

17 August 2011

POWERFLUTE OYJ
INTERIM FINANCIAL REPORT
For the six months ended 30 June 2011

Powerflute Oyj (“Powerflute” or the “Group”), the packaging and paper group today announces its interim results for the six months ended 30 June 2011. Powerflute is quoted on the AIM market of the London Stock Exchange (Ticker: POWR) and on First North, the alternative market of the OMX Nordic Exchange Stockholm AB (Ticker POW1V).

FINANCIAL HIGHLIGHTS

- Revenues from continuing operations increased by 15% to €58.3m (2010: €50.9m)
- EBITDA from continuing operations improved to €9.0m (2010: €2.2m)
- Operating profit from continuing operations improved to €6.9m (2010: €0.2m)
- Earnings per share from continuing operations improved to 1.6 cents (2010: 0.8 cents loss)
- Dividend of 1 cent per share for year ended 31 December 2010 paid in June 2011
- Group effectively “debt-free” at 30 June 2011, with net cash of €2.1m, consisting of cash of €27.9m and total loans and borrowings of €25.8m (net debt at 31 December 2010: €29.1m)

OPERATIONAL HIGHLIGHTS

- Disposal of the Graphic Papers business for a total consideration of €38.5 million in May 2011, generating a significant return on the Group’s initial investment
- Strong performance from the Packaging Papers business as favourable market conditions encountered in the second half of 2010 continued into 2011
- €28m of liquid funds available for investment and gross indebtedness of only 1.4 times EBITDA from continuing operations
- Capital projects completed at Savon Sellu during the annual maintenance shutdown are expected to yield benefits in the second half
- The operating environment continues to be broadly favourable and we remain confident that the Group will perform well in the second half.

Dermot Smurfit, Chairman of Powerflute, commented as follows:

“The Group’s results for the six month period reflect continuation of the good progress achieved in the second half of 2010, resulting in a substantial increase in operating margins, profits and earnings per share compared with the same period of the prior year.”

“The disposal of the Graphics Papers business substantially improved the Group’s financial position and is consistent with Powerflute’s strategy to create value for shareholders through the acquisition and restructuring of underperforming paper and packaging assets. We continue to search for further acquisition opportunities in the paper and packaging sectors which match our demanding investment criteria.”

“During the first half of 2011, our continuing business activities benefited from favourable market conditions, returns on investments made in 2010 and tight control of costs.

“Despite an increasingly uncertain economic environment, we currently expect market conditions to remain broadly favourable for Packaging Papers for the remainder of the year. Capital investment projects completed during 2010 and the first half of 2011 are expected to yield further benefits during the second half of the year and we remain confident that the Group will continue to perform well.”

Ends

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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 First North, the alternative market of the OMX Nordic Exchange Stockholm AB (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 has the capacity to produce up to 300,000 tonnes per annum and is one of only three suppliers of Nordic semi-chemical fluting in Europe.

CHAIRMAN'S STATEMENT

The Group's results for the period ended 30 June 2011 reflect continuation of the good progress achieved in the second half of 2010 and were a considerable improvement on the same period of the prior year. The disposal of the Graphic Papers business in May 2011 significantly improved the financial position of the Group, generating a considerable return on our initial investment and validating our business model and strategy. The Packaging Papers business performed well as the favourable market conditions encountered in the second half of 2010 continued into 2011 and central costs were lower than in the prior year due to tight control of expenditure. Despite an increasingly uncertain economic environment, we currently expect market conditions to remain broadly favourable and we remain confident that the Group will perform well in the second half.

GROUP RESULTS

The Group reported a profit for the period attributable to equity holders of the company of €5.1 million, which represented an improvement of €8.6 million compared with the prior year (2010: €3.5 million loss). Earnings per share for the period were 1.8 cents (2010: 2.1 cents loss).

The Group completed the disposal of the Graphic Papers business on 3 May 2011 and the results and gain on disposal of this activity have been reported within discontinued operations. Continuing operations currently comprise the Packaging Papers and Central business segments.

Results of continuing operations

Revenues from continuing operations for the six months ended 30 June 2011 increased by 15% to €58.3 million (2010: €50.9 million) reflecting the impact of higher average selling prices. Delivered volumes were 5% below the prior year due principally to an extended planned maintenance shutdown at Savon Sellu which is discussed in more detail below.

EBITDA from continuing operations increased by €6.8 million to €9.0 million (2010: €2.2 million) and operating profit improved to €6.9 million (2010: €0.2 million). Both of these amounts were impacted by the extended planned maintenance shutdown, but included a profit of €1.9 million from the sale of shares in Harvestia. Profit before tax was €5.6 million (2010: €1.6 million loss).

Results of discontinued operations

The gain for the period after tax from discontinued operations was €0.4 million (2010: nil) including a loss for the period from trading activities of €1.3 million (2010: €2.1 million loss) and a gain on disposal before related tax credits of €1.4 million (2010: nil). The gain on disposal has been calculated after making full provision for all costs to sell, including provisions against potential future claims.

PACKAGING PAPERS

Trading conditions for Packaging Papers during the first half continued to be broadly favourable, with good demand in all major markets supporting attractive pricing levels and healthy operating margins. Average selling prices increased by a further 4% during the period and were 20% higher than the same period of the prior year. Delivered volumes reduced by 5%, due principally to the extended planned maintenance shutdown at Savon Sellu, while raw material, energy and most other operating costs remained stable.

The Savon Sellu mill operated at full capacity for most of the period, but was idle for three weeks during May for an extended planned maintenance shutdown and to allow completion of a number of major capital projects, including the installation of a new fully-automated packing line, funded by the proceeds of the rights issue and placing undertaken in November 2010. The planned stoppages resulted in the loss of 10-15,000 tonnes of capacity and impacted on the result for the period. However, the capital investment is expected to improve operating efficiency and positively impact performance during the second half of the year.

GRAPHIC PAPERS

Although Graphic Papers continued to face weak demand and high raw material costs, the underlying performance for the period prior to disposal represented an improvement on the same period of the prior year, principally due to the favourable impact of price increases achieved during 2010.

Disposal of Graphic Papers

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. €25.0 million of the cash consideration was paid on completion, with the balance of €7.5 million due for payment in early November 2011.

The Group had previously restated the carrying amounts of the assets and liabilities of Graphic Papers at 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 for the year ended 31 December 2010. Following completion of the disposal, the Group has recognised a gain on disposal of the discontinued operations of €1.7 million in the income statement for the period ended 30 June 2011.

The cash consideration of €32.5m represents a significant return on the Group's initial investment in Graphic Papers and the disposal is consistent with Powerflute's strategy to create value for shareholders through the acquisition and restructuring of underperforming paper and packaging businesses.

TAXATION

The income tax charge on profits from continuing operations of €0.9 million (2010: €0.2 million gain) is based upon an estimate of the annual tax rate expected for the full financial year applied to the profit before taxation of continuing operations after adjusting for the impact of disallowable items of income and expenditure. The underlying annual tax rate on profits before taxation in Finland is 26%.

EARNINGS PER SHARE AND DIVIDENDS

Basic earnings per share improved to 1.8 cents (2010: 2.1 cents loss), while basic earnings per share from continuing operations was 1.6 cents (2010: 0.8 cents loss). The number of shares used in the calculation of basic and diluted earnings per share for the period ended 30 June 2010 has been adjusted retrospectively to reflect the rights issue and share placing completed in November 2010.

The Group paid a final dividend for the year ended 31 December 2010 of 1 cent per share. The record date for the dividend was 1 June 2011 and payment was made on 14 June 2011. The level of annual dividend is approved by the Annual General Meeting and the Board does not make any payment on account or pay any interim dividend.

CASH FLOW

The Group started the period with net debt of €29.1 million, consisting of interest bearing loans and borrowings of €47.8 million offset by cash and short term deposits of €18.7 million.

The principal sources of funds during the period were:

- €25.0 million proceeds from the sale of the Graphic Papers subsidiary to Paper Excellence
- €5.2 million net cash inflow from operating activities (2010: €9.8 million)
- €2.5 million representing the Group's share of net proceeds from the sale of a 30% interest in Harvestia Oy to Vapo Oy (2010: nil)
- €0.4 million interest received on cash and short term deposits (2010: nil)

The principal applications of funds during the period were:

- €12.3 million on repayment of borrowings (2010: €3.9 million)
- €5.0 million of capital expenditure, including investment in a new fully-automated packing line at Savon Sellu (2010: €2.7 million)
- €2.3 million on payment of final dividend for the year ended 31 December 2010 (2010: nil)
- €1.3 million payment of expenses associated with the rights issue and placing undertaken in November 2010 (2010: nil)
- €1.8 million of interest and similar costs (2010: €2.1 million)

By 30 June 2011, the Group's net indebtedness had improved to a net cash position of €2.1 million consisting of cash and short term deposits of €27.9 million offset by interest bearing loans and borrowings of €25.8 million.

BORROWING FACILITIES

The maturity profile of the Group's bank and other borrowing facilities at 30 June 2011 and 31 December 2010 was as follows:

	30 June 2011 €m	31 December 2010 €m
Amortising term loans		
Non-current (2012-2016)	6.2	16.7
Current (2011/12)	1.5	7.1
	<hr/> 7.7	<hr/> 23.8
Other interest bearing borrowings	18.1	24.0
Total indebtedness	<hr/> 25.8	<hr/> 47.8
Cash and short-term deposits	27.9	18.7
Net indebtedness		
Net cash	2.1	-
Net debt	-	29.1

Other interest bearing borrowings include liabilities under working capital facilities and leasing arrangements. The expiry dates of these facilities are such that they are expected to remain available to the Group for periods in excess of one year.

The ratio of total indebtedness to earnings before interest, taxation, depreciation and amortisation (EBITDA) from continuing operations improved considerably and was 1.4 times at 30 June 2011.

TREASURY MANAGEMENT AND CURRENCY RISK

The main functional currency of the Group is the Euro. The Group has transactional and balance sheet exposures to a number of other currencies, and in particular to the US dollar. The transactional exposure arises as approximately 25% of the sales by volume and value and approximately 5% of the expenses by value of the Group's continuing operations are denominated in US dollars. The balance sheet exposure arises in connection with the assets and liabilities arising from these transactions.

It is the Group's policy to use forward exchange contracts to hedge a portion of its foreign currency exposure for a period of up to 12 months from the balance sheet date. At 30 June 2011, the Group had hedged approximately 75% of its exposure to the US dollar for the six months ended 31 December 2011 and had no hedging in place for 2012.

PRINCIPAL RISKS AND UNCERTAINTIES

Other than those specifically related to the Graphic Papers business segment or highlighted separately in this report, the principal risks and uncertainties faced by the Group have not changed from 2010. Changes in the macroeconomic environment, competition, technology, people, and financial conditions all have the potential to adversely impact on the Group's operating and financial performance. A more detailed explanation of these risks and uncertainties is set out on page 19 of the Annual Report for the year ended 31 December 2010, a copy of which is available on the Group's website.

GOING CONCERN

The Board has undertaken a review of the Group's forecasts and the associated risks and sensitivities and has 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 this statement.

STRATEGY

The Group continues to explore opportunities for organic and acquisitive growth and to invest further in the development of its existing businesses. Since its flotation in 2007, Powerflute's strategy has been to seek to acquire businesses that provide opportunity to increase shareholder value through performance improvement and subsequent timely disposal. We have recently considered several potential acquisition targets but ultimately decided not to pursue any as they did not sufficiently fulfil our demanding investment criteria. We continue to search for further acquisitions in the paper and packaging sectors and will remain opportunistic in our approach to both acquisitions and disposals.

OUTLOOK

Despite an increasingly uncertain economic environment, we currently expect market conditions to remain broadly favourable for Packaging Papers for the remainder of the year. Capital investment projects completed during 2010 and the first half of 2011 are expected to yield further benefits during the second half of the year and we remain confident that the Group will continue to perform well.

INTERIM CONSOLIDATED INCOME STATEMENT
for the six months ended 30 June 2011

	Note	Six months ended 30 June		Year ended 31 December
		2011 € 000	2010 € 000	2010 € 000
Continuing operations				
Revenue	4	58,346	50,897	105,449
Other operating income		94	55	128
Changes in inventories of finished goods and work in progress		1,208	(1,619)	(1,092)
Raw materials and consumables used		(25,912)	(26,001)	(52,646)
Employee benefits expense		(8,126)	(8,037)	(15,189)
Other expenses		(18,864)	(13,552)	(26,054)
Share of profit/(loss) of an associate	5	359	462	510
Gain on partial disposal of an associate	5	1,869		
Depreciation and amortization		(2,123)	(1,975)	(4,005)
Operating profit/(loss)		6,851	230	7,101
Finance income		395	21	1,598
Finance expenses		(1,628)	(1,856)	(3,849)
Profit/(loss) before tax from continuing operations		5,618	(1,605)	4,850
Income tax	7	(948)	226	(1,646)
Profit/(loss) for the period from continuing operations		4,670	(1,379)	3,204
Discontinued operations				
Gain/(loss) for the period after tax from discontinued operations	8	404	(2,103)	(26,603)
Profit/(loss) for the period Attributable to		5,074	(3,482)	(23,399)
- equity holders of the company		5,074	(3,482)	(23,399)
Earnings per share (cents per share)				
Basic, profit/(loss) for the period		1.8	(2.1)	(13.3)
Diluted, profit/(loss) for the period		1.8	(2.1)	(13.3)
Earnings per share for continuing operations (cents per share)				
Basic, profit/(loss) from continuing operations		1.6	(0.8)	1.8
Diluted, profit/(loss) from continuing operations		1.6	(0.8)	1.8

The notes on pages 10 to 20 form an integral part of this condensed consolidated interim financial information

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 30 June 2011

	Note	Six months ended 30 June		Year ended 31 December
		2011 € 000	2010 € 000	2010 € 000
Profit/(loss) for the period		5,074	(3,482)	(23,399)
Net movement on cash flow hedges		(1,589)	727	2,460
Income tax effect	7	413	(189)	(639)
Other comprehensive income/(loss) for the period, net of tax	11	(1,176)	538	1,821
Total comprehensive income/(loss) for the period, net of tax		3,898	(2,944)	(21,578)
Attributable to - equity holders of the company		3,898	(2,944)	(21,578)

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INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2011

		30 June 2011	30 June 2010	As at 31 December 2010
	Note	€ 000	€ 000	€ 000
ASSETS				
Non-current assets				
Property, plant and equipment	10	36,011	87,119	58,824
Investment properties		-	530	1,760
Intangible assets		78	10,470	4,848
Other non-current financial assets		-	60	368
Investment in an associate	5	2,436	2,618	2,666
Derivative financial instruments	11	461	672	773
Deferred tax asset		57	2,646	1,078
Total non-current assets		39,043	104,115	70,317
Current assets				
Inventories		13,744	33,350	29,733
Trade and other receivables		31,287	29,148	37,778
Derivative financial instruments	11	295	233	1,921
Cash and short-term deposits		27,949	7,337	18,683
Total current assets		73,275	70,068	88,115
TOTAL ASSETS		112,318	174,183	158,432
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Issued share capital		88	88	88
Hedging reserve		559	452	1,735
Reserve for invested non-restricted equity		28,422	9,602	28,422
Retained earnings		24,948	43,411	22,576
Total equity		54,017	53,553	52,821
Non-current liabilities				
Interest-bearing loans and borrowings	13	12,820	37,531	27,612
Provisions		-	1,847	1,800
Employee benefit liability		-	1,970	1,670
Deferred tax liabilities		4,276	16,318	4,837
Total non-current liabilities		17,096	57,666	35,919
Current liabilities				
Trade and other payables		24,888	41,388	45,401
Interest-bearing loans and borrowings	13	13,010	17,190	20,152
Employee benefit liability		-	370	855
Derivative financial instruments	11	-	186	70
Provisions		3,307	1,060	847
Current income tax liabilities		-	2,770	2,367
Total current liabilities		41,205	62,964	69,692
Total liabilities		58,301	120,630	105,611
TOTAL EQUITY AND LIABILITIES		112,318	174,183	158,432

The notes on pages 10 to 20 form an integral part of this condensed consolidated interim financial information

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2011

	<u>Attributable to equity holders of the company</u>				
	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	-	-	-	5,074	5,074
Other comprehensive income (loss)	-	(1,176)	-	-	(1,176)
Total comprehensive income (loss)	-	(1,176)	-	5,074	3,898
Share based payments	-	-	-	196	196
Dividends paid	-	-	-	(2,898)	(2,898)
At 30 June 2011	88	559	28,422	24,948	54,017
As at 1 January 2010	88	(86)	9,602	46,565	56,169
Profit/(loss) for the period	-	-	-	(3,482)	(3,482)
Other comprehensive income (loss)	-	538	-	-	538
Total comprehensive income (loss)	-	538	-	(3,482)	(2,944)
Share based payments	-	-	-	328	328
At 30 June 2010	88	452	9,602	43,411	53,553

The notes on pages 10 to 20 form an integral part of this condensed consolidated interim financial information

INTERIM CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 30 June 2011

	Note	Six months ended 30 June		Year ended 31 December
		2011 € 000	2010 € 000	2010 € 000
Operating activities				
Profit/(loss) before tax from continuing operations		5,618	(1,605)	4,850
Profit/(loss) before tax from discontinued operations		(365)	(3,369)	(39,537)
Profit before tax		5,253	(4,974)	(34,687)
Non-cash:				
Impairment of non-current assets				31,443
Depreciation of property, plant and equipment		2,893	4,384	9,009
Amortisation of intangible assets		403	1,197	2,432
Gain on partial disposal of an associate		(1,869)	-	-
Gain on disposal of discontinued operation		(1,701)	-	-
Share-based payment expense		196	328	541
Change in financial instruments		786	(286)	(268)
Gain on disposal of property, plant and equipment		-	7	-
Finance income		(401)	(24)	(1,614)
Finance expense		2,258	2,750	5,778
Share of (profit)/loss in an associate		(359)	(462)	(510)
Movements in provisions, pensions and government grants		120	(138)	(213)
Working capital adjustments:				
Change in trade and other receivables and prepayments		3,425	5,996	(2,942)
Change in inventories		(4,057)	(6,689)	(3,072)
Change in trade and other payables		(1,751)	7,758	10,375
Income tax received/(paid)		(4)	-	(9)
Net cash flows from operating activities		5,192	9,847	16,263
Investing activities				
Proceeds from sale of property and equipment		-	301	2,179
Purchase of property, plant and equipment	10	(4,999)	(2,703)	(9,190)
Investment in an associate		558	(662)	(662)
Proceeds from partial disposal of an associate		1,900	-	-
Net proceeds from sale of a subsidiary, net of cash disposed		23,955	-	-
Interest received		401	24	85
Net cash flows from investing activities		21,815	(3,040)	(7,588)
Financing activities				
Proceeds from issue of shares		-	-	20,228
Transaction costs of issue of shares		(1,282)	-	(621)
Proceeds from borrowings		-	4,632	4,779
Repayment of borrowings	13	(12,251)	(3,893)	(10,975)
Payment of finance lease liabilities		(119)	(171)	(347)
Interest and similar costs paid		(1,819)	(2,096)	(5,114)
Dividends paid		(2,270)		
Net cash flows from financing activities		(17,741)	(1,528)	7,950
Net increase/(decrease) in cash and cash equivalents		9,266	5,279	16,625
Cash and cash equivalents at start of period		18,683	2,058	2,058
Cash and cash equivalents at period end		27,949	7,337	18,683

The notes on pages 10 to 20 form an integral part of this condensed consolidated interim financial information

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Corporate Information

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

This condensed consolidated interim financial information was approved for issue by resolution of the Company's Board of Directors on 17 August 2011.

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

The principal activities of the company and its subsidiaries ("the Group") are described in Note 4.

2 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2011 have been prepared in accordance with *IAS 34 Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2010.

Principal risks and uncertainties

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

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

Approximately 25% of the Group's revenues and 5% of its expenditure on raw materials, consumables and other expenses are denominated in US dollars. Although the Group seeks to minimise risk through hedging activities, changes in exchange rates can have a material impact on its performance and competitive position.

Further details of the principal risks and uncertainties faced by the Group, together with possible mitigating actions, are available in the Group's Annual Report for the year ended 31 December 2010.

Going concern

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

3 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010, except for the adoption of new Standards and Interpretations as of 1 January 2011, noted below:

IAS 24 Related Party Transactions (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.

4 Segmental information

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

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

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

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

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

Six months ended 30 June 2011	Packaging Papers € 000	Central € 000	Total € 000
Revenue			
Third party	58,346	-	58,346
Inter-segment	-	-	-
Total revenue	58,346	-	58,346
Results			
Segment EBITDA profit/(loss)	10,665	(1,691)	8,974
Depreciation and amortisation			(2,123)
Operating profit/(loss)			6,851
Finance income			395
Finance expenses			(1,628)
Profit/(loss) before taxation			5,618

Six months ended 30 June 2010	Packaging Papers € 000	Central € 000	Total € 000
Revenue			
Third party	50,897	-	50,897
Inter-segment	-	-	-
Total revenue	50,897	-	50,897
Results			
Segment EBITDA profit/(loss)	4,289	(2,084)	2,205
Depreciation and amortisation			(1,975)
Operating profit/(loss)			230
Finance income			21
Finance expenses			(1,856)
Profit/(loss) before taxation			(1,605)

Segment assets	Packaging Papers € 000	Central € 000	Total € 000
At 30 June 2011	112,318	-	112,318
At 31 December 2010	90,584	-	90,584

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.

5 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.

On 21 December 2010, Powerflute announced that Vapo Oy, a leading supplier of renewable fuels, bioelectricity, bioheat and environmental business solutions based in Finland, had agreed to acquire a 30% interest in Harvestia Oy, the Group's wood procurement venture with Myllykoski. The transaction was completed on 19 January 2011 and Powerflute received aggregate net proceeds of €2,458,000 in cash from the sale of Harvestia shares to Vapo and repayment of working capital and equity contributions previously made to Harvestia. Following completion of the transaction, Powerflute's interest in Harvestia decreased from 33% to 30%. This resulted to a gain of €1,869,000 in the income statement for the period ended 30 June 2011.

Harvestia is accounted for using the equity method. The Group's share of the assets, liabilities, income and expenses of the associated entity at 30 June 2011 and at 31 December 2010 are as follows:

	30 June 2011 € 000	31 Dec 2010 € 000
Share of associate's statement of financial position:		
Current assets	13,576	7,870
Non-current assets	178	184
	13,754	8,054
Current liabilities	(11,468)	(6,111)
Net assets	2,286	1,943
Additional share of invested non-restricted shareholders equity	150	-
Total share	2,436	1,943
Share of associate's revenue and profit/(loss):		
Revenue	33,998	37,911
Profit/(loss) for the year from continuing operations	359	510
Gain on partial disposal of an associate	1,869	-
Carrying amount of the investment	2,436	2,666

6 Impairments

Intangible assets with indefinite lives as per 31 December 2010 relate to the discontinued operations and were as follows:

	30 June 2011 € 000	31 Dec 2010 € 000
Trademarks with indefinite useful lives	-	1,591

As at 30 June 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 Group's assets were identified. Therefore, the Group has not performed any impairment testing on its assets or business units as per 30 June 2011.

7 Income tax

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

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

	Six months ended	
	30 June	
	2011	2010
	€ 000	€ 000
Current income tax	-	-
Deferred income tax	948	(226)
Income tax expense (gain)	948	(226)
Income tax recognised in other comprehensive income	(413)	189
Total income taxes from continuing operations	535	(37)

8 Discontinued operations

On 3 May 2011, the Group announced that it had reached agreement on the sale of the businesses that comprise Graphic Papers to 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. €25.0 million of the cash consideration was paid on completion of the transaction on 4 May 2011, with the balance of €7.5 million due for payment six months after completion.

In its statement of financial position as at 31 December 2010, the Group had restated the carrying amounts of the assets and liabilities of Graphic Papers at 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 for the year ended 31 December 2010. Following completion of the disposal in May 2011, the Group has recognized a gain on disposal of the discontinued operations of €1.7 million in the income statement for the period ended 30 June 2011.

The financial results of Graphic Papers for the period to 30 April 2011 have been consolidated with those of the Group for the six months ended 30 June 2011. The Group does not have any other businesses in the Graphic Papers operating segment and this segment is no longer reviewed by management. Accordingly, the financial information of Graphic Papers is no longer separately disclosed in Note 4 - Segmental Information.

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

	Six months ended	
	30 June	
	2011	2010
	€ 000	€ 000
Profit/(loss) after tax from trading activities of discontinued operations	(1,297)	(2,103)
Gain on disposal of the discontinued operations	1,701	-
Profit/(loss) after tax for the period from discontinued operations	404	(2,103)

The results from trading activities of the Graphic Papers business were as follows:

	Six months ended	
	30 June	
	2011	2010
	€ 000	€ 000
Revenue	65,784	97,196
Other operating income	-	583
Expenses	(65,287)	(96,651)
Depreciation and amortisation	(1,173)	(3,606)
Operating profit/(loss)	(676)	(2,478)
Finance income and expenses	(1,130)	(891)
Profit/(loss) before tax from discontinued operations	(1,806)	(3,369)
Income tax:		
Related to current pre-tax profit/(loss)	509	1,266
Related to measurement to fair value less cost to sell (deferred tax)	-	-
Profit/(loss) after tax from trading activities of discontinued operations:	(1,297)	(2,103)

The gain on disposal of the discontinued operations was as follows:

	€ 000
Net assets at the date of disposal	27,288
Transaction costs	500
Other costs to sell and provisions against uncertainties	3,050
	30,838
Gain on disposal of the discontinued operations	1,701
Total consideration	32,539
Satisfied by:	
Cash consideration	32,539

Costs to sell relate principally to general provisions made against the potential cost of future claims under warranties and indemnities provided by the Group to the purchaser.

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

	€ 000
Cash consideration received	25,000
Cash paid for transaction costs and other cost to sell	(363)
Cash disposed of with the discontinued operations	(682)
Net cash inflow as a result of the disposal of the discontinued operations	23,955

The remaining cash consideration of €7,539,000 is due for payment on 4 November 2011.

The net cash outflow from operating activities incurred by Graphic Papers business amounted to €855,000.

Earnings per share (cents per share):

Basic, from discontinued operations	0.1	(1.3)
Diluted, from discontinued operations	0.1	(1.3)

9 Earnings per share

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

Diluted earnings per share amounts are calculated in accordance with the requirements of *IAS 33 – Earnings per share*, 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 number of shares used in the calculation of basic and diluted earnings per share for H1 2010 has been adjusted retrospectively to take account of the rights issue and placing completed in November 2010.

	Six months ended	
	30 June	
	2011	2010
	€ 000	€ 000
Net profit (loss) attributable to ordinary equity holders of the parent	5,074	(3,482)
	Thousands	Thousands
Weighted average number of shares for Basic Earnings per Share	289,818	162,261
Effect of dilution:		
Share options	-	2,000
Weighted average number of shares adjusted for dilution	289,818	164,261

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 Powerflute Plc' 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 30 June 2012 unless revoked or amended before this date by a General Meeting of Shareholders, 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. This authority provides the right to deviate from the shareholders' pre-emptive subscription right. The authority remains effective until 30 June 2012 unless revoked or amended before this date by a General Meeting of Shareholders, and replaces any previous similar authorities granted to the Board of Directors.

10 Property, plant and equipment

The Group acquired assets with a cost of €4,999,000 during the six months ended 30 June 2011 (2010: €2,703,000).

11 Derivative Financial Instruments

Cash flow hedges in other comprehensive income

	30 June 2011 € 000	30 June 2010 € 000
Net of tax:		
Gains/(losses) arising during the year	(586)	322
Reclassification adjustments for gains/(losses) included in the income statement	(590)	216
	(1,176)	538

	As at 30 June 2011		As at 30 June 2010	
	Assets € 000	Liabilities € 000	Assets € 000	Liabilities € 000
Commodity forward contracts	756	-	905	186
Total	756	-	905	186
Less: non-current portion				
Commodity forward contracts	461	-	672	-
	461	-	672	-
Current Portion	295	-	233	186

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

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

12 Share-based payments

Full details of share-based payments plans are disclosed in the Annual Report for the year ended 31 December 2010.

For the six months ended 30 June 2011, the Group has recognised €196,000 of share-based payment transactions expense in the income statement (2010: €328,000).

During the period, certain members of the executive management team who were not directors of Powerflute Oyj resigned from their employment. Under the rules of the Powerflute Stock Option Scheme ("PSOS"), the executives concerned were obliged to surrender their entitlement to share options. This has been accounted for as a cancellation by forfeiture in accordance with *IFRS 2 Share-based Payments* and the resulting gain of €13,000 has been recognised in full during the period ended 30 June 2011. The net expenses resulting from all share-based payments amounted to €196,000.

Prior year information

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

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

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

13 Borrowings and loans

	30 June 2011 € 000	As at 30 June 2010 € 000	31 December 2010 € 000
Non-current	12,820	37,531	27,612
Current	13,010	17,190	20,152
	<u>25,830</u>	<u>54,721</u>	<u>47,764</u>

Movements in borrowings are analyzed as follows:

	€ 000
Six months ended 30 June 2010	
Opening amount as at 1 January 2010	54,153
Repayment of loans from financial institutions	(3,893)
Change in other interest bearing liabilities	4,461
Closing amount as at 30 June 2010	<u>54,721</u>
Six months ended 30 June 2011	
Opening amount as at 1 January 2011	47,764
Borrowings transferred with discontinued operations	(9,808)
Repayment of loans from financial institutions	(12,251)
Change in other interest bearing liabilities	125
Closing amount as at 30 June 2011	<u>25,830</u>

14 Dividends

	30 June 2011 € 000	30 June 2010 € 000
Dividends on ordinary shares declared and paid during the six-month period:		
Final dividend for 2010: 1.0 cents per share (2009: 0 cents per share)	2,898	-

15 Related Party Transactions

Certain of the Group's directors and members of its executive management team have significant beneficial and non-beneficial interests in the ordinary share capital of the Group. Full details of these interests are disclosed in the annual financial statements for the year ended 31 December 2010.

a) Transactions with related parties

Savon Sellu Oy, a subsidiary of Group, purchases a proportion of its raw materials from Harvestia Oy. The goods are purchased on normal market terms. Transactions with related parties for the six months ended 30 June 2011 and 30 June 2010 were as follows:

	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
	€ 000	€ 000	€ 000	€ 000
Associated company Harvestia Oy				
2011	6	14,168	-	3,767
2010	7	12,707	-	3,485

b) Key management compensation

Key management compensation for the six months ended 30 June 2011 amounted to €843,000 (30 June 2010: €1,040,000) analysed as follows:

	Six months ended 30 June	
	2011	2010
	€ 000	€ 000
Salaries and other short term benefits	369	422
Directors' fees	190	190
Other fees and benefits	88	100
Share-based payments	196	328
	843	1,040

c) Directors' interest in employee share incentive plans

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

Issue date	Expiry date	Exercise price	Number outstanding	
			30 June 2011 Thousands	30 June 2010 Thousands
3 May 2007	31 May 2012	£1.10	880	880
11 Nov 2009	1 Dec 2017	€0.33	6,750	6,750
11 Jan 2010	-	nil	2,000	2,000

16 Events occurring after the balance sheet date

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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of Powerflute Oyj

Introduction

We have reviewed the accompanying condensed consolidated interim financial information of Powerflute Oyj ("Powerflute" or "the Company") for the six months ended 30 June 2011, consisting of the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Cash Flow Statement, together with related Notes 1 to 16.

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34.

Helsinki, 17 August 2011

ERNST & YOUNG OY
Authorised Public Accountant Firm

Mikko Järventausta
Authorised Public Accountant

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