end markets. This created an environment where a robust approach to pricing continued to be possible and margins throughout the industry improved to levels not seen since before the economic downturn. Over the summer months, we experienced a period of relative stability with good demand and pricing before uncertainty over the future of the Eurozone and the strength of global economies adversely affected confidence in the final quarter. Although market conditions weakened towards the end of the year, we were still able to operate at close to full capacity and experienced only moderate price erosion.

Despite the favourable market conditions, total deliveries increased by only 2% compared with the prior year. This was principally due to an extended annual maintenance shutdown during the first half to allow the completion of a number of major capital investment projects and to a further shutdown during the expensive Christmas period. Together, these stoppages reduced available capacity by more than 15,000 tonnes.

Average selling prices increased by 13% compared with the prior year. However, this was largely due to the low prices achieved during the first half of 2010 depressing the average for the prior year. In practice, selling prices were remarkably stable throughout the period with a difference of only 3% between the maximum and minimum average pricing level achieved over the course of the year.

During the year, we worked very hard to improve the mix of business and were able to achieve increased penetration of more profitable and attractive markets where the unique performance characteristics of our products are more highly valued and to reduce our dependence on markets where the customer's approach is more commoditised and competition is more intense. This contributed to the healthy increase in EBITDA margins, which was achieved despite the constraint on volumes, and also improved our resilience in the face of weakening market conditions towards the end of the fourth quarter.

Following the rights issue and placing in 2010, which raised net proceeds of €18.3m, we committed to a number of major investment projects which were completed during the latter stages of 2010 and in the first half of 2011. In particular, investment and modifications in the pulp mill have improved both quality and yield and should ultimately lead to an increase in paper performance and output capacity and investment in a fully-automated wide-width packing line has reduced labour costs and enhanced our ability to service the new generation of wide-web corrugators. We also completed a major overhaul and refurbishment of the steam turbine generator, which is typically required every seven to eight years and was last performed in 2004, and carried out a significant number of other major repairs and replacements.

Loss of capacity and additional costs during the extended planned maintenance shutdown, together with expenditure on energy during the turbine refurbishment, had a significant impact on the result for the year. However, the completed projects are already delivering returns in line with or ahead of our expectations and should yield benefits in 2012 and beyond.

Harvestia

This was a year of significant change for Harvestia, the Group's wood procurement organisation which is accounted for under the equity method as an associated company.

In January 2011, we welcomed Vapo Oy, a large Finnish forest products group, as an equal partner in Harvestia alongside Powerflute and Myllykoski Corporation. In addition to its direct investment, Vapo also contributed its wood procurement organisation and agreed to source 100% of its substantial wood requirements through Harvestia. This, together with increased penetration of business areas such as supply of biomass to energy companies and producers of biofuels, resulted in growth of more than 85% compared with the prior year and Harvestia's revenues during 2011 exceeded €200 million.

Following the acquisition of Myllykoski Corporation by UPM-Kymmene, which has its own wood procurement organisation, Powerflute and Vapo agreed to purchase Myllykoski's interest in Harvestia. This transaction was completed in January 2012 and the Group now has a 45% interest in Harvestia.

Outlook for Packaging Papers

Despite softer market conditions during the fourth quarter of 2011, the outlook for Packaging Papers remains broadly positive. Some price erosion has occurred, but recent announcements of price increases from producers of competing products provide evidence that conditions may be stabilising and might improve as the year progresses. The order intake during the first quarter of 2012 has been reasonably robust and actions taken to improve competitive position and achieve greater pricing resilience during down cycles appear to be working. Returns from capital investment should also help to bolster performance during 2012.

GRAPHIC PAPERS

Through its former subsidiary Papierfabrik Scheufelen, the Group operated a paper mill in Lenningen, Germany, producing up to 300,000 tonnes 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.

On 3 May 2011, the Group completed the disposal of Graphic Papers to a newly formed subsidiary of Paper Excellence BV, a producer of pulp and paper registered in the Netherlands. The total consideration for the disposal was €38.5 million, consisting of cash of €32.5 million and the assumption of €6.0 million of debt by the purchaser.

During the period prior to its disposal, Graphic Papers continued to experience weak demand and high raw material costs and the loss for the period from discontinued operations was €1.4 million, which represented a small improvement on performance during the same period of the prior year.

After recognising a gain on acquisition of €33.0 million in the year ended 31 December 2009 and an impairment charge of €22.1 million in the year ended 31 December 2010, both net of deferred taxes, the Group has recognised a gain on disposal of the discontinued operations of €1.6 million in its income statement for the year ended 31 December 2011. Graphic Papers had previously reported an operating profit of €9.1 million for the year ended 31 December 2009 and an operating loss of €6.2 million for the year ended 31 December 2010.

The cash consideration of €32.5 million represented a significant return on the Group's initial cash investment in Graphic Papers and despite the shorter than expected period of ownership, the disposal was consistent with Powerflute's strategy to create value for shareholders through the acquisition and restructuring of underperforming paper and packaging businesses.

Marco Casiraghi
Chief Executive Officer

FINANCIAL REVIEW

Review of 2011

The disposal of the loss-making Graphic Papers business transformed both the financial position and profitability of the Group during 2011. Packaging Papers, benefiting from favourable market conditions, operational improvements and returns from previous capital investment, achieved record levels of profitability and generated strong operational cash flow.

The profit for the period attributable to shareholders improved dramatically to €10.1 million (2010: €23.4 million loss, or €1.3 million loss before impairment of Graphic Papers assets) and the disposal proceeds of €32.5 million contributed to a €48.2 million improvement in net debt, leaving the Group with a net cash surplus of €19.1 million at 31 December 2011, including cash balances of €45.6 million.

Revenue from continuing operations

Revenue from continuing operations increased by 15% to €121.5 million (2010: €105.4 million), due principally to the impact of higher average selling prices in most markets. Despite the extended maintenance shutdown during the first half, total deliveries increased by 2%, while average selling prices increased by 13% compared with the prior year.

Operating profit from continuing operations

Operating profit from continuing operations improved to €14.3 million (2010: €7.1 million) due to the strong performance of Packaging Papers and the inclusion of the gain of €1.9 million realised on the sale of Harvestia shares in January 2011.

Raw materials and consumable costs increased by €7.3 million (14%) to €60.0 million (2010: €52.6 million). This was due to a combination of higher expenditure on routine maintenance, additional electricity purchases during the steam turbine generator refurbishment, an inventory effect as production exceeded deliveries and cost inflation on chemicals and other raw materials. Wood and other fibre costs remained stable throughout the period.

Employee benefit expenses increased by €2.4 million (16%) to €17.6 million (2010: €15.2 million) as a result of awards under performance related employee incentive schemes and recruitment of additional resources in product development, maintenance and engineering. Other expenses increased by €2.7 million 10% to €28.7 million (2010: €26.1 million), due principally to higher delivery charges.

Depreciation and amortisation increased to €4.5 million (2010: €4.0 million) reflecting the impact of higher capital expenditure in the second half of 2010 and the first half of 2011.

Finance income and expenses

The Group had net finance expenses of €1.9 million (2010: €2.3 million) consisting of finance income of €0.3 million (2010: €1.6 million) less finance expenses of €2.2 million (2010: €3.8 million).

Finance income in the year ended 31 December 2010 included €1.5 million of gains arising from the treatment of certain elements of the subscription rights offered in the rights issue and placing completed in November 2010 as derivative financial instruments in accordance with the provisions of IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement.

The underlying increase in interest income and the considerable reduction in interest expense are attributable to the improvement in the Group's financial position and liquidity following completion of the disposal of Graphic Papers and to a year of strong cash generation from Packaging Papers.

Profit before tax from continuing operations

Profit before tax from continuing operations improved by €7.5 million (155%) to €12.4 million (2010: €4.9 million).

Taxation

The tax charge of €2.6 million (2010: €1.6 million) represents an effective tax rate of 20.9% (2010: 33.9%) and is based upon the weighted average annual tax rate for the year applied to the underlying profit or loss before taxation after adjusting for the impact of disallowable items of income and expenditure and the availability of tax losses. The underlying tax rate on profits before taxation in Finland during the year was 26%.

Discontinued operations

During the year, the Group disposed of the businesses of the Graphic Papers segment to Paper Excellence BV, a producer of pulp and paper registered in the Netherlands. The total consideration was €38.5 million before disposal costs, consisting of cash consideration €32.5 million and the assumption of €6.0 million of debt by the purchaser.

The gain after tax from discontinued operations for the period was €0.3 (2010: €26.6 million loss) consisting of a loss for the period from trading activities of €1.4 million (2010: €4.5 million loss) and a gain on disposal before related tax credits of €1.6 million (2010: charge for impairment of the assets of Graphic Papers net of deferred taxes of €22.1 million). The gain on disposal has been calculated after making full provision for all costs to sell, including provisions against future claims.

Earnings per share and dividends

Basic earnings per share for the year were 3.5 cents (2010: loss per share of 13.3 cents). Basic earnings per share from continuing operations increased by just under 90% to 3.4 cents (2010: 1.8 cents).

The directors intend to recommend to the Annual General Meeting to be held in Kuopio on 26 April 2012, the payment of a dividend of 1.3 cents per share (1.0 cents per share) for the year ended 31 December 2011. The ex-dividend date would be 26 April 2012. The record date for the proposed dividend would be 2 May 2012 and the payment would be made on or about 18 May 2012. The proposed dividend would represent a yield of approximately 5% based on the Group's closing share price on 14 March 2012.

Balance sheet

Total assets and total equity and liabilities reduced to €117.1 million at 31 December 2011 (2010: €158.4 million), reflecting the impact of the disposal of the Graphic Papers businesses. Total equity increased to €58.5 million (2010: €52.8 million) due to the strong performance of Packaging Papers during the year, while the disposal of Graphic Papers had limited impact on total equity as a result of the impairment provisions made in 2010. The number of shares in issue remained unchanged at 289.8 million (2010: 289.8 million) and net assets per share increased by 10% to €0.20 (2010: €0.18).

Total capital expenditure reduced to €7.7 million (2010: €9.2 million). However, the expenditure was incurred almost entirely within Packaging Papers and represented an increase on the prior year expenditure in this business (2010: €5.0 million). The major projects completed during the year were the investment in a fully-automated packing line and the overhaul and refurbishment of the steam turbine generator, which is typically required every seven to eight years and was last performed in 2004.

Cash flow

At the start of the year, the Group had net debt of €29.1 million, consisting of interest bearing loans and borrowings of €47.8 million less cash and short term deposits of €18.7 million.

During the year, the Group generated net cash inflow from operating activities of €19.2 million (2010: €16.3 million). EBITDA from continuing operations was €18.8 million (2010: €11.1 million) and net working capital reduced by €0.4 million (2010: €4.4 million reduction). Net working capital in Packaging Papers was almost unchanged as activity related increases in inventory and trade receivables were largely offset by measures to reduce credit terms with customers and improve payment terms with suppliers.

The cash consideration of €32.5 million from the disposal of Graphic Papers was payable in two installments. €25.0 million was received by the Group on completion of the transaction in May 2011 and the remaining €7.5 million was received in November 2011. In addition, the Group received proceeds of €2.5 million in connection with the sale of shares in Harvestia to Vapo in January 2011.

The principal payments made during the year were:

- €15.3 million of loan repayments (2010: €11.0 million)
- €7.7 million of capital expenditure (2010: €9.2 million)
- €2.9 million of dividends (2010: nil)
- €2.8 million of interest and similar costs (2010: €5.1 million)
- €1.3 million of expenses related to the rights issue and placing undertaken in November 2010 (2010: €0.6 million)

The loan repayments include both scheduled repayments and accelerated repayment of term loans from the proceeds of the Graphic Papers disposal. Capital expenditure included investment in a fully automated wide-roll packing line and a major refurbishment of the steam turbine generator.

At 31 December 2011, the Group had a net cash surplus of €19.1 million, consisting of cash and short term deposits of €45.6 million (2010: €18.7 million) less interest bearing loans and borrowings of €26.5 million (2010: €47.8 million).

The improvement of €48.2 million compared with the prior year is attributable to receipt of proceeds from the disposal of Graphic Papers, the assumption of debt by the purchaser and strong operating cash flow from Packaging Papers.

Borrowing facilities

The maturity profile of the Group's bank and other borrowing facilities at 31 December 2011 was as follows:

	2010 €m	2009 €m
Amortising term loans		
Non-current (2013-2016)	5.5	16.7
Current (2012)	1.5	7.1
	7.0	23.8
Other interest bearing borrowings	19.5	24.0
Total borrowings	26.5	47.8
Cash and short-term deposits	45.6	18.7
Net cash / (debt)	19.1	(29.1)

Other interest bearing loans and borrowings includes liabilities under revolving credit and invoice finance arrangements. While advances under certain of these facilities are classified as current liabilities due to their short term nature, the facility themselves remain available to the Group for a period in excess of one year.

At 31 December 2011, the Group had bank and other borrowing and financing facilities of €26.0 million (2010: €73.9 million) comprising amortising term loans of €6.0 million (2010: €23.9 million) and revolving credit and invoice financing facilities of €20.0 million (2010: €50.0 million). At 31 December 2011, the Group was utilising €25.5 million of these facilities (2009: €70.1 million).

The principal covenants which apply to the Group's borrowings are:

- Ratio of net debt to EBITDA
- Ratio of EBITDA to total net cash interest
- Debt service cover

At 31 December 2011, the Group was in full compliance with the provisions of its banking agreements.

Going concern

The directors have undertaken a recent and thorough review of the Group's budget, forecasts and associated risks and sensitivities and have concluded that the Group has adequate resources to enable it to continue its activities for the foreseeable future, being a period of at least 12 months from the date of approval of the financial statements.

Foreign exchange

The Group has manufacturing operations in Finland, which is within the European Community and uses the euro as its functional currency. The Group reports its Income Statement and Cash Flow Statement results in euros using the average exchange rate for each month to translate other currency amounts into euros. The Balance Sheet is translated using the exchange rates prevailing at the Balance Sheet date.

The Group sells and distributes its products and purchases raw materials in international markets and has transactional exposure to a number of other currencies and, in particular, to the US dollar. Approximately 30% of the Group's sales by volume and value and approximately 5% of its expenditure on raw materials, consumables and other expenses are denominated in US dollars.

The relative movement of the US dollar against the euro during 2011 when compared to 2010 is summarised below:

- Movement in average exchange rate between 2010 and 2011 – 5% adverse

- Movement in exchange rate at balance sheet date between 2010 and 2011 – 1% favourable

Treasury management and currency risk

It is the policy of the Group to hedge a portion of its foreign currency exposures for a maximum period of up to 12 months using forward exchange contracts. Wherever possible the Group takes advantage of natural hedges between income and expenditure and only considers hedging the net exposure. The Group does not seek to designate such derivative contracts as hedges for the purpose of hedge accounting. Forward currency exposures are reviewed on an on-going basis by the senior management of the Group, but decisions on the application and implementation of the hedging policy are reserved for the Board. The Group does not engage in currency speculation.

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the Group's businesses and the execution of its strategy are subject to a number of risks attributable to both the specific operations of the business and to the macroeconomic environment. The following section comprises a summary of what the Board considers to be the principal risks and uncertainties which could potentially impact on the Group's operating and financial performance.

Principal risks	***Description of risk***	***Mitigation/comments***
Macroeconomic	Demand for the Group's products is susceptible to economic cycles and changes in business confidence.	Forward looking indicators are used to monitor macroeconomic conditions so that management can anticipate and respond rapidly to changing circumstances
Competition	The capital intensive nature and high operational gearing of the paper industry can lead to pursuit of machine utilization at the expense of prices and margins.	The Group seeks to operate in areas where there are a small number of responsible producers who maintain an appropriate balance between pricing and utilisation
	The Group operates in markets where there are a limited number of producers and consumers.	The competitive behavior of other producers and consumers is continuously monitored and when necessary steps are taken to address any market imbalance
Market and customer related	The Group's products are utilised within extended supply chains where destocking can materially impact short-term demand and pricing levels	Close relationships with major customers help to minimise disruption contacts in alternative markets allow management to respond over time to changes in demand
	The Group's visibility of order intake and profitability can be quite short and tends to reduce further during periods of economic downturn.	Close cooperation and regular dialogue with major customers is used to better understand procurement requirements and secure volumes in difficult market conditions
	Each of the Group's principal markets is dominated by a small number of relatively large users of its products	Market concentration is closely monitored and the sales strategy is formulated to ensure an acceptable mix of business is maintained
Manufacturing and operational	The Group is dependent upon a small number of large items of manufacturing equipment, failure of which can stop production and result in supply interruptions	Comprehensive maintenance and operating procedures, together with extensive spare part inventories, ensure that production interruptions are minimised
	The Group operates manufacturing processes which involve heavy machinery, dangerous chemicals and considerable health and safety risks for its employees	Robust compliance procedures are in place and detailed exception reporting is used to monitor performance , investigate problems and target areas for improvement
	The Group's manufacturing processes involve particulate emissions and discharges of effluent and waste products to the environment	Comprehensive monitoring and reporting procedures are in place and the Group works closely with environmental authorities to ensure compliance
Technology	Constant technical evolution is necessary to improve the functionality and performance of products and to reducing manufacturing costs in order to remain competitive.	Continuous improvement methodologies are used to enhance product performance, improve productivity and reduce manufacturing cost
	The emergence of new products manufactured from chemically enhanced recycled fibre could represent a genuine threat in certain segments of the market	Continuous assessment of competing products and technologies allows the Group to incorporate developments and enhance performance of its own products
People	Due to its relatively small size, there are certain areas where the Group is dependent upon the contribution of key individuals, either collectively or individually.	Competitive remuneration and personal development are used to ensure retention of key personal, while succession planning is a key responsibility of management
Financial	The Group operates in markets where extended payment terms are commonplace and credit risk is a significant concern.	Credit insurance is used to minimise credit risk where possible and the Group has robust procedures for monitoring and management of uninsured risk
	A significant proportion of the Group's sales are to markets where the functional currency is the US dollar	Foreign exchange risk is actively managed using forward contracts and other hedging instruments

SUMMARY AND OUTLOOK

The Group has enjoyed a profitable and successful year and made considerable progress with the implementation of its strategy. The disposal of the Graphic Papers business in May 2011 has transformed our financial position and we now have considerable funds available for investment in the development of remaining businesses and the pursuit of new opportunities. The Packaging Papers business enjoyed a particularly successful year as favourable market conditions, operational improvements and returns from previous capital investment contributed to much improved levels of profitability.

Speculation over the future of the Eurozone and the strength of major economies affected many of the markets in which the Group operates during the second half of 2011. Following a period of some weakness, paper and packaging markets have shown signs of improvement during the first quarter of 2012 and recent announcements of price increases suggest that confidence may be returning, providing grounds for cautious optimism. The Group has continued to perform well and has made an encouraging start to the year.

Whilst we expect market conditions to remain challenging throughout 2012, we are confident that Powerflute is well placed both financially and strategically to take advantage of opportunities as they arise, and to benefit from any improvement in trading conditions as the year progresses.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2011

	Notes	2011 €000	2010 €000
Revenue	7	121,474	105,449
Other operating income	8.1	180	128
Changes in inventories of finished goods and work in progress		1,520	(1,092)
Raw materials and consumables used		(59,970)	(52,646)
Employee benefits expense	8.2	(17,603)	(15,189)
Other expenses	8.3	(28,722)	(26,054)
Share of profit/(loss) of associates	6	91	510
Gain on partial disposal of an associate	6	1,869	-
Depreciation and amortisation	12, 13	(4,543)	(4,005)
Operating profit		14,296	7,101
Finance income	8.5	329	1,598
Finance expenses	8.6	(2,239)	(3,849)
Profit before taxation		12,386	4,850
Income tax	9	(2,594)	(1,646)
Profit for the period from continuing operations		9,792	3,204
Discontinued operations			
Gain/(loss) for the period from discontinued operations	10	265	(26,603)
Profit/(loss) for the period		10,057	(23,399)
Attributable to			
- equity holders of the parent		10,057	(23,399)
Earnings per share (cents per share)			
Basic	11	3.5	(13.3)
Diluted	11	3.5	(13.3)
Earnings per share for continuing operations (cents per share)			
Basic	11	3.4	1.8
Diluted	11	3.4	1.8

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2011

	Notes	2011 €000	2010 €000
Profit/(loss) for the period		10,057	(23,399)
Net movement on cash flow hedges		(2,509)	2,460
Income tax effect		652	(639)
Other comprehensive income for the period, net of tax	8.7	(1,857)	1,821
Total comprehensive income/(loss) for the period, net of tax		8,200	(21,578)
Attributable to			
- equity holders of the parent		8,200	(21,578)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 December 2011

	Notes	2011 €000	2010 €000
ASSETS			
Non-current assets			
Property, plant and equipment	12	35,522	58,824
Investment properties	12	-	1,760
Intangible assets	13	77	4,848
Other non-current financial assets		-	368
Investment in an associate	6	2,167	2,666
Derivative financial instruments	14	-	773
Deferred tax asset	9	100	1,078
Total non-current assets		37,866	70,317
Current assets			
Inventories	16	12,665	29,733
Trade and other receivables	17	20,996	37,778
Derivative financial instruments	14	-	1,921
Current income tax receivables		-	-
Cash and short-term deposits	14, 18	45,605	18,683
Total current assets		79,266	88,115
TOTAL ASSETS		117,132	158,432
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued share capital	19	88	88
Hedging reserve	19	(122)	1,735
Reserve for invested non-restricted equity	19	28,422	28,422
Retained earnings		30,144	22,576
Total equity		58,532	52,821
Non-current liabilities			
Interest-bearing loans and borrowings	14	15,500	27,612
Provisions	21	-	1,800
Employee benefit liability	22	50	1,670
Deferred tax liabilities	9	4,039	4,837
Total non-current liabilities		19,589	35,919
Current liabilities			
Trade and other payables	24	23,776	45,401
Interest-bearing loans and borrowings	14	11,041	20,152
Employee benefit liability	22	23	855
Derivative financial instruments	14	442	70
Provisions	21	2,066	847
Current income tax liabilities		1,663	2,367
Total current liabilities		39,011	69,692
Total liabilities		58,600	105,611
TOTAL EQUITY AND LIABILITIES		117,132	158,432

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2011

	Attributable to equity holders of the parent				
	Share capital €000	Hedging reserve €000	Reserve for invested non-restricted equity €000	Retained earnings €000	Total equity €000
As at 1 January 2011	88	1,735	28,422	22,576	52,821
Profit/(loss) for the period	-	-	-	10,057	10,057
Other comprehensive income(loss)	-	(1,857)	-	-	(1,857)
Total comprehensive income/(loss)	-	(1,857)	-	10,057	8,200
Dividends paid	-	-	-	(2,898)	(2,898)
Share based payments	-	-	-	409	409
At 31 December 2011	88	(122)	28,422	30,144	58,532
As at 1 January 2010	88	(86)	9,602	46,565	56,169
Profit for the period	-	-	-	(23,399)	(23,399)
Other comprehensive income(loss)	-	1,821	-	-	1,821
Total comprehensive income	-	1,821	-	(23,399)	(21,578)
Issue of shares	-	-	20,228	(1,131)	19,097
Transaction costs	-	-	(1,408)	-	(1,408)
Share based payments	-	-	-	541	541
At 31 December 2010	88	1,735	28,422	22,576	52,821

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2011

	Notes	2011 €000	2010 €000
Operating activities			
Profit/(loss) before tax from continuing operations		12,386	4,850
Profit/(loss) before tax from discontinued operations	10	(534)	(39,537)
Profit/(loss) before tax		11,852	(34,687)
Non-cash:			
Impairment of non-current assets	15	-	31,443
Depreciation of property, plant and equipment	12	5,294	9,009
Amortisation of intangible assets	13	422	2,432
Gain on partial disposal of an associate	6	(1,869)	-
Gain on disposal of discontinued operation		(1,637)	-
Share-based payment expense	23	409	541
Change in financial instruments	14	1,063	(268)
Finance income	8	(335)	(1,614)
Finance expense	8	3,560	5,778
Share of (profit)/loss in an associate	6	(91)	(510)
Movements in provisions, pensions and government grants		173	(213)
Working capital adjustments:			
Change in trade and other receivables and prepayments		5,669	(2,942)
Change in inventories		(2,978)	(3,072)
Change in trade and other payables		(2,315)	10,375
Income tax received/(paid)		(4)	(9)
Net cash flows from operating activities		19,213	16,263
Investing activities			
Proceeds from sale of property and equipment	12	-	2,179
Purchase of property, plant and equipment	12	(7,689)	(9,190)
Investment in an associate	6	559	(662)
Proceeds from partial disposal of an associate	6	1,900	-
Net proceeds from disposal of a subsidiary		29,054	-
Interest received		335	85
Net cash flows used in investing activities		24,159	(7,588)
Financing activities			
Proceeds from issue of shares	19	-	20,228
Transaction costs of issue of shares	19	(1,282)	(621)
Proceeds from borrowings		4,001	4,779
Repayment of borrowings		(15,269)	(10,975)
Payment of finance lease liabilities		(226)	(347)
Interest and similar costs paid		(2,776)	(5,114)
Dividends paid		(2,898)	-
Net cash flows from financing activities		(18,450)	7,950
Net increase/(decrease) in cash and cash equivalents		24,922	16,625
Cash and cash equivalents at 1 January		18,683	2,058
Cash and cash equivalents at 31 December		43,605	18,683

NOTES TO THE 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 the Alternative Investment Market (AIM) of The London Stock Exchange and a secondary listing on First North Finland, part of NASDAQ OMX First North, the alternative market of the NASDAQ OMX Helsinki.

The consolidated financial statements of the Company for the year ended 31 December 2011 was approved for issue by resolution of the Company's Board of Directors 15 March 2012.

The principal activities of the company and its subsidiaries ("the Group") are described in Note 7.

2. Accounting policies

2.1 Basis of preparation

The consolidated financial statements of Powerflute Oyj and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and adopted by the EU.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in euros and all values are rounded to the nearest thousand (€000) except when otherwise indicated.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December of each year.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtained control, and continue to be consolidated until the date that such control ceases. The financial information relating to subsidiaries is prepared for the same reporting year as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

The business combination of Powerflute Oyj and Savon Sellu Oy is accounted for in accordance with the pooling of interest method.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate

In the statement of comprehensive income, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations down to the level of profit after taxes. This approach is adopted even where the Group retains a non-controlling interest in the subsidiary.

2.3 Changes in accounting policy and disclosures

The accounting policies adopted by the Group are consistent with those of the previous year except as mentioned below.

The Group has adopted all of the following new and amended IFRS and IFRIC interpretations that are relevant to its operations and effective as of 1 January 2011:

IAS 24 Related party disclosures (Amendment)
IFRIC 14 Prepayments of a minimum funding requirement (Amendment)
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
Annual Improvements to IFRSs (May 2010)

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.

2.4 Summary of significant accounting policies

a) Business combinations and goodwill

Business combinations other than those between entities under common control are accounted for in accordance with the acquisition method. Under the acquisition method the cost of acquisition is allocated to the acquired identifiable assets, liabilities and contingent liabilities (net assets) based on their fair values at the date of acquisition. Any difference between the cost of acquisition and the fair value of the acquired net assets is recognised as goodwill in the consolidated statement of financial position or income (referred to as negative goodwill) in the consolidated income statement.

Goodwill is initially measured at cost, being the excess of the cost of acquisition over the fair value of the acquired net assets. Following initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Business combinations between entities under common control are accounted for in accordance with the pooling of interest method. Under the pooling of interest method the entities are combined from the beginning of the financial year in which the combination took place. The consolidated income statement reflects the results of the combining entities for the full year and the consolidated balance sheet the assets and liabilities at their carrying values. The excess of the cost of acquisition over the share capital of the acquired entity is recognised in consolidated shareholders' equity. Goodwill is not recognised.

b) Investment in associated companies

Associated companies are entities over which the Group has significant influence but not control. The Group's investments in associated companies are accounted for using the equity method.

Under the equity method, the Group's investment in an associate is initially recorded in the statement of financial position at cost and is later adjusted for post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The Group’s share of the results of operations of an associate is recognised in the income statement and its share of any changes in the equity is recognised and disclosed, when applicable, in the statement of changes in equity. Unrealised gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associated company, unless the loss provides evidence of an impairment of the asset transferred.

The Group's share of profit of associated companies is shown on the face of the income statement. This is the profit attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associates.

Unless otherwise stated in Note 6, the financial statements of associated companies are prepared for the same reporting period as the parent company. Accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

After application of the equity method, the Group determines whether It is necessary to recognise an additional impairment loss on its investment in an associated company. At each reporting date, the Group determines whether there is any objective evidence that an investment in an associated company is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the impairment loss in the income statement.

Upon loss of significant influence over an associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the investment in an associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised In profit or loss. Equity accounting is discontinued when the Group has lost its significant influence over the associate or when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred or guaranteed obligations in respect of the associated company.

c) Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is considered to be met only when the sale is highly probable, the asset or disposal group is available for immediate sale in its present condition and the sale is expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

d) Foreign currency translation

The consolidated financial statements are presented in euros, which is the functional and presentation currency of the Group and all of its subsidiaries and associated companies.

Transactions denominated in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are translated into the functional currency using the exchange rates prevailing at the reporting date. Foreign exchange gains and losses arising from financial assets and liabilities are recorded in the income statement.

e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty, and is adjusted for exchange differences on sales in foreign currency. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent and has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods

Revenue from the sale of the goods is recognised as income when the significant risks and rewards of ownership of the goods have passed to the buyer and the Group no longer has a continuing right to dispose of the goods or effective control over the goods. Usually, this means that sales are recorded upon delivery of goods to the customer in accordance with agreed terms of delivery, which are based on Incoterms 2000. The main categories of terms covering Group sales are:

- "D" terms, under which the Group is obliged to deliver the goods to the buyer at the agreed destination, usually the buyer's premises, in which case the point of sale is the moment of delivery to the buyer.
- "C" terms, whereby the Group arranges and pays for the external carriage and certain other costs, though the Group ceases to be responsible for the goods once they have been handed over to the carrier in accordance with the relevant term. The point of sale is thus the handing over of the goods to the carrier contracted by the seller for the carriage to the agreed destination.
- "F" terms, being where the buyer arranges and pays for the carriage, thus the point of sale is the handing over of goods to the carrier contracted by the buyer.

(ii) Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR) method. Interest income is included in finance income in the income statement.

f) Taxes

(i) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date at the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

(ii) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(iii) Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

g) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as deferred income.

Where the Group receives non-monetary grants, the asset and the grant are recorded at nominal amounts and released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

h) Pensions and other post-employment benefits

The Group operates defined contribution and defined benefit pension plans which require contributions to be made into separately administered funds. In addition, the Group also provides certain other post-employment benefits to eligible employees who retire before reaching their normal retirement date. These benefits are unfunded.

(i) Defined contribution plans

The costs of providing benefits under defined contribution pension plans are recognised in the income statement on an accruals basis.

(ii) Defined benefit plans

The costs of providing benefits under defined benefit plans are determined separately for each plan using the projected unit credit method. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting period exceed 10% of the higher of the defined benefit obligation and the fair value of the plan assets at that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans.

Past service costs are recognised as an expense on a straight line basis over the average period until the benefits become vested. If the benefits have already vested, immediately following the introduction of, or changes to, a pension plan, past service costs are recognised immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less past service costs and actuarial gains and losses not yet recognised and less the fair value of plan assets out of which the obligations are to be settled. Plan assets are assets that are held by a long term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value is based on market price information. The value of any defined benefit asset recognised is restricted to the sum of any past service costs and actuarial gains and losses not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

(iii) Other post-employment benefits

The Group participates in a number of industry or country specific early retirement schemes which provide eligible employees with the opportunity to retire before they reach normal retirement date. The Group regards such schemes as unfunded postemployment benefits and recognises their costs over the remaining active working life of the employee in accordance with the requirements of IAS 19 Employee Benefits.

Where entitlement to post-employment benefits arises as a result of termination of employment by the Group, the benefit is treated as a termination cost. The expense is recognised in the income statement and the related liability is recorded in the statement of financial position immediately in accordance with the provisions of IAS 37 Provisions, contingent liabilities and contingent assets.

i) Share based payment transactions

Employees (including senior executives) of the Group receive remuneration in the form of share based payment transactions, whereby employees render services as consideration for equity instruments ("equity settled transactions").

The cost of equity settled transactions with employees is measured by reference to the fair value of the equity instruments at the date on which they are granted. The fair value is determined by using an appropriate pricing model, further details of which are given in Note 23.

The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is included in employee benefits expense (Note 8.2).

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where an equity settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the awards is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

Where the terms of an equity settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

All cancellations of equity settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see Note 11).

j) Financial instruments - initial recognition and subsequent measurement

(i) Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available for sale financial assets, or as derivatives designated as hedging instruments in an effective hedge. The Group determines the classification of its financial assets at initial recognition depending upon the purpose for which the financial assets were acquired.

All financial assets are recognised initially at fair value plus, in the case of investments other than at fair value through profit and loss, directly attributable transaction costs. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short term deposits, trade and other receivables, loan and other receivables and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement.

Changes in fair value of foreign exchange forward contracts are recognised within sales and other expenses and changes in fair value of commodity forward contracts are recognised in other expenses.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

The Group evaluates its financial assets at fair value through profit and loss (held for trading) to determine whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available for sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, they are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

Derecognition

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired; and
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass through arrangement; and either a) the Group has transferred substantially all the risks and rewards of the asset, or b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(ii) Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate and if a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write off is later recovered, the recovery is credited to finance costs in the income statement.

(iii) Financial liabilities

Initial recognition and measurement

Finance liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, include directly attributable transaction costs.

The Group’s financial liabilities include trade payable and other payable, bank overdraft, loans and borrowings, financial guarantee contracts, and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments that are not designated as hedging instruments in hedge relationships as defined by IAS 39.

Gains or losses on liabilities held for trading are recognised in the income statement.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

Interest bearing loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate (EIR) method amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR Amortisation is included in finance cost in the income statement.

Interest bearing liabilities are classified as non-current liabilities unless they are due to being settled within 12 months after the reporting date.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

(iv) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(v) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices, without any deduction for transaction costs. For financial instruments not traded in an active market, fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current fair value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

k) Derivative financial instruments and hedging

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as forward exchange contracts, interest rate swaps and commodity forward contracts to hedge its foreign currency risks, interest rate risks and commodity price risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or anunrecognised firm commitment (except for foreign currency risk);
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the effectiveness of the hedging instrument will be assessed. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Fair value hedges

The Group did not have any fair value hedges or hedges of net investments at 31 December 2011 and 2010.

Cash flow hedges

Cash flow hedges which meet the strict criteria for hedge accounting are accounted for as follows:

- the effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the income statement;
- amounts recognised as other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs; and
- if the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if the requirements of hedge accounting are no longer achieved, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

The Group uses currency forward contracts as hedges of its exposure to foreign currency risk in forecasted transactions and firm commitments, but does not apply hedge accounting. The Group uses commodity forward contracts as hedges of its exposure to commodity price risk. Refer to Note 14 for more details.

Current versus non-current classification

Derivative instruments that are not designated and effective hedging instruments are classified as current or non-current and separated into a current or non-current portion based on an assessment of the facts and circumstances.

- Where the Group does not apply hedge accounting and will hold a derivative as an economic hedge for a period beyond 12 months after the reporting date, the derivative is classified as non-current consistent with the classification of the underlying item.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if reliable allocation can be made.

l) Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met. When significant parts of property, plant and equipment are replaced, related costs are recognised as assets with specific useful lives and depreciation, respectively. All other repair and maintenance costs are expensed as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for provision are met.

Depreciation is calculated on a straight line basis over the useful life of the assets. Land and water areas are not depreciated as they are deemed to have indefinite life, but otherwise depreciation is based on the following expected useful lives:

Plant and equipment	2–20 years
Buildings	10–50 years
Other capitalised expenses	5–20 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed and adjusted prospectively, if appropriate, at each financial year end.

m) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased item or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the income statement.

Capitalised leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

n) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. The Group did not have any such assets at 31 December 2011 and 2010 and no borrowing costs were capitalised.

All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

o) Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated on a straight line basis over the useful life of the assets, which is estimated to be 15 years.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

p) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

The straight line amortisation of intangible assets with finite lives is based on the following estimates of useful life:

Customer contracts	5 years
IT software	1-5 years
Patents and licences	5-10 years
Other intangible assets	5-10 years

Intangible assets with indefinite useful lives are not amortised but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Research and development costs

Research and development costs are expensed as incurred. The Group has no development project expenditures that should be recognised as an intangible asset.

q) Inventories

Inventories are valued at the lower of cost or net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials	Purchase cost on a first in, first out basis.
Finished goods	Cost of direct materials and labour and a proportion of work in progress manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

r) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specified to the asset.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the income statement in expense categories consistent with the function of the impaired asset, except for property which has been previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount after reversal cannot exceed the recoverable amount nor the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than their carrying amount an impairment loss is recognised. Impairment loss relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at the CGU level, as appropriate and when circumstances indicate that the carrying value may be impaired.

s) Cash and short term deposits

Cash and short term deposits in the statement of financial position comprise cash at banks and on hand and short term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

t) Provisions

General

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Carbon dioxide emissions

The Group receives free carbon dioxide emission allowances as a result of the European Emission Trading Scheme. The allowances are granted on an annual basis and, in return, the Group is required to remit allowances equal to its actual emissions. The Group has adopted a net liability approach to the allowances granted. Therefore, a provision is only recognised when actual emissions exceed the emission allowances granted and still held. Where emission allowances are purchased from other parties, they are recorded at cost and treated as a reimbursement right.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group’s consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, where a different opinion could result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm’s length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset’s performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Share-based payment transactions

The Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model, including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used are disclosed in Note 23.

Taxes

The Group has a wide range of international business relationships and the nature and scale of its trading activities is inherently complex. The Group establishes provisions for payment of taxes in the countries in which it operates based on reasonable estimates. Various factors are taken into consideration when making such estimates, such as changes in legislation, experience of previous tax reviews and evidence of interpretations of tax regulations by the relevant authorities. The Group's management considers that adequate provision has been made for the Group's future tax liabilities based upon current facts, circumstances and tax law.

Deferred taxes are provided using the liability method to reflect the net tax effects of all temporary differences between the carrying amounts for financial reporting purposes and the tax bases of assets and liabilities. The principal temporary differences arise from depreciation on property, plant and equipment, fair valuation of net assets at acquisition, fair valuation of derivative financial instruments and tax losses carried forward. Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences and unused tax losses may be utilised. Significant management judgement is required to determine the amount of such deferred tax assets that should be recognised, based upon the likely timing and level of future taxable profits and future tax planning strategies.

During the year ended 31 December 2011, the Group sold a portion of its shareholding in an associated company, Harvestia Oy, and sold its entire interest in the shares of the subsidiaries which comprised the Graphic Papers business segment, realising a profit on both disposals. The Group has assumed that as an industrial company, it will be able to take advantage of the participation or substantial shareholder exemptions available in Finland and that the gains arising on the disposals will be exempt from corporate taxes. If the Group is not able to take advantage of the exemptions, then taxes on profits would increase by €2,957,000.

Certain of the Group's subsidiaries incurred tax losses in the years ended 31 December 2009 and 2010 and it has been assumed that these losses may be carried forward and used to relieve taxable profits in subsequent years, reducing the Group's overall tax burden. During the period since the losses were incurred, there have been changes in ownership of the shares of the Group's ultimate parent company, Powerflute Oyj, which represent more than 50% of the total issued share capital. Powerflute Oyj is listed on the Alternative Investment Market of the London Stock Exchange and on First North Finland, the alternative market of NASDAQ OMX Helsinki, neither of which is recognised as a regulated exchange by the relevant tax authorities. Accordingly, a special dispensation is required to enable carry forward and utilisation of losses. The Group has assumed that such a dispensation will be granted. However, if the Group is not able to obtain the required dispensation, then taxes on profits would increase by €1,922,000.

4. Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income
IAS 12 Income Taxes – Recovery of Underlying Assets
IAS 19 Employee Benefits (Amendment)
IAS 27 Separate Financial Statements (as revised in 2011)
IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements
IFRS 9 Financial Instruments: Classification and Measurement
IFRS 10 Consolidated Financial Statements
IFRS 11 Joint Arrangements
IFRS 12 Disclosure of Involvement with Other Entities
IFRS 13 Fair Value Measurement

With the exception of *IFRS 11 Joint Arrangements*, the standards issued but not yet effective and their interpretations are not expected to have any impact on the Group's financial statements. *IFRS 11 Joint Arrangements* may have an impact on the way in which the Group's investment in Harvestia Oy is accounted for and this is currently under review.

5. Business combinations

The Group did not make any acquisitions during the years ended 31 December 2011 and 2010.

6. Investment in an associate

The Group has a 30% interest in Harvestia Oy ("Harvestia"), a wood procurement company based in Finland. Harvestia is a private limited company that is not listed on any public exchange.

The Group's interest in Harvestia as at 1 January 2011 was 33%. On 21 December 2010, the shareholders of Harvestia reached agreement with Vapo Oy, a leading supplier of renewable fuels, bioelectricity, bioheat and environmental business solutions based in Finland, under which they each agreed to sell a portion of their shares in Harvestia to Vapo. Vapo also agreed to make a further direct investment in the equity of Harvestia. The transactions were completed on 19 January 2011 and the Group received aggregate net proceeds of €2,458,000 in cash from the sale of Harvestia shares to Vapo and from the repayment of working capital and equity contributions previously made to Harvestia. This resulted in a gain of €1,869,000 on partial disposal of an associate in the income statement for the year ended 31 December 2011. Following completion of the transactions, the Group's interest in Harvestia decreased to 30%.

Harvestia is accounted for using the equity method. The Group's share of the assets, liabilities, income and expenses of the associated entity at 31 December 2011 and for the year then ended are as follows:

	2011 €000	2010 €000
Share of associate's statement of financial position:		
Current assets	7,943	7,870
Non-current assets	175	184
	8,118	8,054
Liabilities	(6,101)	(6,111)
Net assets	2,017	1,943
Additional share of invested non-restricted shareholders' equity	150	-
Total share of net assets	2,167	1,943
Share of associate's revenue and profit:		
Revenue	64,216	37,911
Profit for the year from continuing operations	91	510
Gain on partial disposal of an associate	1,869	-
Carrying amount of the investment	2,167	2,666

On 2 January 2012, the Group completed the acquisition of a further 15% of the equity of Harvestia for cash consideration of €1.4m. The purchase of Harvestia shares was financed from the Group's own cash resources and following completion of the transaction the Group has an interest of 45%. Harvestia will continue to be accounted for using the equity method as an associated company. Further details are provided in Note 28.

7. Operating segment information

For management purposes, the Group is organised into business units based upon the products and services which it supplies. The reportable operating segments are as follows:

- *Packaging Papers*, which is involved in the production and sale of Nordic semi-chemical fluting for use in premium-grade corrugated-box applications.
- *Graphic Papers,* which was disposed of during the year and is presented as discontinued operations. See Note 10 for further details.

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

The costs of central functions, including the costs of corporate and other central services, are allocated to the reportable operating segments using cost allocation methodologies appropriate to each category of expense and consistent with the methods used in management reporting. The comparative amounts for the year ended 31 December 2010 have been restated to reflect allocation of the total cost of central functions to continuing operations.

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.

Year ended 31 December 2011	Packaging Papers € 000	Total € 000
Revenue		
Third party	121,474	121,474
Inter-segment	-	-
Total revenue	121,474	121,474
Results		
Segment EBITDA profit/(loss)	18,839	18,839
Depreciation and amortisation	(4,543)	(4,543)
Segment operating profit/(loss)	14,296	14,296
Finance income		329
Finance expenses		(2,239)
Profit before taxation		12,386
Operating assets and liabilities		
Operating assets	117,132	117,132
Operating liabilities	(58,600)	(58,600)
Total net assets	58,532	58,532
Other disclosures		
Investment in an associate	2,167	2,167
Capital expenditure	6,991	6,991

Year ended 31 December 2010	Discontinued Operations €000	Packaging Papers €000	Total €000
Revenue			
Third party		105,449	105,449
Inter-segment		-	-
Total revenue		105,449	105,449
Results			
Segment EBITDA profit/(loss)		11,106	11,106
Depreciation and amortisation		(4,005)	(4,005)
Segment operating profit/(loss)		7,101	7,101
Finance income			1,598
Finance expenses			(3,849)
Profit/(loss) before taxation			4,850
Operating assets and liabilities			
Operating assets	67,848	90,584	158,432
Operating liabilities	(41,940)	(63,671)	(105,611)
Total net assets	25,908	26,913	52,821
Other disclosures			
Investment in an associate		2,666	2,666
Capital expenditure	3,710	4,972	8,682

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.

Capital expenditure consists of additions of property, plant and equipment, intangible assets and investment properties but does not include additions arising directly from business combinations.

Geographical information

	2011 €000	2010 €000
Revenues from external customers:		
Finland	4,380	3,448
Other countries in the EU	55,815	48,835
Other countries in Europe	14,696	11,911
	74,891	64,194
Other countries	46,583	41,255
Total revenues from external customers	121,474	105,449
Assets:		
Finland	117,132	90,584
Other countries in the EU	-	-
Other countries in Europe	-	-
	117,132	90,584
Capital expenditure:		
Finland	6,991	4,972
Other countries in the EU	-	3,710
Other countries in Europe	-	-
	6,991	8,682
Other countries	-	-
	6,991	8,682

Management considers the principal geographic segments based on customer location to be Finland, other countries in the EU, other countries in Europe and the rest of the world.

8. Other income, expenses and adjustments

8.1 Other operating income

	2011 €000	2010 €000
Government grants	15	21
Rental income	25	27
Other	140	80
	180	128

8.2 Employee benefits expense

	2011 €000	2010 €000
Wages and salaries	13,920	12,504
Pension and other post-employment benefits	2,344	1,813
Social security costs	930	331
Expense of share-based payment schemes	409	541
	17,603	15,189

The average total number of employees during the year in continuing operations was 196 (2010: 196). The average total number of employees during the year ended 31 December 2010 in discontinued operations was 592.

8.3 Other operating expenses

	2011 €000	2010 €000
Freight, distribution and other sales expenses	21,532	19,966
Other operating and administrative expenses	7,190	6,088
	28,722	26,054

8.4 Research and development costs

Research and development costs recognised as an expense in the income statement during the financial year amount to €135,000 (2010: €73,000).

8.5 Finance income

	2011 €000	2010 €000
Interest income on other loans and receivables	31	54
Interest income on short-term bank deposits	298	15
Fair value gain on derivatives (see Note 19)	-	1,529
	329	1,598

8.6 Finance expenses

	2011 €000	2010 €000
Interest expense:		
Bank loans and other borrowings	939	2,107
Interest on overdrafts and other financial cost	395	256
Finance leases	25	33
	1,359	2,396
Other finance expenses	880	1,453
	2,239	3,849

8.7 Components of other comprehensive income

	2011 €000	2010 €000
Cash flow hedges net of tax:		
Gains/(losses) arising during the year	(684)	1,391
Reclassification adjustment for gains/(losses) included in the income statement	(1,173)	430
	(1,857)	1,821

9. Income tax

Consolidated income statement

The major components of income tax for the years ended 31 December 2011 and 2010 are:

	2011 €000	2010 €000
Consolidated income statement		
Current income tax expense/(income)	1,833	-
Deferred tax expense/(income)	761	1,646
	2,594	1,646
Consolidated statement of other comprehensive income		
Deferred tax related to items charged or credited directly to equity during the year:		
Net gain/(loss) on revaluation of cash flow hedges	652	(639)
	652	(639)

A reconciliation between the tax expense/(income) and the product of accounting profit multiplied by the domestic tax rate in Finland of 26% for the years ended 31 December 2011 and 2010 is as follows:

	2011 €000	2010 €000
Profit/(loss) before tax from continuing operations	12,386	4,850
Profit/(loss) before tax from discontinued operations	(530)	(39,537)
Accounting profit/(loss) before income tax	11,856	(34,687)
Taxation at domestic income tax rate of 26% (2010: 26%)	3,083	(9,019)
Adjustments in respect of prior years	-	53
Expenses not deductible for tax purposes	183	54
Gain on disposal	(646)	-
Income not subject to tax	(510)	(20)
Change in deferred tax rate	(280)	-
Other	(9)	11
Effect of higher tax rates in Germany	(22)	(2,367)
Taxation at effective income tax rate	1,799	(11,288)
Income tax expense reported in the consolidated income statement	2,594	1,646
Income tax attributable to discontinued operations	(795)	(12,934)

In calculating income tax and deferred tax for the years ended 31 December 2011 and 2010, the Group has assumed that it is able to take advantage of participation or substantial shareholder exemptions and that gains arising on the disposals will be exempt from corporate taxes. Furthermore, it has been assumed that tax losses incurred in the years ended 31 December 2009 and 2010 remain available to the Group to relieve profits in subsequent years, notwithstanding any change in ownership of the Group's shares since the losses were incurred. In the event that either of these assumptions proves to be incorrect, there could be a material increase in the Group's income tax liabilities. For further details see Note 3.

Deferred tax

Deferred tax in the income statement relates to the following:

	2011 €000	2010 €000
Deferred tax liability		
Revaluation of assets to fair value on acquisition	(440)	(10,629)
Accelerated depreciation for tax purposes	348	233
Borrowing costs capitalised	(152)	376
Revaluation of forward contracts to fair value	-	9
Foreign exchange rate revaluation	-	(13)
Maintenance costs	-	(140)
Deferred tax assets		
Revaluation of provisions and liabilities to fair value on acquisition	-	131
Share of profits (losses) of an associate company	-	2
Losses available for offset against future profits	390	(1,224)
Deferred revenue	1	(30)
Post-employment pension benefits	(9)	-
Finance leases	6	3
Revaluation of forward contracts to fair value	(12)	398
Deferred tax expense/(income)	132	(10,884)
Included in continuing operations	761	1,646
Included in discontinued operations	(629)	(12,530)

The change in the deferred tax liability recognised in other comprehensive income is an income of €652,000 (2010: charge of €639,000) which arises from the revaluation of forward contracts to fair value. The change in net deferred tax liabilities was an increase of €180,000 (2010: decrease of €11,139,000).

Deferred tax in the statement of financial position at 31 December relates to the following:

	2011 €000	2010 €000
Deferred tax liability		
Revaluation of assets to fair value on acquisition	1,763	4,514
Accelerated depreciation for tax purposes	2,265	1,918
Borrowing costs capitalised	11	235
Revaluation of forward contracts to fair value	-	665
Foreign exchange rate revaluation	-	14
Maintenance costs	-	58
Others	-	8
	4,039	7,412
Deferred tax assets		
Revaluation of provisions and liabilities to fair value on acquisition	-	139
Losses available for offset against future profits	-	3,146
Share of profit (losses) of an associate company	3	3
Deferred revenue	29	30
Post-employment pension benefits	19	319
Finance leases	10	16
Revaluation of forward contracts to fair value	39	-
	100	3,653
Deferred tax liabilities net	3,939	3,759

10. Discontinued operations

On 3 May 2011, the Group announced that it had reached agreement on the sale of the businesses that comprise the Graphic Papers to an acquisition vehicle under the control of Paper Excellence BV, an integrated pulp and paper company registered in the Netherlands. The total consideration for the disposal was €38.5 million before disposal costs, consisting of cash consideration of €32.5 million and the assumption of €6.0 million of debt by the purchaser.

In its financial statements for the year ended 31 December 2010, the Group adjusted the carrying amounts of the assets and liabilities of Graphic Papers to their fair value less costs to sell in accordance with the provisions of *IAS 36 Impairment of assets* and recognised an impairment charge of €22.1 million net of deferred taxes in the income statement. Following completion of the disposal in May 2011, the Group has recognised a gain on the disposal of the discontinued operations of €1.6 million in the income statement for the year ended 31 December 2011.

The financial results of Graphic Papers for the four months ended 30 April 2011 have been consolidated with those of the Group for the year ended 31 December 2011. However, the Group does not have any other businesses in the Graphic Papers operating segment and this segment is no longer reviewed by management. Accordingly, financial information for Graphic Papers has not been separately disclosed in Note 7 – Segmental Information.

The profit/(loss) after tax for the period from discontinued operations was as follows:

	2011 €000	**2010 €000**
Loss after tax from trading activities of discontinued operations	(1,372)	(26,603)
Gain on disposal of the discontinued activities	1,637	-
Profit/(loss) for the period from discontinued activities	265	(26,603)

The profit/(loss) from trading activities of the Graphic Papers business was as follows:

	2011 €000	**2010 €000**
Revenue	65,784	205,128
Other operating income	-	1,573
Expenses	(65,392)	(205,446)
Impairment of non-current assets	-	(31,443)
Depreciation and amortization	(1,173)	(7,436)
Operating profit/(loss)	(781)	(37,624)
Finance income and expenses	(1,130)	(1,913)
Profit/(loss) before tax from trading activities of discontinued operations	(1,911)	(39,537)
Income tax	539	12,934
Profit/(loss) for the period from trading activities of discontinued operations	(1,372)	(26,603)

The major classes of assets and liabilities of Graphics Papers business disposed and the gain arising on the disposal was as follows:

	€000
Non-current assets	31,810
Current assets	28,486
Non-current liabilities	(25,286)
Current liabilities	(23,197)
Inter-company balances	15,539
Net assets directly associated with disposal group at the date of disposal	27,352
Transaction costs	500
Other costs to sell and provisions against uncertainties	3,050
	30,902
Gain before tax on disposal of the discontinued operations	1,377
Income tax	260
Gain on disposal of the discontinued operations	1,637
Total consideration received	32,539
Satisfied by:	
Cash consideration received	32,539

Other costs to sell and provisions against uncertainties include specific provisions for certain expenses which were to be assumed by the Group under the terms of the sale and purchase agreement, together with a general provision of €1.5 million for potential claims under warranties and indemnities provided to the purchaser. As at 15 March 2012, the Group had not received notification of any potential claims.

The net cash inflow to the Group during the period as a result of the disposal was as follows:

	€000
Cash consideration received	32,539
Cash paid for transaction costs and other costs to sell	(803)
Cash disposed of with the discontinued operations	(682)
Net cash inflow as a result of the disposal of the discontinued operations	31,054

€2,000,000 of the cash consideration is held in escrow until November 2012 as security against potential claims under warranties and indemnities provided by the Group to the purchaser of the Graphic Papers businesses. At 15 March 2012, the Group had not received notification of any potential claims under the warranties and indemnities.

The net cash outflow from operating activities incurred by Graphic Papers during the four months ended 30 April 2011 amounted to €855,000.

The impact of discontinued operations on earnings per share in the years ended 31 December 2011 and 2010 was as follows:

Earnings per share (cents per share)	**2011**	**2010**
Basic, from discontinued operations	0.01	(15.1)
Diluted, from discontinued operations	0.01	(15.1)

11. Earnings per share

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

Diluted earnings per share amounts are calculated by dividing the net profit for the year 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 ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. The Group had 289,818,174 shares in issue at 1 January 2011 and 31 December 2011. The number of shares used in the calculation of basic and diluted earnings per share for 2010 takes account of the rights issue and placing completed in November 2010.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2011 €000	**2010 €000**
Net profit/(loss) attributable to ordinary equity holders of the parent	10,057	(23,399)
	Thousands	**Thousands**
Weighted average number of shares for Basic Earnings per Share	289,818	176,053
Effect of dilution:		
Share options	1,068	159
Weighted average number of ordinary shares adjusted for dilution	290,886	176,212

On 27 May 2011, the Annual General Meeting granted authority to the Board of Directors to decide on the repurchase of up to 25,000,000 ordinary shares pursuant to Chapter 15, Section 5(2) of the Finnish Companies Act by using funds in the company's unrestricted equity. The proposed amount of shares corresponded to approximately 8.6% of all shares and votes of the company then in issue. The authority remains effective until the later of the next Annual General Meeting of Shareholders or 30 June 2012, and replaces any previous similar authorities granted to the Board of Directors.

On 27 May 2011, the Annual General Meeting granted authority to the Board of Directors to resolve on the issuance of up to 60,000,000 shares through a share issue or granting of options or other special rights granting entitlement to shares pursuant to Chapter 10, Section 1 of the Finnish Companies Act. This authority may be utilised in one or several issues. The Board of Directors may resolve to give either new shares or shares in the company's possession. The proposed amount of shares corresponded to approximately 20.7% of all shares and votes of the Company then in issue. The authority remains effective until the later of the next Annual General Meeting of Shareholders or 30 June 2012, and replaces any previous similar authorities granted to the Board of Directors.

12. Property, plant and equipment, investment properties

	Property €000	Plant and equipment €000	Other tangible assets €000	Assets in progress €000	Investment properties €000	Total €000
Net book value at 1 January 2010						
Cost or valuation	35,056	68,742	4,023	1,370	592	109,783
Accumulated depreciation	(1,781)	(17,814)	(566)	-	(39)	(20,200)
	33,275	50,928	3,457	1,370	553	89,583
Year ended 31 December 2010						
Opening net book amount	33,275	50,928	3,457	1,370	553	89,583
Additions	-	4,234	1,306	2,678	-	8,218
Disposals	(375)	(195)	(1,090)	-	(58)	(1,718)
Transfer (Note 5)	-	1,711	-	(1,711)	-	-
Reclassification to held for sale	(2,999)	-	-	-	2,999	-
Impairment charge for the year	(10,947)	(12,245)	(1,438)	(265)	(1,703)	(26,598)
Depreciation charge for the year	(618)	(7,986)	(367)	-	(38)	(9,009)
Disposals	-	38	63	-	7	108
Closing net book amount	18,336	36,485	1,931	2,072	1,760	60,584
Net Book Value At 31 December 2010						
Cost or valuation	31,682	74,492	4,239	2,337	3,533	116,283
Accumulated depreciation	(13,346)	(38,007)	(2,308)	(265)	(1,773)	(55,699)
	18,336	36,485	1,931	2,072	1,760	60,584
Year ended 31 December 2011						
Opening net book amount	18,336	36,485	1,931	2,072	1,760	60,584
Additions	-	6,161	-	769	-	6,930
Transfer	-	1,778	-	(1,778)	-	-
Discontinued operations	(11,316)	(12,659)	(1,486)	(275)	(1,760)	(27,496)
Depreciation charge for the year	-	(4,444)	(52)	-	-	(4,496)
Closing net book amount	7,020	27,321	393	788	-	35,522
Net Book Value at 31 December 2011						
Cost or valuation	8,181	49,660	713	788	-	59,342
Accumulated depreciation and impairment	(1,161)	(22,339)	(320)	-	-	(23,820)
	7,020	27,321	393	788	-	35,522

Finance leases

The carrying value of plant and equipment held under finance lease and hire purchase contracts at 31 December 2011 was €66,000 (2010: €674,000). There were no additions of plant and equipment held under finance leases during the year (2010: nil). Leased assets and assets held under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

Valuation of property and investment property

Property and investment properties are measured using the cost model and are stated at historic cost less provision for depreciation and impairment. Where property has been acquired through business combinations, the historic cost is the fair value of the property at the date of acquisition. At 31 December 2011, the value of the investment properties on this basis amounted to nil (2010: €1,760,000).

13. Intangible assets

	Patents and licences € 000	Customer contracts € 000	Goodwill € 000	Trademark € 000	Total € 000
Net Book Value at 1 January 2010					
Cost or valuation	5,099	16,159	214	3,130	24,512
Accumulated amortisation	(2,154)	(10,698)	-	-	(12,852)
	2,855	5,461	214	3,130	11,660
Year ended 31 December 2010					
Opening net book amount	2,855	5,461	214	3,130	11,660
Additions	465	-	-	-	465
Impairment charge	(1,078)	(2,014)	(214)	(1,539)	(4,845)
Amortisation	(1,067)	(1,365)	-	-	(2,432)
Closing net book amount	1,175	2,082	-	1,591	4,848
Net Book Value at 31 December 2010					
Cost or valuation	5,474	16,159	214	3,130	24,977
Accumulated amortisation	(4,299)	(14,077)	(214)	(1,539)	(20,129)
	1,175	2,082	-	1,591	4,848
Year ended 31 December 2011					
Opening net book amount	1,175	2,082	-	1,591	4,848
Additions	63	-	-	-	63
Discontinued operations	(1,114)	(2,082)	-	(1,591)	(4,787)
Amortisation	(47)	-	-	-	(47)
Closing net book amount	77	-	-	-	77
Net Book Value at 31 December 2011					
Cost or valuation	1,265	16,159	-	3,130	20,554
Accumulated amortisation	(1,188)	(16,159)	-	(3,130)	(20,477)
	77	-	-	-	77

Patents, licenses and customer contracts relate to the fair value of intangible assets acquired through business combinations. The Group has determined that such assets have a finite useful life and they are being amortised over their remaining useful lives.

14. Other financial assets and financial liabilities

14.1 Financial instruments by category

	Loans and receivables €000	Items at fair value through profit and loss €000	Derivatives used for hedging €000	Financial liabilities at amortised cost €000	Total €000
At 31 December 2011:					
Financial assets					
Trade and other receivables	20,996	-	-	-	20,996
Cash and short-term deposits	45,605	-	-	-	45,605
	66,601	-	-	-	66,601
Financial liabilities					
Interest bearing loans and borrowings	-	-	-	26,541	26,541
Trade and other payables	-	-	-	23,776	23,776
Employee benefit liability	-	-	-	73	73
Derivative financial instruments	-	281	161	-	442
	-	281	161	50,390	50,832
At 31 December 2010:					
Financial assets					
Other non-current financial assets	368	-	-	-	368
Trade and other receivables	37,778	-	-	-	37,778
Derivative financial instruments	-	304	2,390	-	2,694
Cash and short-term deposits	18,683	-	-	-	18,683
	56,829	304	2,390	-	59,523
Financial liabilities					
Interest bearing loans and borrowings	-	-	-	47,764	47,764
Trade and other payables	-	-	-	45,401	45,401
Employee benefit liability	-	-	-	2,525	2,525
Derivative financial instruments	-	70	-	-	70
	-	70	-	95,690	95,760

Interest bearing loans and borrowings

	2011 €000	2010 €000
Non-current		
Loans from financial institutions	14,500	26,513
Shareholder capital loan	1,000	1,000
Finance lease and hire purchase liabilities	-	99
	15,500	27,612
Current		
Loans from financial institutions	10,936	19,908
Finance lease and hire purchase liabilities	105	244
	11,041	20,152
Total borrowings	26,541	47,764

(a) Loans from financial institutions

Loans from financial institutions include amortising term loans of €6,000,000 (2010: €22,676,000) which mature at various times between 2012 and 2016, together with revolving credit and other facilities repayable on demand which are available to the Group until at least July 2013. Further details of the maturity profile of the Group's borrowing facilities are provided in Note 27.

Loans from financial institutions bear interest at floating rates based upon the one month Euribor rate plus a bank margin of between 2.0% and 3.2%.

The facilities are secured by mortgages and charges over certain of the Group's assets in Finland and are subject to financial and other covenants which are assessed on a quarterly basis. The principal covenants measure ratios of senior net debt to EBITDA, total net cash interest cover and debt service cover, minimum liquidity and capital expenditure.

(b) Shareholder capital loan

At 31 December 2011, the Group had a subordinated shareholder loan of €1,000,000 (2010: €1,000,000) which falls due for repayment on 31 July 2013. The loan, including any accrued interest, is unconditionally subordinated to the secured and unsecured claims of any other lender to the Group and may only be repaid if there are sufficient reserves available to cover the restricted equity and other non-distributable reserves after repayment.

The shareholder capital loan bears interest at a rate which is fixed on an annual basis on the first banking day of April of each year based upon the 12-month Euribor rate plus a margin of 4%. Interest accrues annually, but may only be paid to the extent that the Group has sufficient retained and distributable profits arising from the financial period to which the interest relates and only once the financial statements for the year to which it relates have been approved by the shareholders at the Annual General Meeting.

(c) Finance lease liabilities

The Group uses finance leases to fund the purchase of certain items of plant and equipment. The duration of such agreements is generally five years or less and as 31 December 2011 and 31 December 2010 the Group had no obligations with a maturity of more than five years. Under the terms of the agreements, the rights to the leased assets revert to the lessor in the event of default by the lessee. Further details of the assets purchased by the Group which are subject to finance leases and the Group's obligations in connection with these assets are provided in Notes 12 and 26.

14.2 Derivative financial instruments and hedging activities

	2011		2010	
	Assets €000	**Liabilities €000**	**Assets €000**	**Liabilities €000**
Foreign exchange forward contracts	-	281	304	70
Commodity forward contracts	-	161	2,390	-
Total	-	442	2,694	70
Less: non-current portion				
Foreign exchange forward contracts	-	-	-	-
Commodity forward contracts	-	-	773	-
	-	-	773	-
Current portion	-	442	1,921	70

The full fair value of a hedging instrument is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability if the maturity of the hedged item is less than 12 months.

Net gains/(losses) on financial instruments included in operating profit

	2011 €000	2010 €000
Electricity forward contracts designated as cash flow hedges	608	283
Non-hedge accounted foreign exchange forward contracts	(124)	190

Derivatives not designated as hedging instruments

The Group uses foreign exchange forward contracts to manage some of its transaction exposures. Currency forward contracts are not designated as cash flow, fair value or net investment hedges and are entered into for periods consistent with currency transaction exposures up to 12 months in advance.

Cash flow hedges

The Group uses commodity forward contracts to manage its exposure to fluctuations in the price of electricity, oil, natural gas and other sources of energy. Forward contracts for the purchase of energy are entered into on the basis of highly probable forecast transactions which are expected to occur within the next 12 months. Such contracts are designated as cash flow hedges and hedge accounting is applied.

As at 31 December 2011, the fair value of outstanding commodity forward contracts included an asset of nil (2010: €2,390,000) and a liability of €161,000 (2010: nil). The ineffectiveness recognised in other expenses in the income statement for the current year was nil (2010: €36,000). The cumulative effective portion of €122,000 net of tax is reflected in other comprehensive income.

14.3 Fair Values

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements

	Carrying Amount		Fair Value	
	2011 €000	2010 €000	2011 €000	2010 €000
Financial assets				
Other non-current financial assets	-	368	-	368
Trade and other receivables	20,996	37,778	20,996	37,778
Derivative financial instruments	-	2,694	-	2,694
Cash and short-term deposits	45,605	18,683	45,605	18,683
	66,601	59,523	66,601	59,523
Financial liabilities				
Interest bearing loans and borrowings	26,541	47,764	26,553	48,300
Trade and other payables	23,776	2,525	23,776	2,525
Derivative financial instruments	442	45,401	442	45,401
Employee benefits	73	70	73	70
	50,832	95,760	50,844	96,296

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a transaction between willing parties, other than in a forced liquidation or sale. The following methods were used to estimate the fair values:

- Cash and short-term deposits, trade and other receivables and trade and other payables approximate their carrying amounts largely due to the short-term nature of these instruments.

- The fair value of loans from banks, other non-current financial liabilities, obligations under finance leases and employee benefits with fixed and variable interest rates is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using a valuation techniques with market observable inputs are foreign exchange forward contracts and commodity forward contracts. The most frequently applied valuation techniques include forward pricing using present value calculations. The models incorporate inputs such as foreign exchange spot and forward rates and quoted market prices on future exchanges of the underlying commodity.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recoded fair value that are not based on observable market data

Assets measured at fair value

	31 Dec 2011 €000	Level 1 €000	Level 2 €000	Level 3 €000
Financial assets at fair value through profit or loss:				
Foreign exchange forward contracts	-	-	-	-
Commodity forward contracts	-	-	-	-
	-	-	-	-

Liabilities measured at fair value

	31 Dec 2011 €000	Level 1 €000	Level 2 €000	Level 3 €000
Financial liabilities at fair value through profit or loss:				
Foreign exchange forward contracts	281	-	281	-
Commodity forward contracts	161	-	161	-
	422	-	422	-

During the reporting period ending 31 December 2011, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

15. Impairment testing of goodwill and intangibles with indefinite lives

Intangible assets with indefinite lives at 31 December 2010 related entirely to discontinued operations and were as follows:

	2011 €000	2010 €000
Trademarks with indefinite useful lives	-	1,591

At 31 December 2011, the market capitalisation of the Group was significantly higher than the book value of its equity and no triggering events regarding the impairment of the Group's assets were identified. Therefore, the Group has not performed any impairment testing of its assets or business units as at 31 December 2011.

On 3 May 2011, the Group announced that it had reached agreement on the sale of the businesses that comprise Graphic Papers for cash consideration of €32,539,000 before disposal costs. The recoverable amount of the Graphic Papers at 31 December 2010 was determined based upon the fair value of the consideration less costs to sell and in the financial statements for the year ended 31 December 2010, the Group recorded a net impairment charge of €22,074,000. This was presented in the income statement as an impairment of non-current assets of €31,443,000 within operating profit and an adjustment to deferred tax relating to impairment of non-current assets of €9,369,000 within income tax. €214,000 of the net impairment charge was allocated to goodwill, €4,631,000 to other intangible assets, €1,703,000 to investment properties, €24,895,000 to property, plant and equipment and €9,369,000 to deferred tax liabilities.

16. Inventories

	2011 €000	**2010 €000**
Raw materials and supplies	6,285	16,267
Finished goods	6,380	13,466
	12,665	29,733

There were no substantial write-downs in the value of inventory during 2011 or 2010.

17. Trade and other receivables (current)

	2011 €000	**2010 €000**
Trade receivables	19,008	24,004
Prepayments and other receivables	1,988	13,774
	20,996	37,778

Trade receivables are non-interest bearing and are generally on 30 to 90 day terms.

The Group remains exposed to foreign currency risk and the risk of late payment after invoicing on receivables which are subject to factoring arrangements. At 31 December 2011, the Group had not recognised any factored foreign currency trade receivables that do not qualify for derecognition in the statement of financial position (2010: €3,401,000). At 31 December 2011, the Group did not have any factored trade receivables which qualify for derecognition and are not recognised in the statement of financial position (2010: €20,169,000).

As at 31 December 2011, trade receivables at initial value of nil (2010: €204,000) were impaired and fully provided for. The movements in the provision for impairment of receivables are as follows (see credit risk disclosure Note 27 for further guidance):

	Individually impaired €000
At 1 January 2010	187
At 31 December 2010	204
Charge for the year	-
Utilised	-
Discontinued operations	(204)
At 31 December 2011	-

At 31 December, the age profile of trade receivables was as follows:

	2011 €000	2010 €000
Current	18,720	20,666
Past due but not impaired:		
<30 days	103	2,759
30-60 days	100	192
60-90 days	23	208
90-120 days	0	157
>120 days	62	22
	19,008	24,004

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2011 €000	2010 €000
Euros	12,304	14,639
US Dollar	6,471	6,596
UK Pound	233	1,954
Other currencies	-	815
	19,008	24,004

Collateral

The Group has pledged all of its trade receivables as security for its borrowing facilities.

18. Cash and short-term deposits

	2011 €000	2010 €000
Cash at banks and on hand	45,605	18,430
Short-term deposits	-	253
	45,605	18,683

Cash at banks earns interest at floating rates based upon daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Cash at bank and on hand at 31 December 2011 includes an amount of €2,000,000 which is held in escrow as security against potential claims under warranties and indemnities provided by the Group to the purchaser of the Graphic Papers businesses. Provided there are no claims under the warranties and indemnities, this amount will be released to the Group in November 2012.

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at 31 December:

	2011 €000	2010 €000
Cash at banks and on hand	45,605	18,430
Short-term deposits	-	253
	45,605	18,683
Less amounts held in escrow	(2,000)	-
	43,605	18,683

19. Share capital and reserves

Authorised share capital

	2011 Thousands	2010 Thousands
Ordinary shares	289,818	289,818

The shares have no nominal value.

Issued and fully paid share capital and reserve for invested non-restricted equity

	No. of shares Thousands	Share capital €000	Reserve for invested non-restricted equity €000	Total €000
At 1 January 2010	144,818	88	9,602	9,690
Issue of new shares	145,000	-	20,228	20,228
Transaction costs of issue of shares		-	(1,408)	(1,408)
At 31 December 2010	289,818	88	28,422	28,510
At 31 December 2011	289,818	88	28,422	28,510

Rights issue and placing

On 25 November 2010, the Group completed a rights issue and the placing which resulted in the issue of 145,000,000 new shares under an authority granted to the Board of Directors at an Extraordinary General Meeting held on 22 October 2010. The new shares were issued fully paid with no nominal value and rank *pari passu* with the existing shares in all respects. Total proceeds amounted to €20,228,000 and the related transaction costs amounted to €1,903,000 (€1,408,000 net of taxes). The proceeds from the share issue were credited to the reserve for invested non-restricted equity.

The Group adopted the amendment to IAS 32 from 1 January 2010. Under this amendment, a financial instrument that gives the holder the right to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency is an equity instrument if, and only if, the entity offers the financial instrument pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

The offer of shares under the rights issue qualified as an equity instrument and was treated as such, while the offer of shares under the placing did not qualify and was accounted for as a derivative financial instrument. The derivative liability was measured at inception of the offer as the difference between the share price at that date and the subscription price, with a corresponding debit to shareholders' equity. The revaluation of this derivative liability over the offer period, arising from a decrease in the share price, resulted in the recognition of a gain in the income statement for the year ended 31 December 2010 of €1,529,000 (€1,131,000 net of taxes). The derivative liability expired on acceptance of the offer, and the closing balance was credited to shareholders' equity. Accordingly, there was no overall impact on the Group's shareholders' equity, capital position or distributable reserves.

Share option schemes

The Group has two share option schemes under which options to subscribe for shares have been granted to certain executives and senior employees (Note 23).

Other reserves

	Hedging Reserve €000	Retained Earnings €000
At 1 January 2010	(86)	46,565
Share-based payment	-	541
Cash flow hedges	2,460	-
Tax effect of cash flow hedges	(639)	
Derivative on placing	-	(1,529)
Tax effect of derivative on placing	-	398
Profit for the year	-	(23,399)
At 31 December 2010	1,735	22,576
Share-based payments	-	409
Cash flow hedges	(2,509)	-
Tax effect of cash flow hedges	652	-
Dividends paid	-	(2,898)
Profit/(loss) for the year	-	10,057
At 31 December 2011	(122)	30,144

Nature and purpose of other reserves

The hedging reserve contains the effective portion of the hedge relationships incurred as at the reporting date.

20. Dividends paid and proposed

	2011 €000	2010 €000
Dividends on ordinary shares declared and paid during the year:		
Final dividend for 2010: 1.0 cents per share (2009: 0 cents per share)	2,898	-
Dividends on ordinary shares to be proposed for approval at the Annual General Meeting (not recognised as a liability at 31 December 2011):		
Final dividend for 2011: 1.3 cents per share (2010: 1.0 cents per share)	3,767	2,898

21. Provisions

	Environmental €000	Provision for uncertainties €000	Other €000	Total €000
At 1 January 2011	1,800	-	847	2,647
Arising during the year	-		100	100
Utilised	-	-	-	-
Discontinued operations (Note 10)	(1,800)	1,966	(847)	(681)
At 31 December 2011	-	1,966	100	2,066
Current	-	1,966	100	2,066
Non-current	-	-	-	-

Environmental provisions related to residual pollution risk, remediation of historic buildings and future decommissioning expenses in the Graphic Papers business. Provisions for uncertainties relate principally to provisions against the cost of potential claims under warranties and indemnities provided by the Group to the purchaser of the Graphic Papers businesses (see Note 10). At 31 December 2011, the Group had not been notified of any potential claims.

22. Pensions and other post-employment benefit plans

Pensions

The majority of the Group's employees participate in statutory pension arrangements which are provided by the relevant government or are insured with local pension insurance providers. Such schemes are classified as defined contribution plans and the related payments are recognised in the income statement on an accruals basis. The expense recognised in the income statement for the year ended 31 December 2011 was €2,344,000 (2010: €4,587,000).

Other post-employment benefits plans

The Group has a liability for early-retirement pensions arising from the dismissal of personnel in 2005. In accordance with legislation in Finland, the Group remains liable for payment of early-retirement pensions for certain of these employees if they are not able to secure alternative employment before they become eligible to receive a normal retirement pension.

	2011 €000	2010 €000
At 1 January	38	70
Charge in income statement	35	(32)
At 31 December	73	38
Current	23	-
Non current	50	38

The Group has no post-employment benefit plans in Germany at 31 December 2011. Other post-employment benefit plans in Germany at 31 December 2010 related to discontinued operations and were as follows:

	2011 €000	2010 €000
At 1 January	2,487	2,176
Arising during the year	-	483
Utilised	-	(232)
Discount rate adjustment	-	60
Discontinued operations	(2,487)	-
At 31 December	-	2,487
Current	-	855
Non-current	-	1,632

23. Share-based payment plans

The expense recognized for employee services received during the year is shown in the following table:

	2011 €000	2010 €000
Expense arising from equity-settled share-based payment transactions	409	541

The share-based payment plans are described below.

Powerflute Stock Option Plan

Under the Powerflute Stock Option Plan ("PSOP") share options are granted to senior executives who devote substantially all of their working time to the activities of the Group. There are three categories of options: 2007A, 2007B and 2007C. The 2007A options have been granted in full to senior executives, while the 2007B and 2007C options have been granted to the Group's trading subsidiary Savon Sellu Oy and are available for future awards to employees.

The exercise price of each category of options is as follows:

2007A The price at which the Initial Public Offering was completed in May 2007 (110 pence).

2007B The average market price for a share as quoted on the London Stock Exchange Daily Official List for the five dealing days after publication of the Group's financial statements for the year ended 31 December 2007.

2007C The average market price for a share as quoted on the London Stock Exchange Daily Official List for the five dealing days after publication of the Group's financial statements for the year ended 31 December 2008.

In the event of any variation in the share capital of the Group, the exercise price and the number of shares granted by each option may be varied at the discretion of the Remuneration Committee.

The maximum number of shares that may be issued pursuant to grants under the PSOP is 8,800,000 which represented 10% of the Group's issued share capital at the commencement of the scheme.

Powerflute Stock Option Scheme

Under the Powerflute Stock Option Scheme ("PSOS") share options are granted to senior executives who devote substantially all of their working time to the activities of the Group. The total number of share options available for grant under the PSOS is 10,000,000 shares, equivalent to 6.9% of the existing issued share capital of the Company. Of these share options, 4,000,000 are designated as 2009A Options, 3,000,000 as 2009B Options and 3,000,000 as 2009C Options. The 2009A, 2009B and 2009C Options are identical in all respects save for their vesting criteria which are as follows:

Category	Target Share Price	Measurement Date	Exercise Period
2009A Options	80 pence	1 October 2012	1 October 2012 to 1 December 2017
2009B Options	100 pence	1 October 2013	1 October 2013 to 1 December 2017
2009C Options	120 pence	1 October 2014	1 October 2014 to 1 December 2017

Where the performance target for the 2009A Options has not been met at 1 October 2012, the 2009A Options are carried forward and tested according to the conditions that apply to the 2009B Options. Similarly, where the performance target for the 2009B Options, or any 2009A Options carried forward, are not met at 1 October 2013, such options are carried forward and tested according to the conditions that apply to the 2009C Options.

The subscription price for each grant of options under the PSOS is determined at the discretion of the Board at the time the grant is made, having due regard to the prevailing share price on the AIM market, and shall be included within the Company's invested non-restricted equity.

Share-based incentive scheme

Under the terms of his employment, Marco 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 fair value of the incentive scheme was estimated based on the grant date market price (€0.34) of the share.

Movements during the year

The following tables illustrate the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the year.

PSOP	**2011 No. Thousands**	**2011 WAEP Pence**	**2010 No. Thousands**	**2010 WAEP Pence**
At 1 January	880	110	880	110
At 31 December	880	110	880	110

The weighted average remaining contractual life for the share options outstanding as at 31 December 2011 was 0.3 years (2010: – 1.3 years). No options were granted under the PSOP during the years ended 31 December 2011 and 2010. The exercise price for options outstanding at 31 December 2011 was 110 pence.

The fair value of each 2007A option was estimated using a Black & Scholes pricing model using the following assumptions:

Dividend yield (%)	0.0
Expected volatility (%)	26.6
Risk-free interest rate (%)	4.18
Expected life of option (years)	4.08
Weighted average share price (€)	1.617

The expected life of the options is based upon historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

The PSOP is an equity-settled plan and the fair value is measured at the grant date.

PSOS	**2011 No. Thousands**	**2011 WAEP €**	**2010 No. Thousands**	**2010 WAEP €**
At 1 January	7,250	0.33	3,750	0.33
Granted during the year	-	-	3,500	0.33
Forfeited during the year	(500)	0.35	-	-
At 31 December	6,750	0.33	7,250	0.33

The weighted average remaining contractual life for share options outstanding at 31 December 2011 was 1.7 years (2010: 2.7 years). No options were granted under the PSOP during the year ended 31 December 2011. The weighted average fair value of options granted during the year ended 31 December 2010 was €0.09. The exercise price for options outstanding at 31 December 2011 was €0.33.

The fair value of each option was estimated using a Monte-Carlo simulation model, taking into account the terms and conditions upon which the share options were granted. The following assumptions were used in the model:

	2009A	**2009B**	**2009C**
Dividend yield (%)	0.0	0.0	0.0
Expected volatility (%)	67.4	67.4	67.4
Risk-free interest rate (%)	2.365	2.365	2.365
Expected life of option (years)	5.0	5.0	5.0
Weighted average share price (€)	0.267	0.267	0.267

The expected life of the options is based upon historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

The PSOS is an equity-settled plan and the fair value is measured at the grant date.

24. Trade and other payables

	2011 €000	2010 €000
Trade payables	7,857	26,414
Amounts due to associate	4,697	2,046
Other payables and accrued liabilities	11,222	16,941
	23,776	45,401

Trade payables are non-interest bearing and are normally settled on terms of 30 to 60 days. Other payables are non-interest bearing and have an average term of less than six months. Interest payable is normally settled monthly throughout the financial year.

25. Related party disclosures

Subsidiary companies

These financial statements include the financial statements of Powerflute Oyj and the subsidiaries listed in the following table:

	Country of incorporation	% equity interest	
		2011	2010
Savon Sellu Oy	Finland	100.0	100.0
Coated Papers Finland Oy	Finland	100.0	100.0
Powerflute Monaco SARL	Monaco	90.0	-
Papierfabrik Scheufelen GmbH + Co KG	Germany	100.0	100.0
Scheufelen Grundstücksgesellschaft mbH	Germany	100.0	100.0
Papierfabrik Scheufelen Verwaltungs GmbH	Germany	100.0	100.0
Lenninger Instandhaltungsgesellschaft mbH	Germany	100.0	100.0

Under the provisions of Section 264 b HGB (Handelsgesetzbuch) Papierfabrik Scheufelen GmbH + Co KG is exempted from the requirement to make its financial statements public.

Associates

The Group has a 30% interest in Harvestia Oy (2010: 33%), a wood procurement company incorporated in Finland.

Transactions with related parties

a) Sales and purchases of goods and services

	2011 €000	2010 €000
Sale of services to related parties:		
Associate – Harvestia Oy	240	13
Purchase of goods and services from related parties:		
Associate – Harvestia Oy	27,552	25,490

Savon Sellu purchases a proportion of its raw materials from Harvestia Oy. The goods are purchased in accordance with terms specified in the shareholder agreement and supply contracts negotiated between the parties.

b) Amounts due to or from related parties

	2011 €000	2010 €000
Amounts due to related parties arising from the purchase of goods/services		
Associate – Harvestia Oy	4,697	2,046
Other amounts due to related parties		
Shareholder capital loan	1,000	1,000
Other amounts due from related parties		
Associate – prepayments to Harvestia Oy	1,414	2,614

c) Key management compensation

	2011 €000	2010 €000
Salaries and other short-term employee benefits	2,269	932
Directors fees	380	381
Share-based payments	409	528
	3,058	1,841

d) Directors' interests in employee share incentive plans

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

Issue date	Expiry date	Exercise price	Number outstanding 2011 Thousands	Number outstanding 2010 Thousands
11 Nov 2009	1 Dec 2017	€0.33	6,750	6,750
11 Jan 2010	-	€0.00	2,000	2,000

26. Commitments and contingencies

Mortgages

The Group has pledged all of its assets, including the shares of its subsidiary companies, as security for its borrowings.

Guarantees

The Group had provided the following guarantees as at 31 December:

	2011 €000	2010 €000
On behalf of Associated company		
Guarantee	2,000	2,000

Operating lease commitments

The Group has entered into commercial leases on office premises, certain motor vehicles and various items of machinery. Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2011 €000	2010 €000
Within one year	155	2,079
After one but not more than five years	340	1,678
More than five years	-	-
	495	3,757

Finance lease and hire purchase commitments

The Group has finance leases and hire purchase contracts for various items of plant and machinery, software licenses and certain of its intangible assets. Future minimum lease payments under finance lease and hire purchase contracts, together with the present value of the net minimum lease payments were as follows:

	2011 Minimum payments €000	2011 Present value of payments €000	2010 Minimum payments €000	2010 Present value of payments €000
Within one year	107	105	271	244
After one but not more than five years	-	-	106	99
Total minimum lease payments	107	105	377	343
Less amounts representing finance charges	(2)	-	(34)	-
Present value of minimum lease payments	105	105	343	343

Capital commitments

At 31 December 2011, the Group had capital commitments of €979,000 (2010: €2,392,000) relating to investments in plant and equipment.

Emissions rights (CO_2)

The Group has received confirmation of the emission rights available to it for the period 2008 to 2012 from the Finnish and German governments.

The Group forecasts annual CO_2 emissions based upon estimates of future annual production volumes and the following assumptions:

- Total energy consumption is expected to reduce through investment in the production processes.
- The use of bio-fuels will increase, leading to a reduced dependence upon peat which has the highest CO_2 content of all of the fuels used by the Group.
- Investments in power plant technology will lead to a reduction in the consumption of heavy oil.

Emission rights are freely traded as commodities. In the event that the Group produces more CO_2 emissions than forecast, it is possible to purchase the necessary additional emission rights. CO_2 emissions were below forecast levels for the year ended 31 December 2011 and are expected to be below the emission rights available to the Group for the year ended 31 December 2012. Accordingly, it was not necessary to purchase or provide for the purchase of any additional emission rights.

27. Financial risk management objectives and policies

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings as well as trade and other payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has loan and other receivables, trade and other receivables, and cash and short-term deposits that arise directly from its operations. The Group also enters into derivative transactions.

The Group is exposed to various types of risk including interest rate risk, foreign currency risk, commodity risk, credit risk and liquidity risk. The senior management of the Group oversees the management of these risks and ensures that the Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and appetite for risk. The Board of Directors regularly reviews and agrees policies for managing each of the principal risks which the Group faces.

All derivative activities for risk management are carried out by managers that have the appropriate skills and experience, working under the direct supervision of the Board of Directors. It is the Group's policy that no trading in derivatives for speculative purposes shall be undertaken.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group manages its interest rate risk by maintaining an appropriate portfolio of fixed and variable rate loans and borrowings. To achieve this, from time to time the Group enters into interest rate swaps, in which the Group agrees to exchange at specified intervals the difference between fixed and variable interest rate amounts calculated by reference to an agreed-upon notional principle amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2011, the Group did not have any interest rate swaps.

Interest rate sensitivity

The following table demonstrates the sensitivity to changes in interest rates, with all other variables held constant, of the Group's profit before taxation (through the impact on floating rate borrowings). The impact on the Group's equity is not material.

	Increase/decrease in basis points bps	Effect on profit before taxation €000
2011	100	+/- 265
2010	100	+/- 680

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange relates primarily to the Group's operating activities (when revenue or expenses are denominated in a different currency to the Group's functional currency which is the Euro).

The Group manages its foreign currency risk by hedging transactions that are expected to occur within a maximum 12 months period. Transactions that are certain may be hedged without any limitation in time. It is the Group’s policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item in order to maximize the hedge effectiveness.

In the year ended 31 December 2011, the principal foreign currency risk arose as a result of sales and purchases made in currencies other than the functional currency. In particular, approximately 30% of Group’s sales and 5% of the Group’s purchases and other expenses were denominated in US Dollars.

The following table demonstrates the sensitivity to a changes in the US Dollar exchange rate, with all other variables held constant, of the Group’s profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/decrease in US Dollar rate	**Effect on profit before taxation €000**
2011	+10%	(605)
	-10%	605
2010	+10%	(19)
	-10%	15

The Group’s exposure to foreign currency changes for all other currencies is not material.

Commodity risk

Commodity risk is the risk arising from fluctuations in the availability and cost of certain of the Group’s raw material and other input costs. In particular, the Group is exposed to fluctuations in the availability and cost of wood and other fibres and to fluctuations in the cost of electricity.

Commodity risk is managed through the use of formal agreements with recognised and established counterparties and the purchase of commodity derivates. Wood and other fibre purchases are secured for periods of up to 12 months in advance through supply agreements made with wood procurement companies, including the Group’s associate Harvestia Oy. Availability of electricity is secured through the use of framework agreements with suppliers and the risk associated with price fluctuations is hedged using commodity derivatives.

At 31 December 2011, the Group had hedged over 90% of its forecast electricity purchases for the following 12 month period. Hedge accounting has been adopted for such derivatives and effective portion of the gains and losses are taken to a hedging reserve within other comprehensive income and only transferred to the income statement during the period in which the hedged cost is incurred.

The following table demonstrates the effect that changes in the electricity price would have, with all other variables held constant, on the fair value of electricity derivatives and on the Group’s profit before tax. The effect has been estimated using a VaR model with a holding period of 10 days and a confidence level of 95%.

	Increase/decrease in electricity price	**Effect on profit before taxation €000**
2011	20-25%	+/- 195
2010	20-25%	+/- 588

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities and its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Credit risk related to receivables: Customer credit risk is managed by each business unit in accordance with the Group's policy, procedures and controls relating to the management of credit risk. Credit quality of customers is objectively assessed and outstanding receivables are regularly monitored. Deliveries to the majority of customers are covered by either letter of credit or other forms of credit insurance and the uninsured exposure is monitored and managed centrally by the Group. The Group has a large number of different customers and counterparties in international markets. Accordingly, there is no concentration of credit risk in any particular counterparty or country. The maximum exposure to credit risk related to receivables is the carrying value of each class of financial assets mentioned in Note 14.

Credit risk related to financial instruments and cash deposits: Credit risk from transactions and balances with banks and other financial institutions is managed centrally by the Group. The Group only enters into transactions with approved counterparties and within limits which are reviewed by the Group's Board of Directors on an annual basis. The Group's maximum exposure to credit risk for the components of the balance sheet at 31 December 2011 and 2010 is the carrying value of the amounts as illustrated in Note 14.

Liquidity risk

The Group monitors its liquidity risk using a recurring liquidity planning tool which forecasts the amounts and timings of future cash flows. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, invoice discounting and debt factoring, finance leases and hire purchase contracts.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2010 based on contractual undiscounted payments.

As at 31 December 2011	**On demand €000**	**Less than 3 months €000**	**3 to 12 months €000**	**1 to 5 years €000**	**>5 years €000**	**Total €000**
Interest bearing loans and borrowings	-	9,541	1,500	15,500	-	26,541
Trade and other payables	-	23,776	-	-	-	23,776
Employee benefit liabilities	-	-	23	50	-	73
		23,803	11,037	15,550	-	50,390
Derivative financial instruments						
Forward foreign exchange contracts – not hedge accounting						
Cash flow payable	-	5,408	-	-	-	5,408
Cash flow receivable	-	(5,127)	-	-	-	(5,127)
Commodity derivatives – hedge accounting						
Cash flow payable	-	702	2,105	-	-	2,807
Cash flow receivable	-	(661)	(1,984)	-	-	(2,645)
	-	322	121	-	-	443

As at 31 December 2010	**On demand €000**	**Less than 3 months €000**	**3 to 12 months €000**	**1 to 5 years €000**	**>5 years €000**	**Total €000**
Interest bearing loans and borrowings	13	4,059	16,327	26,706	1,195	48,300
Trade and other payables	-	45,401	-	-	-	45,401
Employee benefit liabilities	-	533	322	1,670	-	2,525
	13	49,993	16,649	28,376	1,195	96,226
Derivative financial instruments						
Forward foreign exchange contracts – not hedge accounting						
Cash flow payable	-	19,061	-	-	-	19,061
Cash flow receivable	-	(19,139)	-	-	-	(19,139)
Commodity derivatives – hedge accounting						
Cash flow payable	-	672	2,017	2,807	-	5,496
Cash flow receivable	-	(1,077)	(3,229)	(3,580)	-	(7,886)
		(483)	(1,212)	(773)	-	(2,468)

Interest bearing loans and borrowings include amounts borrowed under a revolving credit facility which is available to the Group until July 2013. While the maturity of individual loan advances under this facility may be less than one year, under the terms of the facility any amounts repaid may be reborrowed. Accordingly, such advances are included within amounts falling due for repayment after more than one year.

Interest bearing loans and borrowings include also amounts borrowed under a credit factoring facility which is available to the Group until July 2013. The maturity of individual factored sales invoices is less than three months, and therefore, the balance of 9,448,000 has been presented within amounts falling due for repayment before three months.

The Group's loans and other borrowing facilities are subject to covenants and certain other conditions. At 31 December 2011, the Group was not in default with regard to any of the provisions of its banking agreements.

Capital management

The primary objective of the Group's capital management is to ensure that healthy capital ratios are maintained in order to support its business and maximize shareholder value. The Group manages its capital structure and makes changes to it in light of changes in economic conditions and business requirements or objectives. No changes were made to the underlying objectives, policies or processes during the years ended 31 December 2011 and 2010.

The Group monitors capital using a gearing ratio, which is defined as net debt divided by total capital plus net debt. Net debt includes interest bearing loans and borrowings less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent.

	2011 €000	**2010 €000**
Interest-bearing loans and borrowings:		
Non-current portion	15,500	27,612
Current portion	11,041	20,152
	26,541	47,764
Cash and short-term deposits	45,605	18,683
Equity attributable to equity holders of the parent	58,532	52,821
Gearing ratio	-%	36%

28. Events after the balance sheet date

Investment in Harvestia Oy

On 30 December 2011, the Group announced that following completion of the acquisition of Myllykoski Corporation by UPM-Kymmene an agreement had been reached under which Powerflute and Vapo would each increase their interest in Harvestia through the acquisition of shares in Harvestia held by Myllykoski. On 2 January 2012, the Group completed the acquisition of a further 15% of the equity of Harvestia for cash consideration of €1.4m. The purchase of Harvestia shares was financed from the Group's own cash resources and following completion of the transaction the Group has an interest of 45%. Harvestia will continue to be accounted for using the equity method as an associated company.