

17 March 2008

POWERFLUTE OYJ

FINAL RESULTS FOR YEAR ENDED 31 DECEMBER 2007 (INCORPORATING UNAUDITED INTERIM RESULTS FOR THE PERIOD 30 JUNE TO 31 DECEMBER 2007)

London & Helsinki, 17 March, 2008 | Powerflute Oyj (the "Group" or "Powerflute"), a manufacturer of premium quality Nordic semi-chem fluting, is pleased to announce its first full year results as a public company. Powerflute is listed on the AIM market of the London Stock Exchange (Ticker: POWR.L) and on the First North list, the alternative market of the OMX Nordic Exchange Stockholm AB (Ticker POW1V).

€m	FY 2007	FY 2006	Change
Sales	115,737	98,302	+18%
EBITDA ¹	20,418	12,817	+59%
EBITDA Margin	18 %	13%	+5%
Operating profit	15,156	8,012	+89%
Profit before tax	12,520	5,775	+117%
Basic EPS	10.3 cents	4.9	+110%
Dividend per	3.366 cents (2.566p)	-	-
Net debt	25.6	33.4	-23%
Net debt to EBITDA	1.25x	2.61x	

1. EBITDA refers to operating profit on ordinary activities before depreciation, amortisation and impairment of property, plant and equipment and intangible assets and the release of negative goodwill. Although EBITDA is not a measure of operating profit, operating performance or liquidity under IFRS, the Company has presented this financial measure because it understands that EBITDA is used by some investors to determine a Company's ability to service indebtedness and fund ongoing capital expenditures. EBITDA should not, however, be considered in isolation or as a substitute for operating profit as determined by IFRS, or as an indicator of the Company's operating performance or of its cash flows from operating activities as determined in accordance with IFRS.

Financial Highlights

- Net sales increased by 18 per cent. to €115.7 million (2006: €98.3 million, 2005: €85.4million)
- EBITDA on ordinary activities increased by 59 per cent. to €20.4 million (2006: €12.8 million)
- EBITDA margin 18 per cent. (2006: 13 per cent.)
- Operating profit on ordinary activities before tax increased by of 89 per cent. to €15.2 million (2006: €8.0 million)
- Basic EPS from ordinary activities increased by 110 per cent. to 10.3 cents per share (2006: 4.9) Reported basic EPS were 8.0 cents per share (2006: 4.3)
- Net debt reduced by €7.8 million to €25.6 million
- Final dividend of 3.366 cents (2.566p) per share proposed to be paid in May 2008. It is proposed that the Board be authorised to resolve and pay an additional dividend of 1.681 cents (at current €:GBP levels 1.28p) per share in October/ November 2008. Expected future dividend payment ratio, two thirds final, one third interim.

Strategic & Operating Highlights

- AIM IPO successfully completed in May 2007
- First North listing February 2008 - alternative market of the OMX Nordic Exchange Stockholm AB
- Total sales volume increased by 5 per cent. to 262,792 tonnes, an (2006: 251,375 tonnes)
- Agreement on new headbox and stock approach system to further improve operational efficiency was signed in August.
- Wood supply joint venture agreed in February 2008 to deliver security of supply and improved efficiencies

Performance Review & Outlook

Powerflute Chairman, Dermot Smurfit commented:

“The Group reports a strong financial performance for the 2007 full year and significant progress against every financial measure.

Overall, the outlook for 2008 is positive as we continue to improve the efficiency and output capacity of the Mill. Demand for Nordic semi-chem fluting remains strong. The Board views 2008 with confidence.”

Powerflute CEO, Don Coates commented:

“We are pleased with the advances that your Group has made during 2007. The Group has delivered an improved operating profit, increased EBITDA margins and strong cash flow during the period. Indeed the Savon Sellu mill had a record year operationally, despite a number of challenges faced during the period in review.

About Powerflute

Powerflute operates a currently 300,000 tonne per annum rated capacity paper mill (the “Mill”) located near Kuopio, Finland on the shores of Lake Kallavesi, manufacturing specialised high quality nordic semi-chem fluting.

Powerflute was established to make further acquisitions in the paper and paper conversions market, typically of assets which are no longer regarded by their parent groups as core businesses and where the Board believes that it can further develop such assets or companies.

Powerflute’s Chairman is Dermot Smurfit, (retired Chairman of Smurfit Europe and joint Deputy Chairman of Jefferson Smurfit Group PLC), Don Coates is the CEO, (previously the CEO of the St Regis Paper Company Limited owned by DS Smith plc) and Ian Halliday is an Executive Director, (former senior manager at Mondi Paper Group and Jefferson Smurfit Group). Non-executive directors include Juha Niemelä, (previously the CEO of UPM-Kymmene Corporation, one of the largest pulp and paper groups in the world), Tony Smith (former CEO of Smurfit UK operations) and Christopher Knight. Together, the management team have over 150 years of experience in the paper industry.

Powerflute’s nominated adviser on AIM is Collins Stewart (Europe) Limited.

Powerflute’s Certified Advisor on First North is E. Öhman J:or Fondkommission AB. The Swedish Company Registration Number: 409596-1

Review of Financials and Performance

The following pages contain the information required to be included by the applicable regulations in the form of Chairman's Statement, Annual Accounts for the full year 2007 and the interim results for the six months ended 31 December 2007 all as approved by the Board of Directors of Powerflute, as well as the Auditor's Report.

Forward Looking Statements

Some statements in this announcement are forward-looking. They represent expectations for Powerflute's business, and involve risks and uncertainties. These forward-looking statements are based on current expectations and projections about future events. The Group believes that current expectations and assumptions with respect to these forward-looking statements are reasonable. However, because they involve known and unknown risks, uncertainties and other factors, which are in some cases beyond the Group's control, actual results or performance may differ materially from those expressed or implied by such forward-looking statements.

Contacts

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A copy of this announcement has been placed on the Company's website www.powerflute.com. A copy of an investor presentation in relation to the results will also be available on the website in due course. Copies of this announcement will not be dispatched to shareholders.

Management of Powerflute will host a presentation to review the Group's Preliminary Results at 09.30am on Monday 17 March at FD's offices, 26 Southampton Buildings, WC2A 1PB . There will be an opportunity for investors and analysts to join the presentation by conference call. Please contact FD for dial-in details for the conference call.

Chairman's Statement

It is with great pleasure that we make our first full year report to shareholders following the successful IPO on the AIM market of the London Stock Exchange in May 2007.

We are delighted with the progress and performance of your Group over the past year. The Group has delivered an improved operating profit, increased EBITDA margins and strong cash flow during the period. The Savon Sellu mill (the "Mill") had a record year operationally in 2007, despite a number of challenges faced during the period. Additionally, our net debt has reduced to €25.6 million a reduction of €7.8 million during the period.

Market

Demand for Nordic semi-chem fluting remained strong throughout 2007 and this enabled the successful implementation of price increases required to recover cost increases. Volumes increased by 5 per cent. to 262,792 tonnes from 251,375 tonnes in 2006, and were limited only by our ability to produce. Average selling prices increased by 10 per cent. year-on-year. Demand was underpinned by steady growth in global trade and, in particular, for fruit and vegetables packed in corrugated boxes containing Nordic semi-chem fluting. A notable positive factor was the growth of new markets supplying fruit and vegetables from around the Mediterranean rim and from South America.

Operational performance

Powerflute is focused on continuously improving production efficiencies at the Mill. As a result, total production volume rose by 2.8 per cent. from the previous year to 260,634 tonnes (2006: 253,620 tonnes).

Production volumes would have been higher but for wood shortages following a short winter last year in the Nordic and Baltic region, and disruptions caused by the implementation of a wood export tariff by Russia during the summer. There was continued upward pressure on input prices, especially wood, but also energy and other raw materials. Our business model has allowed us to recover these cost increases, although inevitably with a lag before full implementation which has some impact on margins. Nevertheless, EBITDA margins increased from 13 per cent. (2006) to 18 per cent. (2007) underpinning the strong cash generation for the Group.

As part of the Group's strategy to improve operational efficiency, in August, the Group signed an agreement with Vaahto Pulp & Paper Machinery to supply and install a new headbox and stock approach system, which delivers pulp to the paper machine. This will take place during the mill's annual maintenance shut in the first week of May 2008. This will further improve the output and quality, leading to better consistency and performance at our customers' corrugators.

Strategic Developments

During 2007, we evaluated a number of acquisition possibilities, one of which, involved incurring substantial due diligence costs, before declining to proceed. We continue to believe that the current environment of industry restructuring in the face of changing economic fundamentals will provide us with attractive acquisition opportunities. We are continuing to evaluate a number of these which, if completed, would, in time, deliver significant value to our shareholders.

Given that approximately 12.5 per cent. of the AIM IPO was placed in the Nordic region, the Board concluded that it would assist shareholders and raise the Group's profile in the Nordic region by seeking a dual listing on the First North market of the OMX, a market with a developed paper sector presence and a strong investor and analyst following. Listing on the OMX was completed in February 2008.

Wood Strategy

Developing a sustainable wood supply strategy is a strategic priority for management. On 29th February 2008, we announced that we had agreed to establish a joint venture with Myllykoski Oyj ("Myllykoski") to manage our wood procurement and secure supply as we grow. The current supply agreement with Metsaliitto is due to end on 31 December 2009.

The new joint venture will ensure continuity of supply for the Mill in Finland which in turn will benefit from lower costs and higher efficiencies due to the synergies between the companies, namely complementary grades of wood and similar geographies, and a lean organisation.

The needs of Myllykoski and Powerflute for wood complement each other. The Myllykoski mill uses fresh spruce wood as its raw material, while the Sunila pulp mill uses pine pulpwood and sawmill chips. Powerflute's Mill, on the other hand, uses birch wood as its sole wood raw material.

The Board believes that this joint venture brings a new dynamic to the wood market which should be beneficial to forest owners and encourage domestic harvesting in the Nordic region.

The joint venture will procure wood principally from Finland but will also import from the Baltic area. Subject to certain regulatory approvals, the parties expect the joint venture to be up and running during the summer of 2008.

Powerflute and Myllykoski chose to establish this joint venture as a response to changes in the forestry environment which could tighten supply, notably the proposed increased tariff on wood imported from Russia from 1 January 2009. Wood is a vital and strategically important raw material for both companies and the joint venture will enable both companies to improve control of their wood procurement and secure supply.

Capital Expenditure & Investment

During 2007, the Group invested €5.5 million of capital expenditure at the mill. This represented maintenance investment and the partial cost of a new headbox. The new headbox installation will cost approximately €4.4 million, which has been spread over 2007 and 2008.

We believe there is still significant operational progress to be made at the Mill and that production output can be increased up to 300,000 tonnes per year without significant further capital investment. Powerflute is focused on prudent levels of capital spend to maximise benefits for shareholders.

Research & Development costs during the period amounted to €0.3 million (2006: €0.6 million). All R&D costs are expensed in the income statement.

Dividends & Profits

Powerflute proposes to pay a final dividend for the year ended 31st December 2007 of 3.366 cents (2.566p) per share expected to be payable on or about 6th May 2008 to shareholders on the register on Friday 18th April 2008. The remainder of the profit for 2007, following the dividend payments is to be transferred to the company's reserves. Future dividends are expected to be paid in the ratio of two thirds final and one third interim. Based on today's FX rate, the Board expects to pay, subject to no extraordinary events, an interim dividend of up to 1.681 cents per share (at current €:GBP levels 1.28p) . The interim dividend, if any, would be paid to investors who are Powerflute shareholders at the time of the announcement of the interim dividend expected in October/November 2008.

Annual General Meeting

The Annual General Meeting will be held on 15 April 2008 in Kuopio, Finland. A separate invitation to the AGM including the agenda for the meeting will be published as a separate stock exchange announcement on 17 March 2008.

Management and employees

The successful implementation of our strategy is dependent on the expertise, commitment and strong support of our employees. The Board would like to thank all of the Group's employees for their hard work during the period.

Commentary for the six months ended 31 December 2007

The demand for semi-chem fluting remained strong during second half of 2007. The Group's deliveries were slightly above 130,000 tonnes for the six months and the average price increased by 9 per cent. compared to the first half of 2007. The earnings per share from ordinary activities during the second half increased to 5.98 cents (from 1.15 cents for the second half of 2006 and from 4.52 cents for the first half of 2007). Of the events referred to above, the following took place during the last six months of the financial year ended 31 December 2007:

- signing of the agreement on installment of new headbox and stock approach system in August 2007.
- net sales for the second half of 2007 increased to € 59.8 million (compared to € 50.6 million for the second half of 2006)

Financial review

For the financial year ended 31 December

	2007	2006	
	€ 000	€ 000	
Net sales	115,737	98,302	+18%
EBITDA from ordinary activities	20,418	12,817	+59%
EBITDA margin	18 %	13 %	
Depreciation and amortisation expense	(5,262)	(4,805)	
Operating profit from ordinary activities	15,156	8,012	+89%
Finance expenses, net	(2,636)	(2,237)	
Profit before tax from ordinary activities	12,520	5,775	+117%
Income tax expense from ordinary activities	(3,461)	(1,474)	
Profit for the year from ordinary activities	9,059	4,301	+111%
One off income	586		
One off costs	(3,294)	(729)	
Income tax from one off items	704	190	
Reported profit for the year	7,055	3,762	+88%
Basic earnings per Share from ordinary activities (cents)	10.3	4.9	+110%
Reported basic earnings per Share (cents)	8.0	4.3	

Net sales

The Group achieved an increase in net sales some 18 per cent. due to sales volume and price increases. The Group had net sales of €115.737 million (2006: €98.302 million, 2005: €85.448 million)

EBITDA on ordinary activities

A 59 per cent. increase in EBITDA from ordinary activities from €12.817 million to €20.418 million reflects increase in turnover and improved utilisation of the asset base.

Operating profit

The operating profit from ordinary activities before tax has increased from €8.012 million to €15.156 million representing an increase of 89 per cent. over the period.

One off items

Other expenses include one off costs associated with the IPO of €2.843 million, the costs of an aborted transaction of €0.451 million, and a gain on a property disposal of €0.586 million.

Number of shares and earnings per share

Based on the weighted average number of shares issued of 88,000,000, basic EPS from ordinary activities were 10.29 cents per share (2006: 4.89) representing an increase of 110 per cent. Reported basic EPS were 8.02 cents per share (2006: 4.28). The share option scheme has no dilutive effect on the earnings per share.

The number of shares was increased by a pre- IPO share split during first half of 2007 whereby the number of shares increased from 880,000 to the current issued number 88,000,000 shares.

Currency

During the period, management worked hard to counter the impact of a continued weakness in the US\$ against the €. The US\$ is the base currency for about one third of the Group's sales. EBITDA on ordinary activities for 2007 would have been €3 million higher without the adverse currency impact. In order to mitigate adverse currency movement we have continued our policy of quarterly hedging against US\$ movements covering up to 100% of our expected \$US denominated sales.

Annual report and accounts

The report and accounts for the financial year ended 31 December 2007 will be available on 7 April 2008. The report can be obtained from the Group and will also be available to download from the Group website www.powerflute.com following that date.

Current trading and outlook

Since the year end trading is ahead of last year. The order book is strong, allowing us to implement price increases of US\$50 per tonne from 1 January 2008 in our US\$ traded markets, and further, announce a €40 per tonne price increase in Europe, effective from the beginning of April 2008. Nordic semi-chem fluting is a premium product in the corrugated paper market which delivers significantly improved strength in corrugated boxes, particularly in higher humidity environments such as that encountered when shipping fruit and vegetables. Demand for fruit and vegetables is growing worldwide and we continue to broaden the geographical spread of our customer base into new growth markets.

The current winter in the Nordic region has been warmer than is the norm, which we anticipate will result in some increased pressure on wood input costs due to reduced cutting. Both this, and the likelihood of higher tariffs on wood imports from Russia, means that ensuring sustainable wood supply is a priority. Our joint venture with Myllykoski is a significant step by the business to address this issue.

Overall, the outlook for 2008 is positive as we continue to improve the efficiency and output capacity of the Mill; demand for Nordic semi-chem fluting remains strong. The Board views 2008 with confidence. The interim report for the period January to June 2008 is expected to be published on 28 August 2008.

Set out at the end of this document as an appendix, in accordance with the requirements of First North, are the Group interim results for the six months ended 31 December 2007 and comparable period ended 31 December 2006.

Dermot Smurfit
Chairman

17 March 2008

AUDITORS' REPORT

The financial information set out does not constitute the Group's statutory accounts for the year ended 31 December 2007 but is derived from those accounts. Statutory accounts for 2007 will be delivered in accordance with Companies Act following the Group's annual general meeting convened for 15 April 2008.

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Powerflute Oyj for the period 1 January 2007 – 31 December 2007. The Board of Directors and the Chief Executive Officer have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the report of the Board of Directors and the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the report and in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration is to examine whether the members of the Board of Directors and the Chief Executive Officer of the parent company have complied with the rules of the Finnish Companies Act.

Consolidated financial statements

In our opinion the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent company's financial statements, report of the Board of Directors and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

In our opinion, the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the Chief Executive Officer of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the Companies Act.

17 March 2008

Ernst & Young Oy
Authorised Public Accountant Firm

**1. Consolidated income statement
for the year ended 31 December 2007**

	<i>Notes</i>	<i>2007</i> € 000	<i>2006</i> € 000 <i>restated</i>
Sales	5.4	115,737	98,302
Other income	5.5	2,034	771
Changes in inventories of finished goods and work in progress		(684)	1,652
Raw materials and consumables used		(56,518)	(49,771)
Employee benefits expense	5.6	(14,424)	(14,660)
Other expenses	5.5	(28,435)	(24,206)
Depreciation and amortisation	5.7	(5,262)	(4,805)
Operating profit		12,448	7,283
Finance income	5.8	70	68
Finance expenses	5.8	(2,706)	(2,305)
Profit before tax		9,812	5,046
Income tax expense	5.9	(2,757)	(1,284)
Profit for the year		7,055	3,762
Attributable to equity holders		7,055	3,762
Earnings per Share (cents)	5.10	8.02	4.28

**2. Consolidated balance sheet
as at 31 December 2007**

ASSETS	<i>Notes</i>	<i>2007</i>	<i>2006</i>
Non-current assets		€ 000	€ 000
			<i>Restated</i>
Property, plant and equipment	5.12	31,132	28,368
Intangible assets	5.13	4,273	6,352
Deferred tax asset	5.9	112	849
		<hr/> 35,517	<hr/> 35,569
Current assets			
Inventories	5.14	8,989	10,946
Trade and other receivables	5.15	25,740	20,482
Derivative financial instruments	5.27	675	—
Cash and short-term deposits	5.16	6,785	8,158
		<hr/> 42,189	<hr/> 39,586
Assets classified as held for sale	5.17	—	2,294
Total assets		<hr/> <hr/> 77,706	<hr/> <hr/> 77,449
Equity and liabilities			
Attributable to equity holders			
Issued capital	5.19	88	88
Retained earnings		10,030	5,788
Net profit for the period		7,055	3,762
Total equity		<hr/> 17,173	<hr/> 9,638
Non-current liabilities			
Interest-bearing loans and borrowings	5.20	28,192	37,504
Employee benefit liability	5.21	309	670
Deferred tax liability	5.9	5,150	6,052
		<hr/> 33,651	<hr/> 44,226
Current liabilities			
Trade and other payables	5.22	19,909	17,085
Interest-bearing loans and borrowings	5.20	4,164	4,086
Derivative financial instruments	5.27	—	140
Income tax payable		2,809	2,274
		<hr/> 26,882	<hr/> 23,585
Total liabilities		<hr/> 60,553	<hr/> 67,811
Total equity and liabilities		<hr/> <hr/> 77,706	<hr/> <hr/> 77,449

**3. Consolidated statement of changes in equity
for the year ended 31 December 2007**

	<i>Attributable to equity holders of the parent</i>			
	<i>Issued capital (Note 5.19) € 000</i>	<i>Share premium (Note 5.19) € 000</i>	<i>Retained Earnings € 000</i>	<i>Total equity € 000</i>
At 31 December 2005, Savon Sellu Oy	40	1,968	17,679	19,687
Issue of share capital Savon Sellu Oy (Note 5.19)	88	912	—	1,000
Elimination due to pooling	(40)	(2,880)	(11,891)	(14,811)
Profit for the period Savon Sellu Oy	—	—	3,762	3,762
At 31 December 2006, restated	88	—	9,550	9,638
At 1 January 2007	88	—	9,550	9,638
Share-based payment (Note 5.18)	—	—	480	480
Profit for the year	—	—	7,055	7,055
At 31 December 2007	88	—	17,085	17,173

Profit for the period and Retained earnings as at 31 December 2006 are restated, because of the net increase in pension liability of € 255,000. There was a change in pension liability legislation in Finland as at 1 January 2007, the effect of which was backdated to 2006.

**4. Consolidated cash flow statement
for the year ended 31 December 2007**

	<i>Notes</i>	<i>2007</i> € 000	<i>2006</i> € 000
Operating activities			
Profit before tax from continuing operations		9,812	5,046
Non-cash adjustments:			
Depreciation of property, plant and equipment	5.7	3,207	2,732
Amortisation of intangible assets	5.7	2,055	2,073
Share-based payment	5.18	480	—
Gain on disposal of property, plant and equipment		(586)	
Finance income	5.8	(70)	(68)
Finance expense	5.8	2,706	2,305
Movements in provisions and pensions	5.6	(361)	363
Working capital adjustments:			
Change in trade and other receivables		(5,671)	(1,152)
Change in inventories		1,957	(1,823)
Increase in trade and other payables		2,237	3,267
Income tax paid		(2,466)	—
		<hr/>	<hr/>
Net cash flows from operating activities		13,300	12,743
Investing activities			
Purchase of property, plant and equipment		(5,493)	(2,957)
Purchase of intangible assets		—	(18)
Proceeds from sales	5.17	2,880	—
Interest received		272	65
		<hr/>	<hr/>
Net cash flows used in investing activities		(2,341)	(2,910)
Financing activities			
Proceeds from share issue	5.19	—	1,000
Payment of finance lease liabilities		(176)	(68)
Proceeds from borrowings, net		—	12,542
Repayment of borrowings		(9,600)	
Interest and similar costs paid		(2,556)	(2,675)
Payment to shareholders of Savon Sellu Oy	5.3	—	(14,811)
		<hr/>	<hr/>
Net cash flows used in financing activities		(12,332)	(4,012)
Net increase in cash and cash equivalents		(1,373)	5,821
Cash and cash equivalents at the beginning of period	5.16	8,158	2,337
		<hr/>	<hr/>
Cash and cash equivalents at 31 December	5.16	6,785	8,158
		<hr/>	<hr/>

5. Notes to the consolidated financial statements

5.1 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 principal activities of the Group are to produce semi-chemical fluting. The Group's products are sold globally, the main market being Europe.

5.2 Accounting policies

5.2.1 Basis of preparation

The consolidated financial information has 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 information of Powerflute Oyj and its subsidiary has been prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of consolidation

The consolidated financial information comprises the financial information of Powerflute Oyj and its subsidiary as at 31 December each year. The financial information of the subsidiary is prepared for the same reporting year as the parent company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and unrealised profits and losses 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.

5.2.2 Changes in accounting policy and disclosures

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

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures.

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Amendment - Presentation of Financial Statements
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment

The principal effects of these changes are as follows:

IFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1 Presentation of Financial Statements

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 5.26.

IFRIC 8 Scope of IFRS 2

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee stock option scheme, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 9 Reassessment of Embedded Derivatives

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 10 Interim Financial Reporting and Impairment

The Group adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously recognised, the interpretation had no impact on the financial position or performance of the Group.

5.2.3 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 balance sheet 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) Fixed Assets

For material fixed assets acquired in the fluting business acquisition, the Group's management performed a fair valuation of the acquired fixed assets and determined their remaining useful lives. 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.

The carrying amounts of fixed assets are reviewed at each balance sheet date or whenever events or changes in circumstances indicate that the carrying amount of an asset may be impaired. Triggering events for impairment reviews include, among others:

- A permanent deterioration in the economic or political environment of customers or Group activities; Significant under-performance relative to expected historical or projected future performance; and

- Material changes in strategy affecting Group business plans and previous investment policies.

If any such indications exist, the recoverable amount of an asset is estimated as the higher of the net selling price and the value in use, with an impairment charge being recognized whenever the carrying amount exceeds the recoverable amount.

(ii) 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 requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This 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 5.18.

(iii) Income Taxes

Deferred income taxes are provided using the liability method, as measured with enacted tax rates, 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. 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. Related 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.

Tax assets and liabilities are reviewed on a periodic basis and balances are adjusted as appropriate. The Group's management considers that adequate provision has been made for future tax consequences based upon current facts, circumstances and tax law. However, should any tax positions be challenged and not prevail, different outcomes could result and have significant impact on the amounts reported in the consolidated financial information.

(iv) 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 liabilities 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.

5.2.4 Summary of significant accounting policies

Foreign currency translation

The consolidated financial information is presented in euros, which is the Group's functional and presentation currency. Transactions denominated in foreign currency are translated into euros using the exchange rate on the transaction date. Receivables and liabilities in foreign currencies are translated into euros using the exchange rates prevailing at the balance sheet date. Foreign exchange differences for operating items are recorded in the appropriate income statement account before operating profit and, for financial assets and liabilities, in the financial items of the Income Statement.

Property, plant and equipment

Plant and equipment is stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met. Borrowing costs are expensed as incurred.

Land and buildings are stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment losses.

Depreciation is calculated on a straight line basis over the useful life of the assets.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an assets fair value less costs to sell and value in use. The value in use is determined by reference to discounted future cash flows expected to be generated by the asset. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (separate asset, group of assets or cash-generating units). An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount.

Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased but not by an amount in excess of its carrying amount prior to the impairment adjusted for depreciation to the date of reversal.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The asset's residual values, useful lives and methods of depreciation are reviewed and adjusted, if appropriate, at each financial year end.

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	5-20 years
Buildings	10-50 years
Other capitalized expenses	5-20 years

Ordinary maintenance and repair charges are expensed as incurred, however, the costs of significant renewals and improvements are capitalised and depreciated over the remaining useful lives of the related assets. Retirements, sales and disposals of property, plant and equipment are recorded by deducting the cost and accumulated depreciation from accounting records with any resulting terminal depreciation adjustments reflected in impairment charges in the income statement; capital gains are shown in "other operating income".

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 balance sheet 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.

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 finite.

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 the intangible asset with a finite useful life is 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.

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.

Intangible assets are recognised in the balance sheet at the original cost of acquisition, and are amortised using the straight-line method during their useful life. The amortisation of intangible assets is based on the following estimates of useful life:

Customer contracts	5 years
IT software	5 years
Other intangible assets	10 years

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.

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 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 exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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 recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount. That increased amount cannot exceed 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 profit or loss unless the asset is carried at revalued amount, in which case the reversal is recognised in profit or loss or shareholders' equity correspondingly to the recognition of the impairment loss.

Financial assets

Financial assets have been classified according to the IAS standard 39 as follows: 1) Financial assets at fair value through profit or loss, 2) Held-to-maturity investments, 3) Loans and other receivables and 4) Available-for-sale financial assets. The Group has financial assets only in the categories of Loans and other receivables as well as Financial assets at fair value through profit or loss (Derivative financial instruments). Categorisation depends on the purpose for which the assets were acquired and is made at the time they were originally recorded. Financial asset purchases and sales are recorded on the trade date, which is the date that Group commits to purchase the asset.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments other than at fair value through profit and loss, directly attributable transaction costs.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation each financial year.

(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 in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on assets held for trading are recognised in profit or loss.

(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 and the company does not hold them for trading purposes. This category includes those financial assets that arise when delivering money, goods or services to a debtor. They are valued at amortised cost and included in the current and non-current financial assets. The loan receivables are recognised at cost in the balance sheet and the management makes an assessment of them on the reporting date. If the value of the receivables has been impaired, an impairment loss is recognised in the income statement. The amount of impairment loss is measured as the difference between the book value and the present value of future cash flows of the receivables.

(iii) Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the two preceding categories. After initial measurement, available for sale financial assets are measured at fair value with unrealised gains or losses recognised directly in equity in the net unrealised gains reserve. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognised in the income statement.

(iv) Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

(v) Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. An impairment of financial assets is recognised if the book value of the financial asset exceeds its recoverable amount.

Inventories

Inventories are valued in the balance sheet at the lower of cost or market value at the time of the closing of books.

Acquisition cost is determined as the purchase price plus costs incurred in bringing each product to its present location and condition. Such costs are accounted for as follows:

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

Market value is determined as net realisable value or replacement cost. 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.

Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at banks.

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.

The Group participates in the European Emissions Trading Scheme. The emission allowances are only valid for a predetermined period. On 21 December 2004, the Government granted the first installation-specific emission allowances for 2005-2007, which is the period of validity for the allowances. According to the installation-specific issuance decision, the Emissions Trading Registry annually records the relevant number of emission allowances held by each registered installation. Annually, each calendar year's emission allowances are recorded separately. If the operator's emission allowances exceed its actual emissions, it may sell them or save them for future years in the emissions trading period. As a result of emissions trading, a market value is established for them.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and a reliable estimate can be made of the amount of the obligation. If the effect of time value of money is material, provisions are discounted using an income tax rate that reflects the risks specific to the liability. Where discounting is used, the increase of the provision due to the passage of time is recognised as a finance cost.

Pensions and other employee benefits

Employees of the Group working in Finland are covered by the provisions of the statutory Employees' Pensions Act (the TyEL –system). The obligations under the TyEL –system are insured with local pension insurance companies. The TyEL –system is classified as a defined contribution plan, and the related payments are recognised in the income statement on an accrual basis.

Probable future unemployment pension obligations are recognised as employee benefits expense in the income statement and as employee benefit liabilities in the balance sheet.

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, they 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.

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 an external value using an appropriate pricing model, further details of which are given in Note 5.18.

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.

The outstanding options had no dilutory effect in the 2007 financial statements, as their subscription price exceeded their fair value (see note 5.10).

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 property or, if lower, the present value of the minimum lease payments. Related lease liabilities are recognised at the corresponding amounts. Lease payments are appointed between the 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 shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

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

Reporting by business segment

The Group has only one business segment and therefore it does not report individual business segments. Sales, assets and investments by geographical segment are shown by customer location and covers countries in the EU, Asia and other countries.

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.

(i) Sale of goods

Revenue from the sale of the goods is recognised as income when the significant risks and benefits associated with ownership of the products have passed to the purchaser and the seller no longer has an actual right of possession or control over the products. 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 as interest accrues using the effective interest method.

Discontinued operations and assets held for sale

A discontinued operation is one which has been sold or identified for sale. Such operations are identified by the assets, liabilities and net financial results which are distinguishable, operationally, physically and by financial reporting. Assets are classified as such when it is highly probable that the carrying amount of the asset will be recovered through a sale transaction rather than continuing use. The pre-tax gain or loss on disposal of discontinued operations is shown as a separate item in the income statement.

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

Financial liabilities

(i) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

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

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

(ii) 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 assets 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. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss

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.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward exchange contracts, interest rate options and commodity derivatives to hedge its risks associated with fluctuations in exchange rates of foreign currencies, interest rates and the price of electricity. 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 assets when the fair value is positive and as liabilities when the fair value is negative.

Gains or losses arising from changes in fair value on derivatives during the year are taken directly to profit or loss. Hedge accounting is not applied.

The fair value of foreign exchange forward contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of the interest rate options are calculated based on the present value of the estimated future cash flows. Commodity derivatives are valued based on quoted market rates on the balance sheet date.

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 balance sheet date.

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

(ii) Deferred income tax

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

Deferred income tax liabilities are recognised for all taxable temporary differences.

Deferred income 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.

The carrying amount of deferred income tax assets is reviewed at each balance sheet 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 income tax assets are reassessed at each balance sheet 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 income 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 balance sheet date.

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

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income 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 balance sheet.

5.2.5 Future changes in accounting policies

Standards issued but not yet effective

IFRS 8 Operating Segments

IFRS 8 is effective for accounting periods beginning on or after 1 January 2009. IFRS 8 replaces IAS 14 Segment Reporting and requires that the information reported is that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may differ from information reported in the income statement and balance sheet and entities will need to provide reconciliations of the differences. The Group will evaluate the effects of implementing the new standard during the current accounting period.

IAS 23 Borrowing Costs

A revised IAS 23 Borrowing costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

IFRIC 12 Service Concession Arrangements

IFRIC Interpretation 12 was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and hence this Interpretation will have no impact on the Group.

IFRIC 13 Customer Loyalty Programmes

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no impact on the Group's financial statements as no such schemes currently exist.

IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The Group expects that this Interpretation will have no impact on the financial position or performance of the Group as all defined benefit schemes are currently in deficit.

5.3 Business combinations

Business combination in 2006

On 31 July 2006, Powerflute Oyj acquired 100 % of the voting shares of Savon Sellu Oy. At the time of the acquisition both companies were owned by the same shareholders. The business combination was a corporate restructuring of existing operations and involved a refinancing of the new Group.

As a business combination between parties under common control, the combination has been 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. No goodwill is recognised.

<i>Application of the pooling of interest method:</i>	<i>€ 000</i>
Cost of the shares in Savon Sellu Oy	14,811
Less the share capital of Savon Sellu Oy	(40)
Excess of the cost of shares over the acquired share capital	<u>14,771</u>
Recognised in the consolidated share premium	(2,880)
Recognised in the consolidated retained earnings	(11,891)

5.4 Segment information

Segment information is presented according to the Group's business and geographical segments. The Group's geographical segments are based on the customer location.

Geographical segment is divided into three categories: Countries in the EU, Asia and Other countries.

	2007 € 000	2006 € 000
Sales		
Countries in the EU	61,289	60,109
Asia	15,170	15,141
Other countries	39,277	23,052
	<u>115,737</u>	<u>98,302</u>
Assets		
Countries in the EU	66,153	67,386
Asia	2,733	3,567
Other countries	8,820	6,496
Total assets	<u>77,706</u>	<u>77,449</u>
Capital expenditure		
Countries in the EU	5,493	2,957
Asia	—	—
Other countries	—	—
	<u>5,493</u>	<u>2,957</u>

5.5 Other income and expenses

	2007 € 000	2006 € 000
Other Income		
Government grants	35	223
Insurance compensation	25	67
Net gain on disposal of property, plant and equipment	586	—
Gain on selling emission rights, see note 5.23	1,239	316
Other	149	165
	<u>2,034</u>	<u>771</u>
Other Expenses		
Freight and sales expenses	19,253	21,697
Other	4,953	6,739
	<u>24,206</u>	<u>28,435</u>

5.6 Employee benefits expense

	2007	2006
	€ 000	€ 000
Wages and salaries	11,128	11,651
Pension costs	1,679	2,001
Other statutory employer expenses	1,154	645
Unemployment pension liability	(17)	363
Share-based payments expense	480	—
	<u>14,424</u>	<u>14,660</u>

The Group has a liability for early retirement pensions, which are due to the laying-off of personnel. The Group is charged for pension payments for the redundancies if they are not employed for at least 6 months period before their normal retirement pension starts.

The pension liability is valued according to the insurance company's valuation.

The average number of personnel employed during the financial periods was:

	2007	2006
Office personnel	50	48
Operations staff	166	160
	<u>216</u>	<u>208</u>

5.7 Depreciation and amortisation

	2007	2006
	€ 000	€ 000
Depreciation and Amortisation		
Intangible assets	2,095	2,073
Buildings	291	290
Plant and equipment	2,868	2,254
Other tangible assets	8	188
	<u>5,262</u>	<u>4,805</u>

5.8 Finance income and expenses

	2007	2006
	€ 000	€ 000
Finance income		
Bank interest receivable	70	68
	<u>70</u>	<u>68</u>
Finance expenses		
Interest expense:		
Bank loans and overdrafts	(2,147)	(1,836)
Finance leases	(41)	(11)
Shareholder capital loan	(225)	(157)
Other finance expenses	(293)	(301)
	<u>(2,706)</u>	<u>(2,305)</u>

5.9 Income tax

The components of income tax (income)/expense for the periods ended 31 December 2006 and 2007 are:

	2007 € 000	2006 € 000
Income statement		
Current income tax charge	2,924	2,292
Deferred income tax charge	(167)	(1,008)
Income tax expense reported	<u>2,757</u>	<u>1,284</u>

Income tax reconciliation for the periods ended 31 December 2006 and 2007 is:

	2007 € 000	2006 € 000
Accounting profit before income tax	9,812	5,046
At domestic statutory income tax rate of 26%	2,551	1,312
Prior year adjustments	(227)	(21)
Non-deductible expenses	7	7
Tax exempt income	(94)	(30)
Permanent difference related to assets sold	559	—
Other	(39)	16
Income tax expense reported	<u>2,757</u>	<u>1,284</u>

Deferred income tax

Deferred income tax at 31 December relates to the following:

	<i>Balance sheets</i>		<i>Income statements</i>	
	2007 € 000	2006 € 000	2007 € 000	2006 € 000
Deferred tax liabilities				
Fair value adjustments on acquisition	4,100	5,511	(1,410)	(851)
Accelerated depreciation for tax purposes	734	356	379	356
Borrowing costs capitalised	140	185	(45)	56
Revaluation of forward contracts	176	—	176	(102)
	<u>5,150</u>	<u>6,052</u>		
Deferred tax assets				
Losses available for offset against future profits	—	227	227	(227)
Deferral of revenue recognition	27	84	57	(52)
Unemployment pension charge	80	174	94	(94)
Financial leases	5	4	(5)	(4)
Employee profit-sharing scheme	—	324	324	(121)
Revaluation of forward contracts	—	36	36	(36)
Interest charge on capital loan	—	—	—	67
	<u>112</u>	<u>849</u>	<u>(167)</u>	<u>(1,008)</u>
Deferred tax liabilities net	<u>5,038</u>	<u>5,203</u>		

The Group recognised a deferred tax asset for the Company's net operating loss carried forwards from 2006. The loss has been utilised in 2007.

5.10 Earnings per share

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

The share options had no dilutive effect in the 2007 financial statements, as their subscription price exceeded their fair value.

On 31 July 2006 Powerflute Oyj acquired 100 % of the share capital of Savon Sellu Oy. At the time of the acquisition, both companies were owned by the same shareholders. The business combination was a corporate restructuring of existing operations and involved a refinancing of the new Group. The following reflects the income and share data used in the earnings per share computations:

	<i>2007</i>	<i>2006</i>
	<i>€ 000</i>	<i>€ 000</i>
Net profit attributable to equity holders of the Company	7,055	3,762
	<u> </u>	<u> </u>
	<i>2007</i>	<i>2006</i>
	<i>Thousands</i>	<i>Thousands</i>
Weighted average number of shares	88,000	88,000
	<u> </u>	<u> </u>

There have been no other transactions involving ordinary shares or options over shares between the reporting date and the date of completion of these financial statements.

5.11 Dividends proposed

Proposed for approval at the AGM (not recognised as a liability as at 31 December):	<i>2007</i>	<i>2006</i>
	<i>€ 000</i>	<i>€ 000</i>
Equity dividends on ordinary shares:		
Final dividend for 2007: 3.366 cents per share	2,962	—
	<u> </u>	<u> </u>

5.12 Property, plant and equipment

	<i>Land and buildings € 000</i>	<i>Plant & Equipment € 000</i>	<i>Other tangible assets € 000</i>	<i>Assets in progress € 000</i>	<i>Total € 000</i>
Cost or valuation:					
At 1 January 2006	9,606	18,667	1,828	2,814	32,915
Additions	46	1,169	—	1,742	2,957
Transfer	—	2,798	—	(2,798)	—
Transfer to assets held for sale	(1,471)	—	(1,098)	—	(2,569)
At 31 December 2006	8,181	22,634	730	1,758	33,303
Additions	—	2,121	—	3,810	5,931
Transfer	—	1,731	—	(1,731)	—
At 31 December 2007	8,181	26,486	730	3,829	39,234
Depreciation:					
At 1 January 2006	290	2,000	188	—	2,478
Depreciation charge for the period	290	2,254	188	—	2,732
Transfer to assets held for sale	—	—	(275)	—	(275)
At 31 December 2006	580	4,254	101	—	4,935
Depreciation charge for the period	291	2,868	8	—	3,167
At 31 December 2007	871	7,122	109	—	8102
Net Book Value:					
At 31 December 2006	7,601	18,380	629	1,758	28,368
At 31 December 2007	7,310	19,364	621	3,837	31,132

The carrying value of assets held under finance leases is € 601,000 (2006: € 337,000). Additions during the year include € 398,000 (2006: € 199,000) of plant and equipment held under finance leases. Leased assets are pledged as security for the related finance lease liabilities.

5.13 Intangible assets

	<i>Patents and licences</i> € 000	<i>Customer contracts</i> € 000	<i>Total</i> € 000
Cost or valuation:			
At 1 January 2006	922	9,333	10,255
Additions	217	—	217
At 31 December 2006	<u>1,139</u>	<u>9,333</u>	<u>10,472</u>
Additions	16	—	16
At 31 December 2007	<u>1,155</u>	<u>9,333</u>	<u>10,488</u>
Amortisation:			
At 1 January 2006	181	1,867	2,048
Amortisation	206	1,867	2,073
At 31 December 2006	<u>387</u>	<u>3,734</u>	<u>4,121</u>
Amortisation	228	1,867	2,095
At 31 December 2007	<u>615</u>	<u>5,600</u>	<u>6,215</u>
Net Book Value:			
At 31 December 2006	<u>752</u>	<u>5,599</u>	<u>6,352</u>
At 31 December 2007	<u>540</u>	<u>3,733</u>	<u>4,273</u>

Patents and licences represent licence rights relating to the operational IT software.

5.14 Inventories

	<i>2007</i> € 000	<i>2006</i> € 000
Materials and supplies	3,939	5,211
Finished goods	5,050	5,735
	<u>8,989</u>	<u>10,946</u>

There are no substantial write-downs of inventories to net realisable value.

5.15 Trade and other receivables (current)

	<i>2007</i> € 000	<i>2006</i> € 000
Trade receivables	23,068	18,500
Other receivables	2,672	1,982
	<u>25,740</u>	<u>20,482</u>

Trade receivables are non-interest bearing and are generally on 30-90 days' terms.

As at 31 December, the ageing analysis of trade receivables is as follows:

	<i>Past due but not impaired</i>
<i>Neither past due</i>	_____

nor impaired

	<i>Total</i>		<i>< 30 day</i>	<i>30-60 days</i>	<i>60-90 days</i>	<i>90-120 days</i>	<i>> 120 days</i>
	<i>€ 000</i>	<i>€ 000</i>	<i>€ 000</i>	<i>€ 000</i>	<i>€ 000</i>	<i>€ 000</i>	<i>€ 000</i>
2007	23,068	20,313	2,310	439	0	0	6
2006	18,500	17,730	567	185	13	5	0

5.16 Cash and short-term deposits

	<i>2007</i>	<i>2006</i>
	<i>€ 000</i>	<i>€ 000</i>
Cash at bank and in hand	6,785	8,158

Cash at bank earns interest at floating rates based on daily bank deposit rates.

5.17 Assets classified as held for sale

	<i>2007</i>	<i>2006</i>
	<i>€ 000</i>	<i>€ 000</i>
Property, plant and equipment	—	2,294

These assets were disposed by the Group during 2007, resulting in a net gain on disposal of € 586,000.

5.18 Share-based payment plans

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

	<i>2007</i>	<i>2006</i>
	<i>€ 000</i>	<i>€ 000</i>
Expense arising from equity-settled share-based payment transactions	480	—

The share-based payment plans are described below.

Movements during the year

The following table illustrates the number (No) and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	2007 No.	2007 WAEP	2006 No.	2006 WAEP
Outstanding 1 January	—	—	—	—
Granted during the year	5,280,000	1.617	—	—
Forfeited during the year	—	—	—	—
Exercised during the year	—	—	—	—
Expired during the year	—	—	—	—
Outstanding at 31 December	5,280,000	—	—	—
Exercisable at 31 December	—	—	—	—

The weighted average remaining contractual life for the share options outstanding as at 31 December 2007 was 4.3 years.

The weighted average fair value of options granted during the year was € 0,46.

Powerflute Stock Option Scheme

On 3 May 2007, the maximum total numbers of 8,800,000 options were issued. Of the Options, 5,280,000 were marked with the symbol 2007A, 1,760,000 were marked with the symbol 2007B and 1,760,000 were marked with the symbol 2007C.

2007A Options were granted to senior executives under the Powerflute Stock Option Scheme. The exercise price of the options (€ 1.617) is equal to the market price of the shares on the date of grant (£ 1.10). The 2007B and 2007C series Options have not yet been granted.

Option series	Number of options issued	Number of options granted	Share subscription period		Shares per option	Exercise price
2007A	5,280,000	5,280,000	1 June 2010	31 May 2012	1:1	€ 1.617 (£ 1.10); the price at which the Shares were placed pursuant to a placing agreement dated 4 May 2007
2007B	1,760,000	0	1 June 2011	31 May 2013	1:1	The middle market quotation for the Share on AIM during five trading days after the publishing of the Company's financial statements for the financial year 2007
2007C	1,760,000	0	1 June 2012	31 May 2014	1:1	The middle market quotation for the Share on AIM during five trading days after the publishing of the Company's financial statements for the financial year 2008

The exercise price shall not be decreased according to the future dividends paid.

The fair value of the 2007A options was estimated at the grant date using a Black & Scholes pricing model, taking into account the terms and conditions upon which the options were granted and the assumptions stated below. The contractual life of each option granted is five years. There are no cash settlement options.

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
Model used	Black & Scholes

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

5.19 Issued capital

Powerflute Oyj was established on 26 July 2006 and acquired all the shares of Savon Sellu Oy on 31 July 2006.

The business combination has been accounted for in accordance with the pooling of interest method as disclosed in note 5.3. The 2006 consolidated figures have been presented to reflect the effects of the pooling method on the consolidated issued capital and reserves.

Ordinary shares issued and fully paid	<i>2007</i>	<i>2006</i>
	<i>€ 000</i>	<i>€ 000</i>
At 1 January 2006		—
Issued on 26 July 2006 for cash		88
Acquired on 31 July 2006		40
Eliminated on consolidation		(40)
At 31 December 2006		<u>88</u>
At 1 January 2007	88	
Movements	—	
At 31 December 2007	<u>88</u>	
 Share premium reserve		
At 1 January 2006		—
Share premium in respect of issue on 26 July 2006		912
Share premium acquired on 31 July 2006		1,968
Eliminated on consolidation		(2,880)
At 31 December 2006 and at 31 December 2007		<u>—</u>
	<i>2007</i>	<i>2006</i>
	<i>thousands</i>	<i>thousands</i>
Shares of € 0.10 each, from 26 July 2006 onwards	<u>88,000</u>	<u>88,000</u>

5.20 Interest-bearing loans and borrowings

	Maturity	As at 31 December	
		2007 € 000	2006 € 000
Non-current			
Shareholder capital loan	2013	1,000	3,000
Loans from financial institutions	2010 - 2011	26,706	34,234
Finance lease liabilities	2012	486	270
		<u>28,192</u>	<u>37,504</u>
Current			
Loans from financial institutions	2008	4,000	4,000
Finance lease liabilities	2008	164	86
		<u>4,164</u>	<u>4,086</u>

The maturity presented above is the final instalment of the named liability.

General terms of loans per 31 December 2007:

(a) Shareholder capital loan

The Group has a subordinated shareholder loan of € 1,000,000. The main terms of the loan are:

1. The lenders have unconditionally subordinated their respective claims for repayment of the entire principal amount including interest against the Group to all secured and unsecured claims of any other lender to the Group.
2. The principal amount may be repaid only if the restricted equity and other non-distributable items of the balance sheet are fully covered thereafter.
3. Interest is paid only to the extent that the Group can use the respective amount to be paid as part of profit distribution for the financial period last ended.
4. The principal amount of the loan is repayable on 31 July 2013.
5. The rate of interest applicable to the loan shall be annually defined as the 12 month euribor for the first banking day of April each year, plus 4 per cent. per annum. The interest shall accrue yearly in arrears. For the first interest period the interest accrued from 1 August 2006 until 31 March 2007. Each subsequent interest period shall be a full calendar year starting from 1 April 2007. The interest shall be paid annually five banking days after the annual general meeting of the Group has approved the annual financial statements for the previous financial period. Any unpaid accrued interest shall be capitalised to the principal amount of the loan on the interest payment day and such unpaid amount shall accrue interest from the relevant interest payment day until the actual interest payment day.

(b) Loans from financial institutions

Interest on the loans from financial institutions is based on Euribor 1 month floating rate plus bank margin.

Loans are secured by liens over all of the Group's assets.

The covenants of the loans are calculated on the basis of Group's consolidated financial statements prepared in accordance with Finnish Accounting Standards (FAS). The main covenants relate to the Group's Senior net debt to EBITDA ratio, total net cash interest cover, minimum EBITDA, shareholders' equity, debt service cover and capital expenditure.

5.21 Employee benefit liability

	<i>Unemployment pension € 000</i>
Charge in Income Statement	
Increase in existing liability	363
Carrying value at 31 December 2006	670
Charge in Income Statement	
Decrease in existing liability	(361)
Carrying value at 31 December 2007	309

The Group has an obligatory early retirement pension liability in its balance sheet which is due to the dismissal of personnel in 2005. The Company is required to pay the early retirement pension for the redundancies, if redundant staff are not employed before their normal retirement pension starts.

There was a change in pension liability legislation in Finland as at 1 January 2007, effect of which was backdated to 2006.

5.22 Trade and other payables (current)

	<i>2007 € 000</i>	<i>2006 € 000</i>
Trade payables	10,561	8,749
Other payables	373	407
Accrued liabilities	8,975	7,929
	19,909	17,085

Terms and conditions of the above liabilities:

- Trade and other payables are non-interest bearing and are normally settled on 30-day terms
- Interest payable is normally settled monthly throughout the financial year
- For terms and conditions relating to related parties, refer to note 5.24

5.23 Commitments and contingencies

	<i>2007 € 000</i>	<i>2006 € 000</i>
Liens over the Group's assets (securing loans from financial institutions)	84,000	84,000
Operating leases, repayable in less than 1 year	182	120
Operating leases, repayable after 1 year	427	286
	609	406

As at December 2007, the Group sold its forecasted CO₂-tons surplus of 20,000 from the years 2008 - 2012. Management has estimated the Group's annual CO₂-emissions as follows:

	Confirmed emission rights available, total t CO ₂	Usage			Total t CO ₂	Surplus t CO ₂
		Peat t CO ₂	Heavy oil t CO ₂	Other t CO ₂		
2008	127,832	104,500	22,000	100	117,520	1,232
2009	127,832	103,000	22,000	100	117,020	2,732
2010	127,832	102,500	21,000	100	117,920	4,232
2011	127,832	102,500	20,000	100	118,020	5,232
2012	127,832	101,160	20,000	100	119,520	6,572
	639,160	513,660	105,000	500	619,160	20,000

Management's estimate is based on the following assumptions:

- The additional energy needed for the production growth will be produced by bio fuel, which will partly replace the usage of peat. Peat has the highest CO₂ – content of the above fuels used by the Group.
- Further investments in the production process will reduce the energy consumption
- Improvements in the power plant technology will reduce the usage of heavy oil

The Directors believe that the above estimates cover the emission rights usage for the years 2008 - 2012. The final emission right allowances per annum have been confirmed by the Finnish government.

In the event the Group uses more CO₂ – tons than forecast above, the Group will have to cover the missing emission rights.

Finance leases

The Group has finance leases for both tangible and intangible assets.

The lease terms include renewal options but no purchase options.

Future minimum lease payments under finance leases with the present value of the minimum lease payments are as follows:

	2007 Minimum Payments € 000	2007 Present value of the payments € 000	2006 Minimum payments € 000	2006 Present value of the payments € 000
Within one year	197	164	90	86
After one year but not more than five years	523	486	327	270
Total minimum lease payments	720	650	417	356
Less amounts representing finance charges	(70)	—	(61)	—
Present value of minimum finance lease payments	650	650	356	356

5.24 Related party transactions

The financial statements include the financial statements of Powerflute Oyj and the subsidiary, Savon Sellu Oy. Both companies are located in Finland.

<i>Compensation of key management personnel of the Group</i>	<i>2007</i>	<i>2006</i>
	<i>€ 000</i>	<i>€ 000</i>
Salaries paid to management	1,045	1,728
Directors' fees	233	120
Consultancy fees paid to Executive Directors	102	340
Payments of services rendered from companies in which two Directors have personal interests	170	391
Total compensation paid	<u>1,550</u>	<u>2,579</u>

Payment to shareholders of Savon Sellu Oy

On 31 July 2006 Powerflute Oyj acquired 100 % of the voting shares of Savon Sellu Oy. At the time of the acquisition both companies were owned by the same shareholders. See note 5.3.

Shareholder Capital Loan

Details of the loan are given in note 5.20.

5.25 Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, finance lease payables and trade payables. The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group has various financial assets such as trade receivables and cash, which arise directly from its operations.

The Group also enters into derivative transactions such as forward exchange contracts, interest rate options and commodity derivatives (for hedging the price of electricity). The purpose is to manage risks arising from the Group's operations and its sources of finance. It is the Group's policy that no trading in derivatives should be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, commodity risk, liquidity risk and credit risk.

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

Interest rate risk

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. To manage this risk, the Group enters into interest rate options (collar), the hedging ratio being 18 % of the loans at the end of the financial period (2006: 16 %).

The following table demonstrates the sensitivity to changes in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings, interest rate options excluded). There is no impact on the Group's equity.

<i>Increase/ decrease in percentage points</i>	<i>Effect on profit before tax € 000</i>
--	--

2007	1.0	+/- 364
2006	1.0	+/- 400

Foreign currency risk

The Group has transactional currency exposures arising from sales in currencies other than the Group's functional currency.

The risk relates mainly to the \$ with approximately \$ 54 million in sales made during the year 2007. The Group uses forward exchange contracts to hedge approximately 80 % of its sales denominated in \$.

The following table demonstrates the sensitivity to 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 as well as derivative instruments). There is no impact on the Group's equity.

	<i>Increase/ decrease in US dollar rate</i>	<i>Effect on profit before tax € 000</i>
2007	10 %	+144/ +152
2006	10 %	- 645/ +790

Commodity risk

The Group has commodity risk exposure relating to the availability and price fluctuations of commodities, particularly wood and electricity. The Group reduces these risks by entering into framework agreements with known counterparties and acquiring certain commodity derivatives. The Group has hedged about 90 per cent of its electricity procurement over the next 12 months. Hedging accounting according to IAS 39 is not applied. Changes in the fair value of these derivatives are recognised in profit and loss statement and recorded under other income and expenses.

The following table demonstrates the effect on the open positions of electricity derivatives at 31 December that 20 - 25 per cent (p.a.) change in electricity price would have, with all other variables held constant, on the Group's profit before tax by using VaR- method. The holding period in the model is 10 days and the confidence level 95 per cent. There is no impact on the Group's equity.

	<i>VaR 95 % Increase/ decrease in electricity price p.a.</i>	<i>Effect on profit before tax € 000</i>
2007	20 - 25%	+/- 371
2006	20 - 25%	+/- 235

Credit risk

The Group trades only with recognised, creditworthy third parties. The Group has in place a reliable credit assessment procedure which conducts detailed pre-supply credit checks. The Group uses credit insurance, which covers the Group for aggregated loss for its total turnover and 90 % of the first loss of any default. The maximum exposure is the carrying amount as disclosed in note 5.20. There is no credit risk concentration in respect of trade receivables, because the Group has a large number of different customers and counterparties on international markets. The analysis of trade receivables by date is presented in note 5.15.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial assets, loans and derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

The Group monitors its liquidity risk in order to be able to assure sufficient financing for its operations. For this purpose there is a liquidity planning procedure in place with a planning tool for forecasting the amounts and timing of the 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 and finance leases. As at 31 December, approximately 14 % of the Group's debt will mature in less than one year (2006: 11 %) based on the carrying value of borrowings reflected in the financial statements. The Group's principal source of liquidity is expected to be cash generated from operations.

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2007 based on contractual undiscounted payments (interest excluded).

As at 31 December 2007

	On demand € 000	Less than 3 months € 000	3 to 12 months € 000	1 to 5 years € 000	>5 years € 000	Total € 000
Interest bearing loans and borrowings	14,500	2,041	3,123	12,692	—	32,356
Employee benefit liability	—	—	—	309	—	309
Trade and other payables	—	16,983	2,926	—	—	19,909
Income tax payable	—	—	2,809	—	—	2,809
	<u>14,500</u>	<u>19,024</u>	<u>8,858</u>	<u>13,001</u>	<u>—</u>	<u>55,383</u>
<i>Derivative financial instruments</i>						
Forward foreign exchange contracts						
Cash flow payable	—	10,010	—	—	—	10,010
Cash flow receivable	—	10,151	—	—	—	10,151
Commodity derivatives						
Cash flow payable	—	—	—	—	—	—
Cash flow receivable	—	—	439	236	—	675
	<u>—</u>	<u>141</u>	<u>439</u>	<u>236</u>	<u>—</u>	<u>816</u>

As at 31 December 2006

	On demand € 000	Less than 3 months € 000	3 to 12 months € 000	1 to 5 years € 000	>5 years € 000	Total € 000
Interest bearing loans and borrowings	18,500	2,022	2,065	19,003	—	41,590
Employee benefit liability	—	—	—	326	—	326
Trade and other payables	—	13,832	3,393	—	—	17,225
Income tax payable	—	—	2,274	—	—	2,274
	<u>18,500</u>	<u>15,854</u>	<u>7,732</u>	<u>19,329</u>	<u>—</u>	<u>61,415</u>
<i>Derivative financial instruments</i>						
Commodity derivatives						
Cash flow payable	—	—	140	—	—	140
Cash flow receivable	—	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>140</u>	<u>—</u>	<u>—</u>	<u>140</u>

5.26 Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Group monitors capital also by reason of loan covenants (see note 5.20). The Group has met the requirements of financial covenants in both years 2007 and 2006.

5.27 Financial instruments

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

Fair values

As at 31 December 2007		Financial assets/ liabilities at		Financial	Carrying	Fair
€ 000		Loans and	fair value through	liabilities	amounts	values
		receivables	profit or loss	measured at		
				amortized cost		
Financial assets:						
Trade receivables		23,068	—	—	23,068	23,068
Derivative financial instruments		—	816	—	816	816
Cash		6,785	—	—	6,785	6,785
		<u>29,853</u>	<u>816</u>	<u>—</u>	<u>30,669</u>	<u>30,669</u>
Financial liabilities:						
Trade payables		—	—	10,561	10,561	10,561
Interest bearing loans and borrowings		—	—	32,356	32,356	32,356
		<u>10,561</u>	<u>—</u>	<u>42,917</u>	<u>42,917</u>	<u>42,917</u>
As at 31 December 2006						
€ 000						
		Loans and	Financial assets/ liabilities at	Financial	Carrying	Fair
		receivables	fair value through	liabilities	amounts	values
			profit or loss	measured at		
				amortized cost		
Financial assets:						
Trade receivables		18,500	—	—	18,500	18,500
Cash		8,158	—	—	8,158	8,158
		<u>26,658</u>	<u>—</u>	<u>—</u>	<u>26,658</u>	<u>26,658</u>
Financial liabilities:						
Trade payables		—	—	8,749	8,749	8,749
Interest bearing loans and borrowings		—	—	41,590	41,590	41,590
Derivative financial instruments		—	140	—	140	140
		<u>8,749</u>	<u>140</u>	<u>50,339</u>	<u>50,479</u>	<u>50,479</u>

Derivative financial instruments

Derivative financial instruments are recorded on the balance sheet at fair value. The fair values of such financial items at the balance sheet date have been estimated on the following basis:

Foreign exchange forward contracts are revalued based on the forward rates.

Commodity derivatives are valued based on quoted market rates on the balance sheet date.

The fair value of the *interest rate options* is calculated based on the present value of the estimated future cash flows.

Derivative contracts have been made for hedging purposes but hedge accounting has not been applied. Changes in the fair value of derivative contracts are recognised in the income statement under sales and other expenses. The values of financial derivatives are presented under derivative financial instruments as assets when the fair value is positive and as liability when the fair value is negative.

The fair values of interest rate options are immaterial and have not been recognised in the accounts.

5.28 Events after the balance sheet date

Powerflute Oyj's shares have been admitted to trading on the First North Finland list of First North Nordic as at 5 February 2008.

On the 29 February 2008, Powerflute Oyj entered into an agreement in order to establish a joint venture to manage future wood procurement.

UNAUDITED INTERIM RESULTS FOR THE PERIOD 30 JUNE TO 31 DECEMBER 2007

**1. Interim consolidated income statement
for the six months ended 31 December 2007**

	<i>July-December 2007</i>	<i>July-December 2006</i>
	€ 000	€ 000
Sales	59,849	50,595
Other income	1,335	592
Changes in inventories of finished goods and work in progress	(921)	1,256
Raw materials and consumables used	(29,950)	(25,589)
Employee benefits expense	(7,328)	(7,662)
Other expenses	(11,826)	(13,841)
Depreciation and amortisation	(2,748)	(2,486)
Operating profit	<u>8,411</u>	<u>2,865</u>
Finance income	—	39
Finance expenses	(1,097)	(1,428)
Profit before tax	<u>7,314</u>	<u>1,476</u>
Income tax expense	(2,054)	(469)
Profit for the year	<u>5,260</u>	<u>1,007</u>
Attributable to equity holders	<u>5,260</u>	<u>1,007</u>
Earnings per Share (cents)	5.98	1.15

**2. Interim consolidated balance sheet
as at 31 December 2007**

ASSETS	<i>2007</i>	<i>2006</i>
Non-current assets	<i>€ 000</i>	<i>€ 000</i>
		<i>Restated</i>
Property, plant and equipment	31,132	28,368
Intangible assets	4,273	6,352
Deferred tax asset	112	849
	<hr/> 35,517	<hr/> 35,569
Current assets		
Inventories	8,989	10,946
Trade and other receivables	25,740	20,482
Derivative financial instruments	675	—
Cash and short-term deposits	6,785	8,158
	<hr/> 42,189	<hr/> 39,586
Assets classified as held for sale	—	2,294
Total assets	<hr/> <hr/> 77,706	<hr/> <hr/> 77,449
Equity and liabilities		
Attributable to equity holders		
Issued capital	88	88
Retained earnings	10,030	5,788
Net profit for the period	7,055	3,762
Total equity	<hr/> 17,173	<hr/> 9,638
Non-current liabilities		
Interest-bearing loans and borrowings	28,192	37,504
Employee benefit liability	309	670
Deferred tax liability	5,150	6,052
	<hr/> 33,651	<hr/> 44,226
Current liabilities		
Trade and other payables	19,909	17,085
Interest-bearing loans and borrowings	4,164	4,086
Derivative financial instruments	—	140
Income tax payable	2,809	2,274
	<hr/> 26,882	<hr/> 23,585
Total liabilities	<hr/> 60,553	<hr/> 67,811
Total equity and liabilities	<hr/> <hr/> 77,706	<hr/> <hr/> 77,449

3. Interim consolidated statement of changes in equity
for the six months ended 31 December 2007

	<i>Attributable to equity holders of the parent</i>			
	<i>Issued capital</i>	<i>Share premium</i>	<i>Retained Earnings</i>	<i>Total equity</i>
	<i>€ 000</i>	<i>€ 000</i>	<i>€ 000</i>	<i>€ 000</i>
At 1 July 2007	88	—	11,469	11,557
Share-based payment	—	—	356	356
Profit for the period	—	—	5,260	5,260
At 31 December 2007	88	—	17,085	17,173
At 1 July 2006	40	1,968	20,434	22,442
Issue of share capital	88	912	—	1,000
Elimination due to pooling	(40)	(2,880)	(11,891)	(14,811)
Profit for the period	—	—	1,007	1,007
At 31 December 2006, restated	88	—	9,550	9,638

**4. Interim consolidated cash flow statement
for the six months ended 31 December 2007**

	<i>July-December 2007 € 000</i>	<i>July-December 2006 € 000</i>
Operating activities		
Profit before tax from continuing operations	7,314	1,476
Non-cash adjustments:		
Depreciation of property, plant and equipment	1,732	1,450
Amortisation of intangible assets	1,016	1,036
Share-based payment	356	—
Gain on disposal of property, plant and equipment	—	—
Finance income	11	-39
Finance expense	1,086	1,428
Movements in provisions and pensions	-361	363
Working capital adjustments:		
Change in trade and other receivables	-2,707	299
Change in inventories	1,145	-2,357
Increase in trade and other payables	-2,286	458
Income tax paid	-142	—
	<hr/>	<hr/>
Net cash flows from operating activities	7,164	4,114
Investing activities		
Purchase of property, plant and equipment	-4,082	-2,239
Purchase of intangible assets	—	-18
Proceeds from sales	—	—
Interest received	191	36
	<hr/>	<hr/>
Net cash flows used in investing activities	-3,891	-2,221
Financing activities		
Proceeds from share issue	—	1,000
Payment of finance lease liabilities	-99	-40
Proceeds from borrowings, net	—	15,342
Repayment of borrowings	-2,000	—
Interest and similar costs paid	-1,136	-1,874
Payment to shareholders of Savon Sellu Oy	—	-14,811
	<hr/>	<hr/>
Net cash flows used in financing activities	-3,235	-383
Net increase in cash and cash equivalents	38	1,510
Cash and cash equivalents at the beginning of period	6,747	6,648
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	6,785	8,158
	<hr/>	<hr/>