

18<sup>th</sup> March 2010

## POWERFLUTE OYJ

### PRELIMINARY RESULTS ANNOUNCEMENT for the year ended 31 December 2009

Powerflute Oyj (the "Group" or "Powerflute"), the packaging group with established positions in Nordic semi-chemical fluting and coated woodfree papers, today announced results for the year ended 31 December, 2009. Powerflute is listed on the AIM market of the London Stock Exchange (Ticker: POWR) and on the First North list, the alternative market of the OMX Nordic Exchange Stockholm AB (Ticker POW1V)

#### Financial highlights

- Net sales at € 253.7m (2008 - € 108.0m)
- Underlying EBITDA € 14.1m (2008 - € 12.4m)
- Operating profit € 33.1m (2008 - € 6.0m), including gain of € 33.0m on acquisition of Scheufelen
- Basic EPS 20.2 cents (2008 – 2.8 cents)
- Net assets increased to € 56.2m (2008 - € 25.8m)
- Net debt € 52.0m (2008 - € 41.6m)

#### Operating highlights

- Integration of Papierfabrik Scheufelen, a manufacturer of coated woodfree papers, successfully completed
- Harvestia, the Group's wood procurement partnership with Myllykoski Corporation, assumed total responsibility for management of all wood deliveries to the Savon Sellu mill
- Strong improvement in demand for both Graphic and Packaging Papers during second half
- Marco Casiraghi appointed as Chief Executive with effect from 1 January 2010

Powerflute Chairman, Dermot Smurfit commented:

"Despite the challenging economic conditions, 2009 was a successful year for the Group. We completed the acquisition and integration of Papierfabrik Scheufelen, which more than doubled our revenues and made a very significant contribution to the operating performance and cash generation of the Group. In our other business, Savon Sellu, we made good progress with a number of strategic initiatives intended to improve production efficiency and maintain our strong market position, although operating performance was significantly affected by the difficult trading environment.

Despite the exceptionally tough market conditions experienced by the Group, the second half of 2009 was markedly stronger in terms of volume gains, with activity returning to close to normal levels by the year end.

We will continue to invest and develop our existing businesses to ensure that they maintain their positions as suppliers of premium-quality products in their respective markets. We will also continue

to actively search for opportunities in the paper and packaging sectors where the experience and knowledge of our management team can add significant value to a business and create value for our shareholders. We remain confident that the Group is well positioned to withstand the challenges that it faces and to benefit from any market recovery.”

- Ends-

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## About Powerflute

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

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

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

## CHAIRMAN'S STATEMENT

Despite the challenging economic conditions, 2009 was a successful year for the Group. We completed the acquisition and integration of Papierfabrik Scheufelen, which more than doubled our revenues and made a very significant contribution to the operating performance and cash generation of the Group. In our other business, Savon Sellu, we made good progress with a number of strategic initiatives intended to improve production efficiency and maintain our strong market position, although operating performance was significantly affected by the difficult trading environment.

### Financial Summary

Revenue for the year ended 31 December 2009 increased by 135% to €253.7m (2008: €108.0m) principally due to the acquisition of Scheufelen. Underlying earnings before interest, tax, depreciation and amortisation ("Underlying EBITDA") increased compared to the previous year to €14.1m (2008: €12.4m). Operating profit for the year was €33.1m but this included a gain of €33.0m arising from the acquisition of Scheufelen and non-recurring expenses of €0.7m. On an underlying basis operating profit reduced to €0.8m (2008: €6.0m), principally due to the increased depreciation charge arising from the acquisition of Scheufelen. The profit before tax was €28.0m (2008: profit €3.6m). Basic earnings per share was 20.2 cents (2008: earnings 2.8 cents), but on an underlying basis the loss per share was 2.6 cents.

The very significant slowdown in activity during the first half of the year combined with the Group's high operational gearing adversely affected profitability. In the second half, while demand for the Group's products had recovered to close to normal levels by the year end, we experienced price erosion and raw material cost increases which largely offset the impact of improving volumes.

Overall, we are very pleased with the performance of Scheufelen which achieved Underlying EBITDA of €16.4m (2008: n/a) on volumes which were more than 15% below normal levels. Our Nordic semi-chemical fluting business experienced an exceptionally challenging year during which demand for containerboard and fluting products sharply reduced and certain grades experienced price reductions of more than 50%. Although Nordic semi-chemical fluting demonstrated a much greater degree of resilience than waste-based fluting grades, underlying EBITDA still reduced to a profit of just €0.2m (2008: profit €15.4m).

### Dividends

The Board's policy on dividends is to seek to establish a level of regular annual dividend which can be sustained through normal economic cycles. However, these are exceptional times and in view of the reduction in earnings per share and the current uncertain economic outlook, the Board is not recommending the payment of a dividend for the year ended 31 December 2009.

### Employees

In order to respond to the reduction in demand during the first half, it was necessary for us to implement rolling programmes of short-time working, compulsory lay-offs and to cancel overtime in each of our businesses. Our employees responded superbly and as a result we were able to avoid the need for permanent reductions in our workforce.

The long-term growth strategy of the Group is based upon the successful development of our people at all levels of the organisation. Our objective is to provide an environment and opportunity for talented individuals to develop and progress and to recognise and reward achievement.

On behalf of the Board and our shareholders, I would like to thank all of our employees for their commitment and dedication to the Group during these challenging times.

### **Board of Directors**

During the year, Don Coates resigned from his position as Chief Executive Officer of the Group. We are delighted to have been able to appoint Marco Casiraghi as our new Chief Executive Officer with effect from 1 January 2010. Marco has a very successful track record in much larger organisations and also has considerable knowledge and experience within our sector. His appointment as a director will be proposed at the Annual General Meeting to be held in April 2010.

The Board was also strengthened by the addition of David Walton as Chief Financial Officer and Dr. Ulrich Scheufelen. Both were appointed as Directors at the Annual General Meeting held in April 2009.

### **Current trading and future prospects**

Market conditions remain very challenging and there continues to be a relatively high degree of uncertainty. Demand for the Group's products has been strong during the first quarter and both of our businesses are currently operating at close to normal levels of capacity utilisation with good forward order books. However, weak pricing, high raw material costs and the recent marked strengthening of the US dollar against the Euro continue to be causes for some concern.

Increasing demand, together with recent announcements of price increases from a number of our major competitors suggest that market conditions are beginning to improve and we are cautiously optimistic that the Group's results for 2010 will show considerable improvement over those of the prior year.

### **Strategy and outlook**

The fact that the Group was able to report Underlying EBITDA at a similar level to the previous year despite very challenging market conditions validates our decision to proceed with the acquisition of Scheufelen and underlines the success of our strategy to diversify the Group's interests through the acquisition of underperforming businesses or "orphan assets".

We will continue to invest and develop our existing businesses to ensure that they maintain their positions as suppliers of premium-quality products into their respective markets. We will also continue to actively search for opportunities in the paper and packaging sectors where the experience and knowledge of our management team can add significant value to a business and create value for our shareholders. Despite the tough market conditions which continue to prevail, we remain confident that the Group is well positioned to withstand the challenges that it faces and to benefit from any market recovery.

**Dermot Smurfit**

Chairman

18 March 2010

## OPERATIONAL REVIEW

### Review of 2009

Market conditions were very challenging across all paper grades throughout much of 2009 and both of the Group's businesses experienced weak demand, price erosion and rising raw material costs at various times throughout the year.

Revenue increased by 135% to €253.7m (2008: €108.0m) due to the consolidation of a full year of results from Graphic Papers where sales were €177.6m (2008: n/a). On a like-for-like basis, revenue from Packaging Papers reduced by 30% to €76.1m (2008: €108.0m) due to weak demand, low volumes and price erosion.

Underlying EBITDA increased by 12% to €14.1m (2008: €12.4m), while underlying operating profit reduced to €0.8m (2008: €6.0m) due to the higher depreciation charge. Graphic Papers performed strongly achieving an EBITDA profit of €16.4m (2008: n/a), while the performance of Packaging Papers reduced to an EBITDA profit of only €0.2m (2008: €14.4m). Central Costs were €3.1m (2008: €3.0m) but this included €0.7m of non-recurring items.

Depreciation and amortisation increased by €7.9m to €13.3m (2008: €5.4m) due to the inclusion of a full years charge in connection with the Scheufelen assets.

During the early months of the year, the uncertain economic environment lead to destocking by customers and a reduction in underlying demand which resulted in order intake which was at times 25-30% below normal levels. Production curtailments in both business areas helped to support pricing levels which remained surprisingly strong throughout the first half. Despite this, the high operational gearing of the Group meant that earnings in both businesses were adversely affected.

Later in the year, demand recovered strongly but competitor activity lead to price erosion in both Graphic Papers and Packaging Papers. While volumes in the seasonally stronger second half increased by 28% compared with the first half, sales revenue increased by only €12.7m (10%). Price erosion in both businesses and significant increases in raw material costs in Graphic Papers meant that the recovery in earnings during the second half was limited. Encouragingly, by the end of the year order intake had recovered to close to normal levels and price increases of €40 per tonne announced in October for Packaging Paper were beginning to take effect.

Since the year end, further price increases of up to €60 per tonne (12-15%) have been announced for Nordic semi-chemical fluting and €60-80 per tonne (8-10%) for coated woodfree papers by the Group and its principal competitors.

### Graphic Papers

The acquisition of Scheufelen was completed on 1 January 2009. Despite very challenging market conditions, Scheufelen performed strongly and achieved EBITDA of €16.4m on revenue of €177.6m. Sales volumes at 242,000 tonnes were some 15% below the levels routinely achieved in prior years.

The improvement initiatives outlined at the time of acquisition, including the reduction of the workforce to 500 employees, changes to working practices to improve manufacturing efficiency and increase capacity and improvements in raw material and energy procurement were all realised.

Demand for coated woodfree papers was very weak during the first half of the year and a rolling programme of production curtailments was implemented to effectively match supply with demand and manage inventory levels. During this period, higher average selling prices, lower pulp costs and a weak US dollar improved the average contribution per tonne and this largely offset the impact of lower volumes.

During the seasonally stronger second half of the year, order intake improved significantly. Scheufelen was also able to outperform the market and operated at close to maximum capacity throughout much of the period. Unfortunately, deterioration in average selling prices, significant increases in pulp prices and the strengthening of the US Dollar against the Euro towards the end of the year negated much of the benefit that would otherwise have been derived from higher volumes.

Notwithstanding the difficult market conditions, good progress was made with sales of higher priced premium-grade products and with the strategy to increase the concentration of sales within a closer geographical radius of the mill in markets where Scheufelen is able to enjoy a competitive advantage due to its lower distribution costs and the ability to offer a more rapid and flexible service. In particular, Heaven 42, a new product launched towards the end of 2008 which is the brightest CWF paper available, achieved strong absolute growth while sales of other premium-grade products were at similar levels to prior years.

Following the recovery in demand in the latter part of the year, the principal challenge faced was the steady and relentless rise in pulp costs. Shortage of supply following pulp mill closures earlier in the year, together with strong demand from China and the Far East, contributed to a 30% increase in the price of NBSK and various other grades of pulp during the second half of the year.

### **Packaging Papers**

Our Nordic semi-chemical fluting business experienced an exceptionally tough year during which demand for containerboard and fluting products sharply reduced and certain grades experienced price reductions of more than 50%. Although Nordic semi-chemical fluting demonstrated a much greater degree of resilience than waste-based fluting, we still experienced significant price erosion and generally weak demand.

Underlying EBITDA reduced to a profit of just €0.2m (2008: profit €15.4m) on revenue down 30% to €76.1m (2008: €108.0m). Sales volumes at 196,000 tonnes represented a deterioration of 16% compared with the prior year, but were 26% below the levels achieved in 2007.

During the first half of the year, in response to weak demand we initiated a programme of rolling shutdowns. The collapse in pricing of waste-based fluting, reductions in containerboard and corrugated board prices, weakening demand and competitor activity all contributed to a significant reduction in volumes and price erosion of more than 20% by the middle of the year.

In the second half, order intake recovered strongly and from August onwards utilisation rates had improved and it was not necessary to further curtail production. By the end of the year, we were operating with much stronger order books and the price increases announced in late October were beginning to take effect. However, contribution margins remained below acceptable levels.

The anticipated improvement in product quality and performance following the installation of the new headbox in 2008 was largely achieved. Powerflute™ is now one of the best fluting products available to the market with regards to stiffness, moisture resistance and runnability. Further investments and improvements are planned in this area for 2010 and 2011.

Harvestia, the Group's wood procurement partnership with Myllykoski Corporation, performed well and has now assumed total responsibility for management of all wood deliveries to the Savon Sellu mill. This resulted in cost benefits and greater security of supply during the period. In addition to securing the cost-effective supply of raw materials to its shareholders, Harvestia is also actively exploring and developing into new markets such as the supply of saw logs to sawmills and wood-related biofuels to energy producers.

## **Strategy**

The Group will continue to focus on its strategy of growth through the profitable development of its existing businesses and through the acquisition of paper, packaging or converting businesses which are underperforming or are regarded as "orphan assets" by their current owners, but where there are clearly opportunities for improvement. We seek businesses with strong market positions or unique product offerings where our management team can apply its expertise and knowledge to improve operational and financial performance and create significant value for our shareholders.

Savon Sellu and Scheufelen both demonstrate the success of the investment criteria established by the Group. Both underperformed under their previous owners but had retained their strong market positions. Savon Sellu is one of only three producers in Europe of Nordic semi-chemical fluting for use in premium-grade corrugated boxes, while Scheufelen is highly regarded for the premium-quality of its coated woodfree papers and its superior service. Following acquisition, both businesses achieved marked improvements in operating efficiency, margins and production capacity.

The Group continues to actively search for new acquisition opportunities and to further develop a highly experienced and capable core management which is able to assess opportunities and make an immediate impact on the performance of acquired businesses.

## **Outlook**

While there has been a strong recovery in demand in both Graphic and Packaging Papers, there continues to be uncertainty regarding the outlook with margins remaining under considerable pressure in both markets. Selling prices remain below optimal levels in both markets and there continues to be upward pressure on the price of certain raw materials, particularly hardwood and softwood pulp.

We are confident that the performance of Packaging Papers will improve compared with the previous year, due to rising selling prices, stable raw material and energy costs and continuing strong demand. However, the likelihood of improvement in Graphic Papers is less certain. While there is strong demand for Scheufelen's products, increases in pulp prices since the year end have eroded margins and there continues to be structural overcapacity in Europe.

There will continue to be a strong focus on tight control of expenditure, cash management and operational development in 2010. The Board is confident that despite these tough market conditions the Group is well positioned to withstand the challenges that it faces and to benefit from any market recovery.

## FINANCIAL REVIEW

### Income Statement

#### Revenue

Sales revenue increased by 135% to €253.7m (2008: €108.0m). Following completion of the acquisition of Scheufelen in January 2009, revenue from sales of Graphic Papers during the year was €177.6m (2008: n/a). Revenue from Packaging Papers declined by 30% to €76.1m (2008: €108.0m) due to a combination of reduced sales volumes during the first half of the year and lower average selling prices during the second half. Revenue in Packaging Papers benefited from the 6% change in the average US dollar exchange rate compared with the prior period and using constant exchange rates, the decrease in revenue would have been approximately 32%.

#### Operating profit

Operating profit for the year was €33.1m (2008: €6.0m). However, this included a gain arising on the acquisition of Scheufelen of €33.0m and a charge for non-recurring items of €0.7m. On an underlying basis, operating profit reduced to €0.8m (2008: €6.0m) due principally to the higher depreciation charge.

#### Segment EBITDA and Underlying EBITDA

	2009	2008
	€m	€m
Operating profit	33.1	6.0
Depreciation and amortisation	13.3	5.4
EBITDA	46.4	11.4
Gain on acquisition	33.0	-
Segment EBITDA	13.4	11.4
Non-recurring expenses	0.7	1.0
Non-recurring income	-	-
Underlying EBITDA	14.1	12.4

Underlying EBITDA from trading activities increased by 14% to €14.1m (2008: €12.4m). The newly acquired Graphic Papers activity performed strongly contributing EBITDA of €16.4m, while Packaging Papers had a difficult year and deteriorated to an underlying EBITDA profit of only €0.2m (2008: €15.4m). Central Costs reduced to €2.5m (2008: €3.0m) through tight control of expenditure.

Non-recurring expenses included costs relating to the departure of Don Coates (the Group's former Chief Executive Officer) in June 2009, together with various charges arising from the restructuring of the Group's share based incentive schemes.

In 2008, non-recurring expenses included costs associated with the removal of accumulated process waste and by-products from the Kuopio site, the unrecovered costs of a dispute over disposal of waste products at a landfill site prior to the Group's acquisition of Savon Sellu and to the costs associated with unsuccessful acquisition projects.

## **Finance income and expenses**

Net finance income and expenses increased to €5.1m (2008: €2.4m) principally due to higher net borrowings and financing costs associated with the acquisition of Scheufelen. Increased use of more expensive debt factoring to fund seasonal working capital requirements offset the impact of interest rate reductions during the year.

## **Taxation**

The Group recognised an income tax credit for the year of €1.2m (2008: €1.0m expense). Although the profit before taxation was €28.0m, this included the non-taxable gain of €33.0m arising on the acquisition of Scheufelen. After adjusting for this item, the loss before taxation was €5.0m (2008: €3.6m profit) and the tax credit of €1.2m represented an effective tax rate of 24% compared with the normal corporation tax rate in Finland of 26%.

## **Earnings per share and dividend**

Basic earnings per share was 20.2 cents (2008: 2.8 cents profit). However, on an underlying basis the loss per share was 2.6 cents (2008: 2.8 cents profit).

The share-based payment plans and share option schemes operated by the Group were not considered to have any dilutive effect on earnings per share as at 31 December 2009.

In view of the reduction in earnings per share and the current uncertain economic outlook, the Board is not recommending the payment of a dividend for the year ended 31 December 2009.

## **Balance Sheet**

The Group had net assets of €56.2m at 31 December 2009 (2008: €25.8m). The increase in net assets was principally due to the acquisition of Scheufelen and the consolidation of its assets and liabilities into those of the Group.

The acquisition of Scheufelen was completed on 1 January 2009 and the total acquisition cost was €34.7m, consisting of €18.5m for the property, plant and equipment, €10.6m for the inventory, €2.8m for other items and €2.8m of transaction related costs. A Purchase Price Allocation exercise has been undertaken, the results of which are reflected in the financial statements for the year ended 31 December 2009. The total fair value of the net assets acquired was €81.6m comprising intangible assets of €13.7m, property, plant and equipment of €59.8m, inventories of €13.2m, other receivables of €0.1m and provisions for liabilities and charges of €5.2m. A gain on acquisition of €33.0m has been recognised after providing €13.9m for deferred tax liabilities.

Capital expenditure net of disposal proceeds reduced to €5.1m (2008: €6.1m). In view of the difficult market situation, a decision was taken early in the year to defer all non-essential capital projects, particularly those intended to increase production capacity. Expenditure in 2008 had also been unusually high due to investment in the new headbox at Savon Sellu.

## **Cash flow and net debt**

At the start of the year, the Group had net debt of €41.6m consisting of interest bearing loans and borrowings of €51.5m less cash and short term deposits of €9.9m.

During the year, the Group generated net cash inflow from operating activities of €10.5m (2008: €9.7m) from EBITDA of €13.4m (2008: €11.8m) and after a net outflow from working capital of €4.2m (2008: €1.2m inflow).

The principal payments made during the year were:

- €11.8m of consideration related to the Scheufelen acquisition (2008: €23.0);
- €5.1m of capital expenditure (2008: €6.1m);
- €5.5m of loan repayments (2008: €4.0m);
- €5.2m of interest and similar costs (2008: €2.5m).

During the year, the Group's net working capital increased by €17.4m to €28.6m (2008: €11.2m) due principally to the acquisition of Scheufelen.

At 31 December 2009, the Group had net debt of €52.0m consisting of interest bearing loans and borrowings of €54.1m (2008: €51.5m) and cash and short term deposits of €2.1m (2008: €9.9m). The majority of the increase is attributable to investment in the working capital of Scheufelen.

### Borrowing facilities

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

	2009	2008
	€m	€m
Amortising term loans:		
Non-current (2011–2016)	21.7	25.6
Current (2010)	7.2	6.8
	28.9	32.4
Other interest bearing borrowings	25.2	17.3
	54.1	49.7
Cash and short-term deposits	(2.1)	(9.9)
	52.0	39.8

Other interest bearing borrowings include liabilities under revolving credit, invoice finance and leasing arrangements. While certain of these facilities are classified as current liabilities due to their short-term nature, most are expected to remain available to the Group for periods in excess of one year.

In addition to liabilities to banks and other financial institutions, since the acquisition of Scheufelen the Group has made use of debt factoring and invoice discounting to fund certain of its working capital requirements. At 31 December 2009, the Group had factored or discounted trade receivables with a value of €17.2m (2008: nil) which were not reflected in the summary of borrowings above.

At 31 December 2009, the Group had bank and other borrowing and financing facilities of €78.9m (2008: €52.4m) comprising amortising term loans of €28.9m (2008: €32.4m) and revolving credit and invoice financing facilities of €50.0m (2008: €20.0m). As at 31 December 2009, the Group was utilising €69.4m of these facilities.

Separate financial covenants apply to each of the Group's borrowing facilities. Approximately €8.2m (2008: €10.0m) of the Group's borrowings are made to the recently acquired German subsidiaries and are subject to covenants which are tested by reference to the consolidated performance of the Group's German legal entities, which include Scheufelen. The remainder of the Group's borrowings are made to Savon Sellu, the principal Finnish trading subsidiary, and are subject to covenants which are tested by reference to the consolidated performance of the Group's Finnish legal entities.

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

- Ratio of senior net debt to EBITDA
- Ratio of EBITDA to Total Net Cash Interest Cover
- Debt Service Cover

At 31 December 2009, the Group was not in default with regard to any of the provisions of its banking agreements.

### **Going concern**

The Board has undertaken a recent and thorough review of the Group's budget, forecasts and associated risks and sensitivities and has received assurances of continuing support from each of the Group's principal lenders where appropriate. Despite the continuing uncertainty in the economy and the inherent risks associated with the Group's activities, 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 at least twelve months from the date of approval of the financial statements.

## Key Performance Indicators

The key financial and non-financial performance indicators (“KPIs”) used by the Board to monitor progress are listed in the table below. KPIs are reviewed on both a Group and segmental basis.

The sources of data and the methods of calculation are consistent on a year-on-year basis. Except where otherwise stated, the marked change in certain of the measures compared with the prior year is attributable to the transformational impact of the Scheufelen acquisition on the results of the Group.

Measure	2009	2008	Definition, method of calculation and analysis
Total Cumulative Production	439 KT	233 KT	Total cumulative production volume is a key measure of asset utilisation. The increase in 2009 was due to the acquisition of Scheufelen which contributed 245 KT. Source: Internal data
Average Daily Production	1,508 T/day	724 T/day	Average daily production, adjusted to take account of annual maintenance and market related stoppages, is the key measure of operational effectiveness. Source: Internal data
Average Sales Price	578 T	461 T	Average selling prices increased following the acquisition of Scheufelen as CWF papers retail at much higher price levels than Nordic semi-chemical fluting Source: Internal data
EBITDA margin	5.6%	11.5%	EBITDA is regarded as the most appropriate measure of short-term profitability in what is a capital intensive industry. EBITDA margin deteriorated during 2009 due to price erosion and lower volumes attributable to the weak economic environment. Source: Internal data
No. of days sales in trade receivables	60 days	68 days	A measure of the time taken for the Group to convert receivable balances into cash. A high proportion of the Group’s customers are located in markets where credit terms of 60 to 90 days are normal. Source: Internal data
No. of days sales in finished goods inventory	20 days	19 days	A measure of the effectiveness of capacity and inventory management. Both Graphic and Packaging Papers achieve class-leading performance in this area. Source: Internal data

## Foreign exchange

The Group has manufacturing operations in Germany and Finland, both of which are within the European Community and use the Euro as their 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 10-15% of the Group's sales by volume and value and approximately 20-25% of its expenditure on raw materials, consumable and other expenses are denominated in US Dollars.

The relative movement of the US Dollar against the Euro during 2009 when compared to 2008 is summarised below:

- Movement in average exchange rate between 2008 and 2009 – 6% positive impact
- Movement in exchange rate at Balance Sheet date between 2008 and 2009 – 2% negative impact

### **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 ongoing 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 consider to be the principal risks and uncertainties which could potentially impact on the Group's operating and financial performance.

#### ***Macro economic environment***

The majority of the Group's products are utilised in packaging and promotional materials within extended supply chains. Both in the short and medium term, demand for the Group's products is susceptible to economic cycles and levels of business confidence. By virtue of its position in the supply chain, the Group's visibility of order intake and profitability is quite short and tends to reduce further during periods of economic downturn.

#### ***Competition***

The Group operates in well-defined and structured markets where there are a limited number of producers and consumers. The capital intensive nature of the business and high operational gearing can lead to the adoption of a marginal pricing philosophy by some participants in the pursuit of maximum machine utilisation. This can lead to downward pressure on prices and margins for all participants.

#### ***Technology***

There is steady and constant technical evolution in each of the Group's principal markets as participants seek to improve the functionality and performance of their products while simultaneously reducing manufacturing costs. While step changes in either product performance or production cost are rare, small incremental changes can lead to clearly discernable differences necessitating constant investment in development and product evolution, even in times of economic uncertainty and weak demand.

***People***

Due to its relatively small size, there are certain areas where the Group is dependent upon the contribution of a number of key individuals, either collectively or individually. The Group seeks to mitigate this risk through succession planning, competitive pay and remuneration policies and the encouragement of regular and routine exchanges of information and ideas throughout the businesses, including regular opportunities for key personnel to visit other facilities.

***Financial***

The Group operates in markets where goods are often supplied or purchased on 60 to 90 day terms and where the use of credit insurance is commonplace. The recent economic uncertainty has led to a dramatic tightening of the market for credit insurance with the result that many insurance limits have been reduced or withdrawn. This creates liquidity challenges for the Group in the operation of its production activities and in particular, funding the purchase of raw materials and inventory. From a sales perspective, the Group is increasingly being forced to accept more financial risk in connection with its customers.

**David Walton**  
Chief Financial Officer  
18 March 2010

**CONSOLIDATED INCOME STATEMENT**  
for the year ended 31 December 2009

	Notes	2009 €000	2008 €000
<b>Revenue</b>	7	253,714	108,027
Other operating income	8.1	1,717	337
Changes in inventories of finished goods and work in progress		915	700
Raw materials and consumables used		(156,003)	(57,471)
Employee benefits expense	8.2	(41,440)	(13,837)
Other expenses	8.3	(45,606)	(25,924)
Share of profit (loss) of associates	6	155	(434)
Gain recognised on acquisition	5	33,005	-
Depreciation and amortisation	11, 12	(13,332)	(5,403)
<b>Operating Profit</b>		33,125	5,995
Finance income	8.5	49	130
Finance expenses	8.6	(5,156)	(2,539)
<b>Profit before taxation</b>		28,018	3,586
Income tax expense	9	1,212	(1,045)
<b>Profit for the period</b>		29,230	2,541
<b>Attributable to</b>			
- equity holders of the parent		29,230	2,541
 <b>Earnings per share (cents per share)</b>			
Basic	10	20.2	2.8
Diluted		20.2	2.8

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
for the year ended 31 December 2009

	Notes	2009 €000	2008 €000
<b>Profit for the period</b>		29,230	2,541
Net movement on cash flow hedges		1,384	(1,500)
Income tax effect		(360)	390
Other comprehensive income (loss) for the period, net of tax	8.7	1,024	(1,110)
<b>Total comprehensive income for the period, net of tax</b>		30,254	1,431
<b>Attributable to</b>		30,254	1,431
- equity holders of the parent			

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**at 31 December 2009**

	Notes	2009 € 000	2008 € 000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	89,030	33,946
Investment properties	11	553	-
Intangible assets	12	11,660	2,175
Other non-current financial assets		64	-
Investment in an associate	6	1,494	610
Prepayments for acquisition		-	25,295
Derivative financial instruments	13	494	-
Deferred tax asset	9	2,694	1,106
<b>Total non-current assets</b>		<b>105,989</b>	<b>63,132</b>
<b>Current assets</b>			
Inventories	15	26,661	12,901
Trade and other receivables	16	35,140	18,805
Derivative financial instruments	13	31	510
Cash and short-term deposits	13, 17	2,058	9,896
<b>Total current assets</b>		<b>63,890</b>	<b>42,112</b>
Assets classified as held for sale	11	62	-
<b>TOTAL ASSETS</b>		<b>169,941</b>	<b>105,244</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued share capital	18	88	88
Hedging reserve	18	(86)	(1,110)
Reserve for invested non-restricted equity	18	9,602	9,602
Retained earnings		46,565	17,223
<b>Total equity</b>		<b>56,169</b>	<b>25,803</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	13	33,984	44,449
Provisions	20	1,800	-
Employee benefit liability	21	1,911	-
Derivative financial instruments	13	-	765
Deferred tax liabilities	9	17,592	5,756
<b>Total non-current liabilities</b>		<b>55,287</b>	<b>50,970</b>
<b>Current liabilities</b>			
Trade and other payables	23	33,241	20,551
Interest-bearing loans and borrowings	13	20,169	7,064
Employee benefit liability	21	335	121
Derivative financial instruments	13	630	735
Provisions	20	1,339	-
Current income tax liabilities		2,771	-
<b>Total current liabilities</b>		<b>58,485</b>	<b>28,471</b>
<b>Total liabilities</b>		<b>113,772</b>	<b>79,441</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>169,941</b>	<b>105,244</b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
for the year ended 31 December 2009

	<b>Attributable to equity holders of the parent</b>				
	<b>Share capital €000</b>	<b>Hedging reserve €000</b>	<b>Reserve for invested non- restricted equity €000</b>	<b>Retained earnings €000</b>	<b>Total equity €000</b>
<b>As at 1 January 2009</b>	<b>88</b>	<b>(1,110)</b>	<b>9,602</b>	<b>17,223</b>	<b>25,803</b>
Profit for the period	-	-	-	29,230	29,230
Other comprehensive income(loss)	-	1,024	-	-	1,024
<b>Total comprehensive income</b>	<b>-</b>	<b>1,024</b>	<b>-</b>	<b>29,230</b>	<b>30,254</b>
Share based payments	-	-	-	112	112
<b>At 31 December 2009</b>	<b>88</b>	<b>(86)</b>	<b>9,602</b>	<b>46,565</b>	<b>56,169</b>
<b>As at 1 January 2008</b>	<b>88</b>	<b>-</b>	<b>-</b>	<b>17,085</b>	<b>17,173</b>
Profit for the period	-	-	-	2,541	2,541
Other comprehensive income(loss)	-	(1,110)	-	-	(1,110)
<b>Total comprehensive income</b>	<b>-</b>	<b>(1,110)</b>	<b>-</b>	<b>2,541</b>	<b>1,431</b>
Issue of shares	-	-	10,000	-	10,000
Transaction costs	-	-	(398)	-	(398)
Share based payments	-	-	-	559	559
Dividends	-	-	-	(2,962)	(2,962)
<b>At 31 December 2008</b>	<b>88</b>	<b>(1,110)</b>	<b>9,602</b>	<b>17,223</b>	<b>25,803</b>

**CONSOLIDATED CASH FLOW STATEMENT**  
for the year ended 31 December 2009

	Notes	2009 €000	2008 €000
<b>Operating activities</b>			
Profit before tax from continuing operations		28,018	3,586
Non-cash:			
Depreciation of property, plant and equipment	11	8,793	3,305
Amortisation of intangible assets	12	4,539	2,098
Gain recognised on acquisition	5	(33,005)	-
Share-based payment expense	22	112	559
Change in financial instruments	13	139	306
Gain on disposal of property, plant and equipment		(2)	-
Finance income	8	(49)	(130)
Finance expense	8	5,156	2,539
Share of (profit)/loss in an associate	6	(155)	434
Movements in provisions, pensions and government grants		1,141	(188)
Working capital adjustments:			
Change in trade and other receivables and prepayments		(16,532)	6,794
Change in inventories		(577)	(3,912)
Change in trade and other payables		12,824	(1,711)
Income tax received/(paid)		96	(3,962)
<b>Net cash flows from operating activities</b>		<b>10,498</b>	<b>9,718</b>
<b>Investing activities</b>			
Proceeds from sale of property and equipment	11	409	
Purchase of property, plant and equipment	11	(5,139)	(6,119)
Investment in an associate	6	(616)	(1,044)
Prepayments for acquisition	5	-	(22,950)
Acquisition of a subsidiary	5	(10,978)	-
Interest received		49	130
<b>Net cash flows used in investing activities</b>		<b>(16,275)</b>	<b>(29,983)</b>
<b>Financing activities</b>			
Proceeds from issue of shares		-	10,000
Transaction costs of issue of shares		-	(398)
Proceeds from borrowings		8,267	23,415
Repayment of borrowings		(5,500)	(4,000)
Payment of finance lease liabilities		(368)	(251)
Interest and similar costs paid		(4,460)	(2,428)
Dividends paid		-	(2,962)
<b>Net cash flows from financing activities</b>		<b>(2,061)</b>	<b>23,376</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>			
		(7,838)	3,111
Cash and cash equivalents at 1 January		9,896	6,785
<b>Cash and cash equivalents at 31 December</b>		<b>2,058</b>	<b>9,896</b>

## **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 of The London Stock Exchange and a secondary listing on First North, the alternative market of the OMX Nordic Exchange Stockholm AB.

The principal activity of the Group during the year ended 31 December 2009 was the manufacture and sale of Nordic semi-chemical fluting and coated woodfree papers. The Group's products were sold globally, with the main market being Europe. With effect from 1 January 2009, the Group acquired the business and assets of Papierfabrik Scheufelen, a manufacturer of coated woodfree papers. Scheufelen's products are sold predominantly in Europe.

### **2 Accounting Policies**

#### **2.1 Basis of preparation**

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.

#### **Statement of compliance**

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

#### **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 continues 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.

#### **2.2 Changes in accounting policy and disclosures**

The accounting policies adopted are consistent with those of the previous year except as follows:

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 2009:

IFRS 2 Share-based Payment: Vesting Conditions and Cancellations  
IFRS 7 Financial Instruments: Disclosures  
IFRS 8 Operating Segments  
IAS 1 Presentation of Financial Statements  
IAS 23 Borrowing costs (Revised)  
IAS 32 Financial Instruments: Presentation and IAS1 Puttable Financial Instruments and Obligations Arising on Liquidation  
IFRIC 9 Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement  
IFRIC 13 Customer Loyalty Programmes  
Improvements to IFRSs (May 2008)

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

*IFRS 7 Financial Instruments: Disclosures*

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, reconciliation between the beginning and ending balance of level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 13. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 26.

*IFRS 8 Operating Segments*

IFRS 8 replaced IAS 14 Segment Reporting upon its effective date. The Group had only one business segment until 31 December 2008. However, from 1 January 2009 the Group concluded that it had three business segments. The disclosures required by IFRS 8 are presented in Note 7, including revised comparative information.

*IAS 1 Presentation of Financial Statements*

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. This amendment did not have any effect on Group's financial statements for the current period or any prior period. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

Adoption of other new and amended IFRS and IFRIC interpretations did not have any impact on the accounting policies, financial position or performance of the Group.

## **2.3 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 purchase method. Under the purchase 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 in which the Group has significant influence but no control. The Group's investment in its associate is accounted for using the equity method.

Under the equity method, the Group's investment in its 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 the 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 share of profit of associate 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.

The financial statements of the associate 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.

At each reporting date, the Group determines whether there is any objective evidence that the investment in the associate 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.

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 and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be 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 currency are translated into the functional currency using the exchange rate 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*

Revenue is recognised in the income statement as interest accrues using the effective interest method.

## **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
- 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
- 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 unrecognised 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 post-employment 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*.

The Group's German employees are eligible to participate in the Altersteilzeit (ATZ) early retirement program which allows them to retire up to six years before normal retirement date. While participation in the program is at the discretion of the employee and not the employer, the Group has followed the current recommendation of the Accounting Standards Committee of Germany and treated the ATZ scheme as a termination benefit and not a post-employment benefit. The present value of future costs associated with employees who have already elected to join the scheme and employees whose participation is considered probable, has been recognised in the income statement and provision for future liabilities has been made in the statement of financial position.

**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').

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, the unidentified goods or services are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date. This is then capitalised or expensed as appropriate.

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 22.

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 profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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 10).

## **j) Financial instruments – initial recognition and subsequent measurement**

### ***Financial assets***

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.

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

#### *(i) 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.

*(ii) 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
- 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 recognises 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.

### *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 assets 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 recognised 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.

### ***Financial liabilities***

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 recognized initially at fair value and in the case of loans and borrowings, plus 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.

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

#### *(i) 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.

*(ii) 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 twelve 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.

***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.

***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**

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 the hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised 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 unrecognised 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 ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The Group did not have any fair value hedges or hedges of net investments at 31 December 2009 and 2008.

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.
- 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 13 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 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 respective assets at 31 December 2009 and 2008 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 recognized 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.

## **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 are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

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 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 cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit 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 cash generating unit 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.

#### **t) Provisions**

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 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 policy of applying 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 judgments, estimates and assumptions**

The preparation of the Group's financial statements requires management to make judgments, 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.

#### ***Judgments***

Estimates are based on historical experience and various other assumptions that are believed to be reasonable, though actual results and timing could differ from the estimates. Management believes that the accounting policies below represent those matters requiring the exercise of judgment where a different opinion could result in the greatest changes to reported results.

## ***Estimates and assumptions***

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### *(i) Business combinations*

The Group's consolidated financial statements include the assets and liabilities of Papierfabrik Scheufelen which was acquired on 1 January 2009. Where appropriate, the Group engaged independent valuation specialists to determine the fair values of the acquired assets as at 1 January 2009 and to advise on assessments of their remaining useful lives.

In reaching their conclusions on the fair values, the valuation specialists used a range of methods including market valuations, indexation of original purchase cost, replacement cost and discounted cash flow models. The Group's management believes that the assigned values and useful lives, as well as the underlying assumptions, are reasonable, though different assumptions and assigned lives could have a significant impact on the reported amounts. For further details see Note 5.

### *(ii) 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 cash generating unit 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. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are further explained in Note 14.

### *(iii) Share-based payments*

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 22.

### *(iv) 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.

(v) *Environmental Remediation Costs*

Environmental expenditures resulting from the remediation of an existing condition caused by past operations and which do not contribute to current or future revenues, are expensed as incurred. Environmental provisions are recorded, based on current interpretations of environmental laws and regulations, when it is probable that a present obligation has arisen and the amount of such liability can be reliably estimated. However, establishing the precise nature of any contingent liability for environmental liabilities is by its very nature extremely subjective, thus the Group's management can only make its best estimate based on the facts known at the time and by external advice where appropriate.

(vi) *Pension benefits*

The cost of defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Further details about the assumptions used are given in Note 21.

#### **4. Standards issued but not yet effective**

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

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

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group in the future periods, its impact is described below:

*IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)*

A revised standard IFRS 3 Business Combinations and an amended standard IAS 27 Consolidated and Separate Financial Statements were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. The standard continues to apply the acquisition method to business combinations, with some significant changes. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (revised) and IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

Other standards issued but not yet effective and their interpretations are not expected to have any impact on Group's financial statements.

## 5. Business combinations

### Acquisition of Papierfabrik Scheufelen

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

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

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

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

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

The principal changes to the preliminary fair values and purchase price allocation reported in the Group's interim report for the six months ended 30 June 2009 relate to the creation of provisions for post employment liabilities under the Altersteilzeit early retirement program and an increase in provisions for environmental liabilities. The Group's investment in Scheufelen at 31 December 2008 was €25,295,000 which was recognised in the financial statements as a prepayment for acquisition within non-current assets.

From the date of acquisition, Papierfabrik Scheufelen has contributed €177,573,000 of revenue and €5,236,000 to the net profit before tax of the Group.

#### **Acquisition of Lenninger Instandhaltungsgesellschaft mbH (LIG)**

On 1 July 2009, the Group acquired the previously outsourced maintenance activities of Papierfabrik Scheufelen. The acquisition has been accounted for using the purchase method of accounting. The consolidated financial statements include the results of LIG from the acquisition date.

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

	<b>Fair value recognized on acquisition €000</b>
Property plant and equipment	165
	165
Provisions and liabilities	(319)
	(154)
Deferred taxes	(0)
<b>Net assets acquired</b>	<b>(154)</b>
Consideration paid	60
Costs directly attributable to the acquisition	0
<b>Net acquisition cost</b>	<b>60</b>
Goodwill arising on acquisition	214
<b>Goodwill arising on acquisition</b>	<b>214</b>

The goodwill of €214,000 comprises the value of expected synergies arising from the acquisition.

## 6. Interest in an associated company

The Group has a 33% 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.

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 2009 and for the year then ended are as follows:

	<b>2009</b>	<b>2008</b>
	<b>€000</b>	<b>€000</b>
<b>Share of associate's statement of financial position:</b>		
Current assets	7,294	2,073
Non-current assets	189	103
	<hr/> 7,483	<hr/> 2,176
Current liabilities	(6,328)	(1,855)
<b>Net assets</b>	<hr/> 1,155	<hr/> 321
<b>Share of associate's revenue and profit/(loss):</b>		
Revenue	29,064	1,070
Profit/(loss) for the year from continuing operations	155	(434)
<b>Carrying amount of the investment</b>	1,494	610

## 7. Operating segment information

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

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

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

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

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

<b>Year ended</b> <b>31 December 2009</b>	<b>Graphic Papers €000</b>	<b>Packaging Papers €000</b>	<b>Central €000</b>	<b>Total €000</b>
<b>Revenue</b>				
Third party	177,573	76,141	-	253,714
Inter-segment	-	-	-	-
<b>Total revenue</b>	<b>177,573</b>	<b>76,141</b>	<b>-</b>	<b>253,714</b>
<b>Results</b>				
Segment EBITDA profit/(loss)	16,406	174	(3,128)	13,452
Gain on acquisition	33,005	-	-	33,005
Depreciation and amortisation	(7,266)	(6,066)	-	(13,332)
<b>Segment operating profit</b>	<b>42,145</b>	<b>(5,892)</b>	<b>(3,128)</b>	<b>33,125</b>
Finance income				49
Finance expenses				(5,156)
<b>Profit before taxation</b>				<b>28,018</b>
<b>Operating assets and liabilities</b>				
Operating assets	101,935	67,944	-	169,879
Operating liabilities	(48,168)	(65,604)	-	(113,772)
Asset held for sale	62	-	-	62
<b>Total net assets</b>	<b>53,829</b>	<b>2,340</b>	<b>-</b>	<b>56,169</b>
<b>Other disclosures</b>				
Investment in an associate	-	1,494	-	1,494
Capital expenditure	3,050	2,124	-	5,174

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.

<b>Year ended</b> <b>31 December 2008</b>	<b>Graphic Papers €000</b>	<b>Packaging Papers €000</b>	<b>Central €000</b>	<b>Total €000</b>
<b>Revenue</b>				
Third party	-	108,027	-	108,027
Inter-segment	-	-	-	-
<b>Total revenue</b>	-	108,027	-	108,027
<b>Results</b>				
Segment EBITDA profit/(loss)	-	14,357	(2,959)	11,398
Depreciation and amortisation	-	(5,403)	-	(5,403)
<b>Segment operating profit</b>	-	8,954	(2,959)	5,995
<b>Finance income</b>				130
<b>Finance expenses</b>				(2,539)
<b>Profit before taxation</b>				3,586
<b>Operating assets and liabilities</b>				
Operating assets	25,834	79,410	-	105,244
Operating liabilities	(12,530)	(66,911)	-	(79,441)
Asset held for sale	-	-	-	-
<b>Total net assets</b>	13,304	12,499	-	25,803
<b>Other disclosures</b>				
Investment in an associate	-	610	-	610
Capital expenditure	-	6,119	-	6,119
<b>Geographical information</b>				
			<b>2009 €000</b>	<b>2008 €000</b>
<b>Revenues from external customers:</b>				
Countries in the EU			197,613	56,654
Asia			11,950	18,600
Other countries			44,151	32,773
			253,714	108,027
<b>Assets:</b>				
Countries in the EU			169,536	97,731
Asia			-	730
Other countries			405	6,783
			169,941	105,244
<b>Capital expenditure:</b>				
Countries in the EU			5,174	6,119
Asia			-	-
Other countries			-	-
			5,174	6,119

Management considers the principal geographic segments based on customer location to be Countries in the EU, Asia and other countries.

## 8. Other income, expenses and adjustments

### 8.1 Other operating income

	<b>2009</b>	<b>2008</b>
	<b>€000</b>	<b>€000</b>
Government grants	157	38
Insurance compensation	-	20
Rental income	183	-
Disposal of emission rights	378	-
Other	999	279
	<hr/> 1,717	<hr/> 337

### 8.2 Employee benefits expense

	<b>2009</b>	<b>2008</b>
	<b>€000</b>	<b>€000</b>
Wages and salaries	34,544	10,595
Pension and other post employment benefits	3,913	1,893
Social security costs	2,871	790
Expense of share-based payment schemes	112	559
	<hr/> 41,440	<hr/> 13,837

The average total number of employees during the year was 792 (2008: 199).

### 8.3 Other operating expenses

	<b>2009</b>	<b>2008</b>
	<b>€000</b>	<b>€000</b>
Freight, distribution and other sales expenses	23,953	19,701
Other operating and administrative expenses	21,653	6,223
	<hr/> 45,606	<hr/> 25,924

### 8.4 Research and development costs

Research and development costs recognised as an expense in the income statement during the financial year amount to €1,179,000 (2008: €410,000).

### 8.5 Finance income

	<b>2009</b>	<b>2008</b>
	<b>€000</b>	<b>€000</b>
Interest income on other loans and receivables	26	-
Interest income on short-term bank deposits	23	130
	<hr/> 49	<hr/> 130

## 8.6 Finance expenses

	<b>2009</b>	<b>2008</b>
	<b>€000</b>	<b>€000</b>
Interest expense:		
Bank loans and other borrowings	2,681	2,041
Interest on overdrafts and other financial cost	862	-
Finance leases	39	41
	<hr/> 3,582	<hr/> 2,082
Other finance expenses	1,574	457
	<hr/> 5,156	<hr/> 2,539

## 8.7 Components of other comprehensive income

	<b>2009</b>	<b>2008</b>
	<b>€000</b>	<b>€000</b>
Cash flow hedges net of tax:		
Gains/(losses) arising during the year	273	(1,110)
Reclassification adjustment for gains/(losses) included in the income statement	751	-
	<hr/> 1,024	<hr/> (1,110)

## 9. Income tax expense

### Consolidated income statement

The major components of the income tax expense for the years ended 31 December 2009 and 2008 are:

	<b>2009</b>	<b>2008</b>
	<b>€000</b>	<b>€000</b>
<b>Consolidated income statement</b>		
Current income tax charge	2,780	1,047
Deferred tax charge	(3,992)	(2)
	<hr/> (1,212)	<hr/> 1,045

### 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	(360)	390
	<hr/> (360)	<hr/> 390

A reconciliation between the tax expense and the product of accounting profit multiplied by the domestic tax rate in Finland of 26% for the years ended 31 December 2009 and 2008 is as follows:

	<b>2009</b>	<b>2008</b>
	<b>€000</b>	<b>€000</b>
Accounting profit before income tax	28,018	3,586
Taxation at domestic income tax rate of 26% (2008: 26%)	7,285	932
Adjustments in respect of prior years	231	-
Expenses not deductible for tax purposes	78	134
Gain on acquisition	(9,902)	-
Income not subject to tax	(24)	-
Difference relating to assets sold	-	-
Other	(178)	(21)
Effect of higher tax rates in Germany	1,298	-
Income tax expense reported in the consolidated income statement	(1,212)	1,045

### **Deferred tax**

Deferred tax in the income statement relates to the following:

	<b>2009</b>	<b>2008</b>
	<b>€000</b>	<b>€000</b>
<b><i>Deferred tax liability</i></b>		
Revaluation of assets to fair value on acquisition	(3,418)	(782)
Accelerated depreciation for tax purposes	282	670
Borrowing costs capitalised	(86)	295
Acquisition costs capitalised	-	466
Revaluation of forward contracts to fair value	(61)	(43)
Foreign exchange rate revaluation	29	-
Maintenance costs	198	-
<b><i>Deferred tax assets</i></b>		
Revaluation of provisions and liabilities to fair value on acquisition	392	-
Share of profits (losses) of an associate company	(5)	(113)
Losses available for offset against future profits	(1,383)	(539)
Deferred revenue	29	(2)
Post-employment pension benefits	24	49
Finance leases	(14)	(3)
Revaluation of forward contracts to fair value	21	-
<b><i>Deferred tax expense/(income)</i></b>	<b>(3,992)</b>	<b>(2)</b>

The change in the deferred tax liability recognised in other comprehensive income is a charge of €360,000 (2008: gain of €390,000) which arises from the revaluation of forward contracts to fair value. The total change in net deferred tax liabilities was an increase of €10,248,000 (2008: reduction €388,000).

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

	<b>2009</b>	<b>2008</b>
	<b>€000</b>	<b>€000</b>
<b>Deferred tax liability</b>		
Revaluation of assets to fair value on acquisition	15,188	3,318
Accelerated depreciation for tax purposes	1,686	1,404
Borrowing costs capitalised	354	435
Acquisition costs capitalised	-	466
Revaluation of forward contracts to fair value	131	133
Foreign exchange rate revaluation	29	-
Maintenance costs	198	-
Others	6	-
	<b>17,592</b>	<b>5,756</b>
<b>Deferred tax assets</b>		
Revaluation of provisions and liabilities to fair value on acquisition	270	-
Losses available for offset against future profits	1,922	539
Share of profit (losses) of an associate company	5	113
Deferred revenue	-	29
Post-employment pension benefits	320	31
Finance leases	19	4
Revaluation of forward contracts to fair value	158	390
	<b>2,694</b>	<b>1,106</b>
<b>Deferred tax liabilities net</b>	<b>14,898</b>	<b>4,650</b>

The Group has tax losses which arose in Finland of €7,392,000 that are available for a period of up to 10 years for offset against future taxable profits of the companies in which the losses arose. The businesses in which the losses arose have traded profitably in prior years and are expected to return to profitability from 2010 onwards. Accordingly, the Group has recognised a deferred tax asset of €1,922,000 in respect of the tax losses.

## 10. 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 following reflects the income and share data used in the basic and diluted earnings per share computations:

	<b>2009</b>	<b>2008</b>
	<b>€000</b>	<b>€000</b>
Net profit attributable to ordinary equity holders of the parent	29,230	2,541
	<b>Thousands</b>	<b>Thousands</b>
Weighted average number of shares for Basic Earnings per Share	144,818	89,561
Effect of dilution:		
Share options	-	-
Weighted average number of ordinary shares adjusted for dilution	144,818	89,561

On 28 April 2009, the Annual General Meeting granted authority to the Board of Directors to decide on the repurchase of up to a maximum of 14,000,000 of the Company's own shares pursuant to Chapter 15, Section 5(2) of the Finnish Companies Act by using funds in the unrestricted shareholders' equity. The proposed amount of shares corresponds to approximately 9.7% of all shares and votes of the Company. The authority is effective until 30 June 2010.

The Annual General Meeting also granted authority to the Board of Directors to resolve on the issue of up to 40,000,000 new ordinary shares through a share issue or granting of options or other special rights of entitlement to shares pursuant to Chapter 10, Section 1 of the Finnish Companies Act. The Board was granted the authority to use up to a maximum of 10,000,000 of the new ordinary shares available for issue under this authority for the purposes of setting up a new share-based incentive scheme for the personnel of the Group or for the Company's directors. The authority is effective until 30 June 2010.

## 11. 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
<b>Net book value</b>						
<b>at 1 January 2008</b>						
Cost or valuation	8,181	26,486	730	3,837	-	39,234
Accumulated depreciation	(871)	(7,122)	(109)	-	-	(8,102)
	7,310	19,364	621	3,837	-	31,132
<b>Year ended</b>						
<b>31 December 2008</b>						
Opening net book amount	7,310	19,364	621	3,837	-	31,132
Additions	-	5,209	-	910	-	6,119
Transfer	-	3,829	-	(3,829)	-	-
Depreciation charge for the Year	(291)	(2,959)	(55)	-	-	(3,305)
Closing net book amount	7,019	25,443	566	918	-	33,946
<b>Net Book Value</b>						
<b>At 31 December 2008</b>						
Cost or valuation	8,181	35,524	730	918	-	45,353
Accumulated depreciation	(1,162)	(10,081)	(164)	-	-	(11,407)
	7,019	25,443	566	918	-	33,946
<b>Year ended</b>						
<b>31 December 2009</b>						
Opening net book amount	7,019	25,443	566	918	-	33,946
Acquisition of subsidiaries (Note 5)	26,875	29,376	3,014	-	654	59,919
Additions	-	2,335	705	1,975	-	5,015
Disposals	-	-	(442)	-	-	(442)
Transfer	-	1,507	16	(1,523)	-	-
Reclassification to held for Sale	-	-	-	-	(62)	(62)
Depreciation charge for the year	(619)	(7,733)	(402)	-	(39)	(8,793)
Closing net book amount	33,275	50,928	3,457	1,370	553	89,583
<b>Net Book Value</b>						
<b>at 31 December 2009</b>						
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

### Finance leases and assets under construction

The carrying value of plant and equipment held under finance lease and hire purchase contracts at 31 December 2009 was €869,000 (2008: €743,000) of which €462,000 related to acquisition of a subsidiary. There were no additions of plant and equipment held under finance leases during the year (2008: €365,000). 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 2009, the value of the investment properties on this basis amounted to €653,800 (2008: nil).

## 12. Intangible assets

	<b>Patents and licences €000</b>	<b>Customer contracts €000</b>	<b>Goodwill €000</b>	<b>Trademark €000</b>	<b>Total €000</b>
<b>Net Book Value at 1 January 2008</b>					
Cost or valuation	1,155	9,333	-	-	10,488
Accumulated amortisation	(615)	(5,600)	-	-	(6,215)
	540	3,733	-	-	4,273
<b>Year ended 31 December 2008</b>					
Opening net book amount	540	3,733	-	-	4,273
Additions	-	-	-	-	-
Amortisation	(231)	(1,867)	-	-	(2,098)
Closing net book amount	309	1,866	-	-	2,175
<b>Net Book Value at 31 December 2008</b>					
Cost or valuation	1,155	9,333	-	-	10,488
Accumulated amortisation	(846)	(7,467)	-	-	(8,313)
	309	1,866	-	-	2,175
<b>Year ended 31 December 2009</b>					
Opening net book amount	309	1,866	-	-	2,175
Acquisition of subsidiaries (Note 5)	3,695	6,826	214	3,130	13,865
Additions	159	-	-	-	159
Amortisation	(1,308)	(3,231)	-	-	(4,539)
Closing net book amount	2,855	5,461	214	3,130	11,660
<b>Net Book Value at 31 December 2009</b>					
Cost or valuation	5,009	16,159	214	3,130	24,512
Accumulated amortisation	(2,154)	(10,698)	-	-	(12,852)
	2,855	5,461	214	3,130	11,660

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.

Goodwill and trademarks relate to the fair value of the principal brands and trademarks under which the Group's products are marketed and distributed. The Group and its subsidiaries have invested in maintaining the status and reputation of these long-established and highly regarded brands over an extended period of time and will continue to do so. This has allowed the Group to determine that they have an indefinite useful life. As at 31 December 2009, these assets were tested for impairment (Note 14).

### 13. Other financial assets and financial liabilities

#### 13.1 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
<b>At 31 December 2009:</b>					
<b>Financial assets</b>					
Other non-current financial assets	64	-	-	-	64
Trade and other receivables	35,140	-	-	-	35,140
Derivative financial instruments	-	32	493	-	525
Cash and short-term deposits	2,058	-	-	-	2,058
	37,262	32	493	-	37,787
<b>Financial liabilities</b>					
Interest bearing loans and borrowings	-	-	-	54,153	54,153
Trade and other payables	-	-	-	33,241	33,241
Employee benefit liability	-	-	-	2,246	2,246
Derivative financial instruments	-	21	609	-	630
	-	21	609	89,640	90,270
<b>At 31 December 2008:</b>					
<b>Financial assets</b>					
Trade and other receivables	15,962	-	-	-	15,962
Derivative financial instruments	-	510	-	-	510
Cash and short-term deposits	9,896	-	-	-	9,896
	25,858	510	-	-	26,368
<b>Financial liabilities</b>					
Interest bearing loans and borrowings	-	-	-	51,513	51,513
Trade and other payables	-	-	-	9,972	9,972
Employee benefit liability	-	-	-	121	121
Derivative financial instruments	-	-	1,500	-	1,500
	-	-	1,500	61,606	63,106

## Interest bearing loans and borrowings

	2009	2008
	€000	€000
<b>Non-current</b>		
Loans from financial institutions	32,649	42,958
Shareholder capital loan	1,000	1,000
Finance lease and hire purchase liabilities	335	491
	<hr/> 33,984	<hr/> 44,449
<b>Current</b>		
Loans from financial institutions	19,826	6,750
Finance lease and hire purchase liabilities	343	314
	<hr/> 20,169	<hr/> 7,064
<b>Total borrowings</b>	<hr/> 54,153	<hr/> 51,513

### (a) *Loans from financial institutions*

Loans from financial institutions include amortising term loans of €28,900,000 (2008: €32,400,000) which mature at various times between 2009 and 2016, together with revolving credit and other facilities repayable on demand which are available to the Group until December 2011. During the year, the Group converted part of its revolving credit facility to invoice financing but there was no change in the total borrowing facilities available to the Group under this arrangement. Further details of the maturity profile of the Group's borrowing facilities are provided in Note 26.

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 4.0%.

The facilities are secured by mortgages and charges over certain of the Group's assets in Finland and in Germany 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.

### (b) *Shareholder capital loan*

At 31 December 2009, the Group had a subordinated shareholder loan of €1,000,000 (2008: €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 2009 and 31 December 2008 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 11 and 25.

### 13.2 Derivative financial instruments and hedging activities

	2009		2008	
	Assets €000	Liabilities €000	Assets €000	Liabilities €000
Foreign exchange forward contracts	-	-	510	-
Commodity forward contracts	525	630	-	1,500
Total	525	630	510	1,500
Less: non-current portion				
Foreign exchange forward contracts	-	-	-	-
Commodity forward contracts	494	-	-	765
	494	-	-	765
Current portion	31	630	510	735

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	2009 €000	2008 €000
Electricity forward contracts designated as cash flow hedges	(1,015)	122
Non-hedge accounted foreign exchange forward contracts	(510)	202

#### 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 to 24 months. Such contracts are designated as cash flow hedges and hedge accounting has been applied with effect from 1 January 2008.

As at 31 December 2009, the fair value of outstanding commodity forward contracts amounted to an asset of €525,000 (2008: €nil) and a liability of €630,000 (2008: €1,500,000). The ineffectiveness recognised in other expenses in the income statement for the current year was €11,000 (2008: €122,000). The cumulative effective portion of €86,000 net of tax is reflected in other comprehensive income.

### 13.3 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	
	2009 €000	2008 €000	2009 €000	2008 €000
<b>Financial assets</b>				
Other non-current financial assets	64	-	64	-
Trade and other receivables	35,140	18,805	35,140	18,805
Derivative financial instruments	525	510	525	510
Cash and short-term deposits	2,058	9,896	2,058	9,896
	<b>37,787</b>	<b>29,211</b>	<b>37,787</b>	<b>29,211</b>
<b>Financial liabilities</b>				
Interest bearing loans and borrowings	54,153	51,513	54,969	51,513
Trade and other payables	33,241	20,551	33,241	20,551
Derivative financial instruments	630	1,500	630	1,500
Employee benefits	2,246	-	2,246	-
	<b>90,270</b>	<b>73,564</b>	<b>91,086</b>	<b>73,564</b>

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, trade and other payables, other current financial assets and other current financial liabilities 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 recorded fair value that are not based on observable market data.

### **Assets measured at fair value**

	<b>31 Dec 2009</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Financial assets at fair value through profit or loss				
Commodity forward contracts	525	-	525	-
	<u>525</u>	<u>-</u>	<u>525</u>	<u>-</u>

### **Liabilities measured at fair value**

	<b>31 Dec 2009</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Financial liabilities at fair value through profit or loss				
Commodity forward contracts	630	-	630	-
	<u>630</u>	<u>-</u>	<u>630</u>	<u>-</u>

During the reporting period ending 31 December 2009, 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.

#### 14. Impairment testing of goodwill and intangibles with indefinite lives

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

	2009	2008
	€000	€000
Goodwill	214	-
Trademarks with indefinite useful lives	3,130	-

The Group performed its annual impairment test as at 31 December 2009. The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at 31 December 2009, the market capitalisation of the Group was slightly below the book value of its equity, indicating a possible impairment of goodwill and impairment of the assets of the operating segments.

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

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

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

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

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

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

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

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

### **Sensitivity to changes in assumptions**

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

### **15. Inventories**

	<b>2009</b>	<b>2008</b>
	<b>€000</b>	<b>€000</b>
Raw materials and supplies	12,757	7,151
Finished goods	13,904	5,750
	<hr/> 26,661	<hr/> 12,901

There were no substantial write-downs in the value of inventory during 2009 or 2008.

### **16. Trade and other receivables (current)**

	<b>2009</b>	<b>2008</b>
	<b>€000</b>	<b>€000</b>
Trade receivables	25,536	15,962
Prepayments and other receivables	9,604	2,843
	<hr/> 35,140	<hr/> 18,805

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

The Group has €2,247,000 of factored foreign currency trade receivables recognised in the statement of financial position that do not qualify for derecognition. The Group remains exposed to the foreign currency risk and the risk of late payment up to 120 days after invoicing. At 31 December 2009, the Group had factored trade receivables of €17,178,000 which qualify for derecognition and are not recognised in the statement of financial position.

As at 31 December 2009, trade receivables at initial value of €187,000 (2008: nil) were impaired and fully provided for. The movements in the provision for impairment of receivables are as follows (see credit risk disclosure Note 26 for further guidance):

	<b>Individually impaired €000</b>
At 1 January 2008	-
At 31 December 2008	-
Charge for the year	187
At 31 December 2009	187

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

	<b>2009 €000</b>	<b>2008 €000</b>
Current	22,054	13,997
Past due but not impaired:		
<30 days	2,737	659
30-60 days	204	614
60-90 days	362	692
90-120 days	16	-
>120 days	163	-
	<b>25,536</b>	<b>15,962</b>

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

	<b>2009 €000</b>	<b>2008 €000</b>
Euros	17,528	9,456
US Dollar	5,471	6,318
UK Pound	1,467	188
Other currencies	1,070	-
	<b>25,536</b>	<b>15,962</b>

### **Collateral**

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

### **17. Cash and short-term deposits**

	<b>2009 €000</b>	<b>2008 €000</b>
Cash at banks and on hand	2,056	9,896
Short-term deposits	2	-
	<b>2,058</b>	<b>9,896</b>

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.

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

	<b>2009</b>	<b>2008</b>
	<b>€000</b>	<b>€000</b>
Cash at banks and on hand	2,056	9,896
Short-term deposits	2	-
	<b>2,058</b>	<b>9,896</b>

## 18. Share capital and reserves

### Authorised share capital

	<b>2009</b>	<b>2008</b>
	<b>Thousands</b>	<b>Thousands</b>
Ordinary shares	144,818	144,818

The shares have no nominal value.

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

	<b>No. of shares Thousands</b>	<b>Share capital €000</b>	<b>Reserve for invested non- restricted equity €000</b>	<b>Total €000</b>
At 1 January 2008	88,000	88	-	88
Issue of new shares	56,818	-	10,000	10,000
Transaction costs of issue of shares	-	-	(398)	(398)
At 31 December 2008	144,818	88	9,602	9,690
At 31 December 2009	144,818	88	9,602	9,690

There were no share issues in 2009. In December 2008, the share capital of the Group was increased by the issue of 56,818,174 new shares. The shares were issued as fully paid shares with no nominal value and for total consideration of € 10,000,000. The new shares rank *pari passu* with the existing shares in all respects. The proceeds from the share issue have been credited to a reserve for invested non-restricted equity. The transaction costs associated with the issue of shares were € 398,000.

### Share option schemes

The Company has two share option schemes under which options to subscribe for the Company's shares have been granted to certain executives and senior employees (Note 22).

### Other reserves

	<b>Hedging Reserve €000</b>	<b>Retained Earnings €000</b>
At 1 January 2008	-	17,085
Share-based payment	-	559
Cash flow hedges	(1,500)	-
Tax effect of cash flow hedges	390	-
Dividends paid	-	(2,962)
Profit for the year	-	2,541
<b>At 31 December 2008</b>	<b>(1,110)</b>	<b>17,223</b>
Share-based payments	-	112
Cash flow hedges	1,384	-
Tax effect of cash flow hedges	(360)	-
Profit for the year	-	29,230
<b>At 31 December 2009</b>	<b>(86)</b>	<b>46,565</b>

### Nature and purpose of other reserves

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

### 19. Dividends paid and proposed

	<b>2009 €000</b>	<b>2008 €000</b>
Dividends on ordinary shares declared and paid during the year:		
Final dividend for 2008: 0 cents per share (2007: 3,366 cents per share)	-	2,962

### 20. Provisions

	<b>Environmental €000</b>	<b>Other €000</b>	<b>Total €000</b>
<b>At 1 January 2009</b>	-	-	-
Acquisition of a subsidiary	1,800	524	2,324
Arising during the year	-	985	985
Utilised	-	(170)	(170)
<b>At 31 December 2009</b>	<b>1,800</b>	<b>1,339</b>	<b>3,139</b>
Current 2009	-	1,339	1,339
Non current 2009	1,800	-	1,800

Environmental provisions relate to residual pollution risk, remediation of historic buildings and future decommissioning expenses. Other provisions relate to employment termination costs and potential warranty and other quality claims.

## 21. 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 2009 was €3,841,000 (2008: €1,893,000).

The Group operates a defined benefit plan for a limited number of employees in its German subsidiary Papierfabrik Scheufelen. The Group acquired the business and assets of Papierfabrik Scheufelen from the insolvency administrator and under the terms of the transaction and the provisions of German insolvency law did not assume responsibility for any past service costs or defined benefit liability. The scheme is funded by investment in qualifying insurance policies and the expense recognised in the income statement for the year ended 31 December 2009 was €72,000 (2008: nil).

### *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.

	<b>2009</b>	<b>2008</b>
	<b>€000</b>	<b>€000</b>
<b>At 1 January</b>	121	309
Charge in income statement	(51)	(188)
<b>At 31 December</b>	<b>70</b>	<b>121</b>
Current	-	-
Non current	70	121

The Group's German employees are eligible to participate in the Altersteilzeit (ATZ) early retirement program which allows them to retire up to six years before normal retirement date. While participation in the program is at the discretion of the employee and not the employer, the Group has followed the current recommendation of the Accounting Standards Committee of Germany and treated the ATZ scheme as a termination benefit and not a post-employment benefit. The present value of future costs associated with employees who have already elected to join the scheme and employees whose participation is considered probable, has been recognised in the income statement and provision for future liabilities has been made in the statement of financial position.

	<b>Total €000</b>
<b>At 1 January 2009</b>	-
Acquisition of a subsidiary	2,018
Arising during the year	263
Utilised	(149)
Discount rate adjustment	44
<b>At 31 December 2009</b>	<b>2,176</b>
Current	335
Non-current	1,841

## 22. Share-based payment plans

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

	<b>2009 €000</b>	<b>2008 €000</b>
Expense arising from equity-settled share-based payment transactions	112	559

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:

<b>Category</b>	<b>Target Share Price</b>	<b>Measurement Date</b>	<b>Exercise Period</b>
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.

### **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.

<b>PSOP</b>	<b>2009 No. Thousands</b>	<b>2009 WAEP Pence</b>	<b>2008 No. Thousands</b>	<b>2008 WAEP Pence</b>
At 1 January	5,280	110	5,280	110
Granted during the year	-	-	-	-
Settled during the year	(880)	110	-	-
Replaced by PSOS during the year	(1,760)	110	-	-
Forfeited during the year	(1,760)	110	-	-
At 31 December	880	110	5,280	110

The weighted average remaining contractual life for the share options outstanding as at 31 December 2009 was 2.3 years (2008 – 3.3 years). No options were granted under the PSOP during the years ended 31 December 2008 and 2009. The exercise price for options outstanding at 31 December 2009 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	2009	2009	2008	2008
	No.	WAEP	No.	WAEP
	Thousands	€	Thousands	€
At 1 January	-	-	-	-
Granted during the year	3,750	0.33	-	-
At 31 December	3,750	0.33	-	-

The weighted average remaining contractual life for share options outstanding at 31 December 2009 was 3.7 years (2008 - nil). The weighted average fair value of options granted during the year was €0.09 (2008 - €nil). The exercise price for options outstanding at 31 December 2009 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. Certain of the options granted were designated as replacement options and their incremental fair value was estimated separately. 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.

## 23. Trade and other payables

	<b>2009</b>	<b>2008</b>
	<b>€000</b>	<b>€000</b>
Trade payables	12,318	9,972
Amounts due to associate	2,824	-
Amounts due to related parties	0	781
Other payables and accrued liabilities	18,099	9,798
	<b>33,241</b>	<b>20,551</b>

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.

## 24. Related party disclosures

### *Subsidiary companies*

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

	<b>Country of incorporation</b>	<b>% equity interest</b>	
		<b>2009</b>	<b>2008</b>
Savon Sellu Oy	Finland	100.0	100.0
Coated Papers Finland Oy	Finland	100.0	100.0
Papierfabrik Scheufelen GmbH & Co KG	Germany	100.0	100.0
Scheufelen Grundstücksges mbH	Germany	100.0	100.0
Papierfabrik Scheufelen Verwaltungs GmbH	Germany	100.0	100.0
Lenninger Instandhaltungsgesellschaft mbH	Germany	100.0	-

Lenninger Instandhaltungsgesellschaft mbH ("LIG") was established by the Group during the year specifically for the purpose of acquiring the previously outsourced maintenance service activities associated with Papierfabrik Scheufelen.

### *Associates*

The Group has a 33% interest in Harvestia Oy (2008: 33%), a wood procurement company incorporated in Finland.

**Transactions with related parties***a) Sales and purchases of goods and services*

	<b>2009</b>	<b>2008</b>
	<b>€000</b>	<b>€000</b>
Sale of services to related parties	-	3
Purchase of goods and services from related parties:		
Associate – Harvestia Oy	20,364	441

Savon Sellu purchases a proportion of its raw materials from Harvestia Oy. The goods are purchased on normal market terms.

*b) Amounts due to or from related parties*

	<b>2009</b>	<b>2008</b>
	<b>€000</b>	<b>€000</b>
Amounts due to related parties arising from the purchase of goods/services		
Associate – Harvestia Oy	5,947	422
Other amounts due to related parties		
Shareholder capital loan	1,000	1,000
Other directors' interests	11	-
Other amounts due from related parties		
Associate – prepayments to Harvestia Oy	-	423

*c) Key management compensation*

	<b>2009</b>	<b>2008</b>
	<b>€000</b>	<b>€000</b>
Salaries and other short-term employee benefits	1,150	956
Directors fees	380	380
Termination benefits	480	-
Share-based payments	(13)	559
	<b>1,997</b>	<b>1,895</b>

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	
			2009 Thousands	2008 Thousands
3 May 2007	31 May 2012	£1.10	880	4,400
11 Nov 2009	1 Dec 2017	€0.33	3,750	-

## 25. 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 2009:

	2009 €000	2008 €000
<b>On behalf of Associated company</b>		
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:

	2009 €000	2008 €000
Within one year	2,114	203
After one but not more than five years	1,522	511
More than five years	44	-
	3,680	714

## 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:

	2009 Minimum payments €000	2009 Present value of payments €000	2008 Minimum payments €000	2008 Present value of payments €000
Within one year	377	343	335	314
After one but not more than five years	370	335	568	491
Total minimum lease payments	747	678	903	805
Less amounts representing finance charges	(69)	-	(98)	-
Present value of minimum lease payments	678	678	805	805

## Capital commitments

At 31 December 2009, the Group had capital commitments of €1,956,000 (2008: €1,770,000) relating to investments in plant and equipment.

## Emissions rights (CO<sub>2</sub>)

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's actual and estimated annual CO<sub>2</sub> emissions and the emission rights available for the years 2008 to 2012 are as follows:

	Emission rights available t CO <sub>2</sub>	Emission rights sold t CO <sub>2</sub>	Usage				Surplus/ (deficit) t CO <sub>2</sub>
			Peat t CO <sub>2</sub>	Oil t CO <sub>2</sub>	Other t CO <sub>2</sub>	Total t CO <sub>2</sub>	
2008 (actual)	239,284	9,252	107,476	13,612	99,475	220,563	9,469
2009 (estimate)	239,281	25,633	96,134	8,245	91,409	195,788	17,860
2010 (estimate)	235,518	-	118,987	7,200	106,700	232,887	2,631
2011 (estimate)	235,518	-	123,653	7,200	106,700	237,553	(2,035)
2012 (estimate)	235,518	-	128,320	7,200	106,700	242,220	(6,702)
	1,185,119	34,885	574,470	43,457	510,984	1,129,011	21,223

The forecast annual CO<sub>2</sub> emissions are 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<sub>2</sub> 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<sub>2</sub> emissions than forecast, it is possible to purchase the necessary additional emission rights. CO<sub>2</sub> emissions were below forecast levels for the year ended 31 December 2009 and accordingly, it was not necessary to purchase any additional emission rights.

## **26. 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 2009, the Group didn't 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.

	<b>Increase/decrease in basis points</b>	<b>Effect on profit before taxation €000</b>
2009	100	+/- 740
2008	100	+/- 424

### 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 2009, the principal foreign currency risk arose as a result of sales and purchases made in currencies other than the functional currency. In particular, approximately 10% of Group's sales and 20% 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).

	<b>Increase/decrease in US Dollar rate</b>	<b>Effect on profit before taxation €000</b>
2009	+10%	388
	- 10%	(317)
2008	+10%	460
	- 10%	618

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 derivatives. 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 2009, the Group had hedged 100% 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 equity 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%.

	<b>Increase/decrease in electricity price</b>	<b>Effect on profit before taxation €000</b>
2009	20-25%	+/- 650
2008	20-25%	+/- 352

## 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 13.

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 2009 and 2008 is the carrying value of the amounts as illustrated in Note 13.

### **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 2009 based on contractual undiscounted payments.

<b>As at 31 December 2009</b>	<b>On demand € 000</b>	<b>Less than 3 months € 000</b>	<b>3 to 12 months € 000</b>	<b>1 to 5 years € 000</b>	<b>&gt;5 years € 000</b>	<b>Total € 000</b>
Interest bearing loans and borrowings	59	12,982	6,593	33,835	1,500	54,969
Trade and other payables	-	33,241	-	-	-	33,241
Employee benefit liabilities	-	140	195	756	1,155	2,246
	59	46,363	6,788	34,591	2,655	90,456
<i>Derivative financial instruments</i>						
Forward foreign exchange contracts – not hedge accounting						
Cash flow payable	-	-	-	-	-	-
Cash flow receivable	-	-	-	-	-	-
Commodity derivatives – hedge accounting						
Cash flow payable	-	(859)	(2,577)	(5,496)	-	(8,932)
Cash flow receivable	-	709	2,128	5,990	-	8,827
		(150)	(449)	494	-	(105)

<b>As at 31 December 2008</b>	<b>On demand € 000</b>	<b>Less than 3 months € 000</b>	<b>3 to 12 months € 000</b>	<b>1 to 5 years € 000</b>	<b>&gt;5 years € 000</b>	<b>Total € 000</b>
Interest bearing loans and borrowings	-	1,306	5,758	42,199	2,250	51,513
Trade and other payables	-	19,545	1,006	-	-	20,551
Employee benefit liabilities	-	-	121	-	-	121
	-	20,851	6,885	42,199	2,250	72,185
<i>Derivative financial instruments</i>						
Forward foreign exchange contracts – not hedge accounting						
Cash flow payable	-	(10,850)	-	-	-	(10,850)
Cash flow receivable	-	11,360	-	-	-	11,360
Commodity derivatives – hedge accounting						
Cash flow payable	-	(860)	(2,581)	(2,758)	-	(6,199)
Cash flow receivable	-	678	2,025	1,993	-	4,696
	-	328	(556)	(765)	-	(993)

Interest bearing loans and borrowings include amounts borrowed under a revolving credit facility which is available to the Group until December 2011. 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.

The Group's loans and other borrowing facilities are subject to covenants and certain other conditions. At 31 December 2009, 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 2009 and 2008.

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.

	<b>2009</b>	<b>2008</b>
	<b>€000</b>	<b>€000</b>
Interest-bearing loans and borrowings	54,153	51,513
Less cash and short-term deposits	(2,058)	(9,896)
Net debt	52,095	41,617
Equity attributable to equity holders of the parent	56,169	25,803
Capital and net debt	108,264	67,420
Gearing ratio	48%	62%

### 27. Events after the balance sheet date

In January 2010, the Group completed the sale of the building that was classified as held for sale in the statement of financial position as at 31 December 2009.

On 11 January 2010, the Board of Directors approved the grant of options over 3,000,000 ordinary shares of Powerflute Oyj to Marco Casiraghi, who joined the Group 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).

In addition to the share options granted to him 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 ordinary shares of Powerflute Oyj whose vesting is subject only to him continuing to be employed by the Company on 31 December 2012.