

## POWERFLUTE OYJ

### Interim results for the six months ended 30 June 2007

Powerflute Oyj (the "Company" or "Powerflute"), which operates a paper mill in Finland, and manufactures high quality nordic semi-chem fluting, is pleased to announce maiden interim results as a public company listed on the AIM market of the London Stock Exchange.

#### Highlights

- Turnover up 17 per cent. to € 55.888 million (H1 2006: €47.707 million)
- Operating profit on ordinary activities before tax up 58 per cent. to €6.986 million (H1 2006: €4.418 million)
- EBITDA on ordinary activities up 41 per cent. to €9.500 million (H1 2006: €6.737 million)
- EBITDA margin 17.0 per cent. (H1 2006:14.1 per cent.)
- EPS based on ordinary activities 4.52 cents per share (H1 2006: 3.13) an increase of 44 per cent.. Basic EPS of 2.04 cents per share (H1 2006:3.13)
- Shipments up 10 per cent. to 132,000 tonnes, ahead of the market
- AIM IPO successfully completed in May 2007
- Outlook for H2 2007 positive with continued improvement in performance of existing business
- The growing containerboard sector is enjoying good growth and with no significant new capacity gives a healthy outlook for 2008

Commenting on the announcement Powerflute's Chairman Dermot Smurfit said:

"During the period, Powerflute has continued to benefit from our excellent management team and our strong position in the Nordic Semi-Chemical Fluting ("SCF") market. As such our existing business is performing well and the outlook for the second half is positive.

"We recently looked at a significant acquisition prospect but decided not to proceed. We continue to review a number of suitable acquisition opportunities of under-performing or orphan assets arising from the structural changes in the forest products industry. A significant increase in shareholder value remains our primary criteria."

#### For additional information please contact:

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

## **INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007**

### **Introduction**

Powerflute is pleased to announce its maiden interim results as a listed company following the Company's IPO on the AIM market of the London Stock Exchange on 11 May 2007.

The Group has a clear strategy to create shareholder value. Organically we will continue to develop the existing business through consolidating our strong position in the Nordic Semi-Chemical Fluting ("SCF") market, improving operational efficiencies and maintaining strong customer relationships. This will be significantly enhanced by the acquisition of under-performing or orphan assets in the forest products business, focussing on cashflow and returns on investment. Any such acquisition would be likely to have a significant debt component with the aim of achieving higher returns on equity.

At the time of the IPO, we placed 44,000,000 shares representing 50 per cent. of the Company's issued share capital with institutional shareholders primarily in the UK, Finland and Ireland. We take this opportunity to welcome the new shareholders to the Company and thank them for their support.

### **Market**

The Savon Sellu Mill operated by Powerflute is one of only three producers in the world of the speciality containerboard product Nordic Semi Chemical Fluting (SCF). Together these three produce approximately 900,000 tonnes of SCF in a market estimated to be growing at approximately 2 to 3 per cent. per annum.

The global market for containerboard was strong in the first half of 2007 as good industrial growth in Europe and the developing economies supported the demand for corrugated packaging. SCF has benefited from this, as well as better demand from the produce sector worldwide.

As a consequence, pricing has been strong in all markets with increases achieved everywhere. Powerflute, through its Savon Sellu Mill, achieved good growth in H1 2007, with shipments up 10 per cent. to 132,000 tonnes, ahead of the market, strengthening its position as a leading supplier of SCF. Average turnover prices were up 9 per cent. for the same period, in spite of the negative impact of the weak US\$.

### **Operational performance**

Much work has been put in to improve the efficiency of the mill in the period as in previous periods. As a result, production volumes were up 7 per cent. over H1 2006. The improved production was achieved in spite of additional maintenance downtime. The mill is still operating below its capacity of 300,000 tonnes.

Although average wood prices were up 6 per cent., overall unit production costs were down 1 per cent. year on year. Wood supply, particularly of birch, was tight during the period due to shortages following the unseasonably short winter, when most of the harvesting takes place. There was also some uncertainty ahead of the implementation of the Russian wood tariff from 1 July 2007. Working closely with our long-term supplier, Metsaliitto Co-operative, we were able to maintain supplies to meet production requirements.

### **Investment**

Our plans to invest to replace the headbox and short circulation of the paper machine have recently been finalised, with an agreement signed with Vaahto Pulp and Paper Machinery in August 2007. The project spend of approximately €5 million will be spread over 2007 and 2008, and will result in improvements in product quality and output, ensuring our position as a quality leader in the SCF business and supporting our growth targets.

## Management and Employees

Powerflute employs 192 permanent employees in its mill (H1 2006: 194). Training programmes are in place to improve management processes at the mill. In addition, incentivisation schemes have been put in place to improve productivity.

The senior management changes in the last year have settled down well and we are confident we have a strong team who can take the business forward. We would like to thank all our employees for their continued efforts to improve the performance of the business.

## Financial Review

For the six months ended 30 June (unaudited)

	<u>2007</u>	<u>2006</u>	
	€ 000	€ 000	
<b>Turnover</b>	<b>55,888</b>	<b>47,707</b>	<b>+17 %</b>
<b>EBITDA from ordinary activities</b>	<b>9,500</b>	<b>6,737</b>	
<b>EBITDA margin</b>	<b>17 %</b>	<b>14 %</b>	
Depreciation and amortisation	(2,514)	(2,319)	
<b>Operating profit from ordinary activities</b>	<b>6,986</b>	<b>4,418</b>	<b>+58 %</b>
Financial expenses, net	(1,539)	(848)	
<b>Profit before tax from ordinary activities</b>	<b>5,447</b>	<b>3,570</b>	
Income tax expense from ordinary activities	(1,470)	(815)	
<b>Profit for the period from ordinary activities</b>	<b><u>3,977</u></b>	<b><u>2,755</u></b>	
One off income	586	-	
One off costs	(3,535)	-	
Income tax from one off items	767	-	
<b>Reported profit for the period</b>	<b><u>1,795</u></b>	<b><u>2,755</u></b>	
<b>Earnings per Share from ordinary activities (cents)</b>	<b>4.52</b>	<b>3.13</b>	<b>+44 %</b>
<b>Reported Earnings per Share (cents)</b>	<b>2.04</b>	<b>3.13</b>	

### Turnover

The Group has achieved an increase in turnover of some 17 per cent. due to significant sales volume and price increases.

### EBITDA on ordinary activities

A 41 per cent. increase in EBITDA from ordinary activities from €6.737 million to €9.500 million reflects increase in turnover and improved utilisation of the asset base.

### Operating profit

The operating profit on ordinary activities before tax has increased from €4.418 million to €6.986 million representing an increase of 58 per cent. over the period.

### One off items

Other expenses include one off costs associated with the IPO of €2.835 million, the costs of an aborted transaction incurred since 30 June 2007 of €0.700 million, and a gain on a property disposal of €0.586 million

#### Earnings per share

EPS from ordinary activities were 4.52 cents per share (H1 2006: 3.13) representing an increase of 44 per cent. Reported EPS were 2.04 cents per share (H1 2006: 3.13).

#### Dividend

As indicated in the Admission Document dated 4 May 2007, no dividend will be payable for the financial period ended 30 June 2007. The Board intends that, in the absence of unforeseeable circumstances, the Company will pay a final dividend for the financial period ending 31 December 2007.

#### Balance Sheet

The net debt at 30 June 2007 was €27.615 million.

#### **Current trading and outlook**

Since the IPO, we have evaluated a number of acquisition candidates and in one instance have incurred due diligence costs for what would have been a significant acquisition for the Group, before declining to proceed. We continue to be confident that the current environment of industry restructuring in the face of changing economic fundamentals will allow us to successfully consummate an acquisition within the next year. Significant increases in shareholder value will be our primary criteria.

Trading since the period end has been good, with strong demand, allowing us to announce further price increases at the end of June, effective from July 2007 onwards. SCF and recycled containerboard price increases have been announced by the industry since then, improving the prospects for a successful implementation of this round of price increases.

Due to the tight supply situation for wood, exacerbated by the implementation of tariffs on the export of Russian wood, further cost increases have been incurred since the half-year end. We are confident that we can recover these cost increases. In common with the rest of the industry we currently have low levels of wood stock. Maintaining adequate wood supply in the second half will be a challenge until wood harvest conditions return towards winter norms.

Overall, the outlook for H2 2007 is positive for continued improvement in performance of the existing business. The containerboard sector is enjoying good growth and with no significant new capacity in the immediate future, the prospects for 2008 look healthy.

#### **Dermot Smurfit**

Chairman

#### **Don Coates**

Chief Executive Officer

6 September 2007

## **INDEPENDENT REPORT ON REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS TO THE DIRECTORS OF POWERFLUTE OYJ**

### **Introduction**

We have reviewed the accompanying interim consolidated financial statements of Powerflute Oyj (the "Company") as at June 30, 2007, comprised of the interim consolidated balance sheet at 30 June 2007 and the related interim consolidated statements of income, changes in equity and cash flows for the six-month period then ended and explanatory notes. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

The report is made solely to the Company. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our report, or for the conclusions we have formed.

### **Responsibilities**

The Directors of Powerflute Oyj are responsible for preparation and presentation of these interim consolidated financial statements in accordance with accounting policies and presentation applied in preparing the preceding annual accounts presented in the Powerflute Oyj's AIM admission document dated 4 May 2007. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

### **Scope of review**

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

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements are not prepared, in all material respects, in accordance with the accounting policies and presentation applied in preparing the preceding annual accounts presented in the Powerflute Oyj's AIM admission document dated 4 May 2007.

6 September 2007

ERNST & YOUNG OY  
Authorised Public Accountants

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

**INTERIM CONSOLIDATED INCOME STATEMENT**  
for the six months ended 30 June 2007

	Notes	2007	For the six months ended 30 June 2006	Year ended 31 December 2006
		Unaudited	Unaudited	Audited
		€ 000	€ 000	€ 000
<b>Sales</b>		55,888	47,707	98,302
Other operating income	5	699	179	455
Changes in inventories of finished goods and work in progress		237	396	1,652
Raw materials and consumables used		(26,568)	(24,182)	(49,455)
Employee benefits expense		(7,096)	(6,998)	(14,316)
Depreciation and amortisation		(2,514)	(2,319)	(4,805)
Other expenses	5	(16,609)	(10,365)	(24,206)
<b>Operating profit</b>		<u>4,037</u>	<u>4,418</u>	<u>7,627</u>
Finance income		81	29	68
Finance expenses		(1,620)	(877)	(2,305)
<b>Profit before tax</b>		<u>2,498</u>	<u>3,570</u>	<u>5,390</u>
Income tax expense	6	(703)	(815)	(1,373)
<b>Profit for the period</b>		<u><u>1,795</u></u>	<u><u>2,755</u></u>	<u><u>4,017</u></u>
Attributable to equity holders of the parent		<u><u>1,795</u></u>	<u><u>2,755</u></u>	<u><u>4,017</u></u>
Earnings per Share (cents) basic and diluted, for profit for the period attributable to ordinary equity holders of the parent		2.04	3.13	4.56

**INTERIM CONSOLIDATED BALANCE SHEET**  
at 30 June 2007

		30 June 2007	30 June 2006	31 December 2006
		Unaudited	Unaudited	Audited
	Notes	€ 000	€ 000	€ 000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment		28,733	27,568	28,368
Intangible assets		5,313	7,191	6,352
Deferred tax asset		794	553	760
		<b>34,840</b>	<b>35,312</b>	<b>35,480</b>
<b>Current assets</b>				
Inventories		10,134	8,589	10,946
Trade and other receivables		23,383	19,006	20,482
Derivative financial instruments	11	63	1,775	-
Cash and short-term deposits		6,747	6,648	8,158
		<b>40,327</b>	<b>36,018</b>	<b>39,586</b>
<b>Assets classified as held for sale</b>		<b>0</b>	<b>2,294</b>	<b>2,294</b>
<b>TOTAL ASSETS</b>		<b>75,167</b>	<b>73,624</b>	<b>77,360</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to equity holders of the parent</b>				
Issued capital		88	40	88
Share premium		-	1,968	-
Retained earnings		9,674	17,679	5,788
Profit for the period		1,795	2,755	4,017
<b>Total equity</b>		<b>11,557</b>	<b>22,442</b>	<b>9,893</b>
<b>Non-current liabilities</b>				
Interest-bearing loans and borrowings	9	32,206	25,053	37,504
Employee benefit liability		670	307	326
Deferred tax liability		5,077	6,690	6,052
		<b>37,953</b>	<b>32,050</b>	<b>43,882</b>
<b>Current liabilities</b>				
Trade and other payables		21,812	17,213	17,085
Interest-bearing loans and borrowings	9	2,156	1,050	4,086
Derivative financial instruments	11	136	-	140
Income tax payable		1,553	869	2,274
		<b>25,657</b>	<b>19,132</b>	<b>23,585</b>
<b>Total liabilities</b>		<b>63,610</b>	<b>51,182</b>	<b>67,467</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>75,167</b>	<b>73,624</b>	<b>77,360</b>

**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
for the six months ended 30 June 2007

Attributable to equity holders of the parent

	<b>Issued capital</b>	<b>Share premium</b>	<b>Retained earnings</b>	<b>Total equity</b>
	€ 000	€ 000	€ 000	€ 000
<b>At 1 January 2007, restated</b>	<b>88</b>	<b>-</b>	<b>9,550</b>	<b>9,638</b>
Share-based payment			124	124
Profit for the period	-	-	1,795	1,795
<b>At 30 June 2007 (unaudited)</b>	<b>88</b>	<b>0</b>	<b>11,469</b>	<b>11,557</b>

Attributable to equity holders of the parent

	<b>Issued capital</b>	<b>Share premium</b>	<b>Retained earnings</b>	<b>Total equity</b>
	€ 000	€ 000	€ 000	€ 000
<b>At 1 January 2006</b>	<b>40</b>	<b>1,968</b>	<b>17,679</b>	<b>19,687</b>
Profit for the period	-	-	2,755	2,755
<b>At 30 June 2006 (unaudited)</b>	<b>40</b>	<b>1,968</b>	<b>20,434</b>	<b>22,442</b>

**INTERIM CONSOLIDATED CASH FLOW STATEMENT**  
for the six months ended 30 June 2007

	For the six months ended 30 June		Year ended 31 December
	2007 Unaudited	2006 Unaudited	2006 Audited
Notes	€ 000	€ 000	€ 000
<b>Operating activities</b>			
Profit before tax from continuing operations	2,498	3,570	5,390
Non-cash:			
Depreciation of property, plant and equipment	1,475	1,282	2,732
Amortisation of intangible assets	1,039	1,037	2,073
Share-based payment expense	8 124	-	-
Gain on disposal of property, plant and equipment	7 (586)	-	-
Finance income	(81)	(29)	(68)
Finance expense	1,620	877	2,305
Movements in provisions, pensions and government grants	-	-	19
Working capital adjustments:			
Change in trade and other receivables	(2,964)	(1,451)	(1,152)
Change in inventories	812	534	(1,823)
Change in trade and other payables	4,523	2,809	3,267
Income tax paid	(2,324)	-	-
<b>Net cash flows from operating activities</b>	<b>6,136</b>	<b>8,629</b>	<b>12,743</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment	7 (1,411)	(718)	(2,957)
Purchase of intangible assets	-	-	(18)
Proceeds from sale of property, plant and equipment	7 2,880	-	-
Interest received	81	29	65
<b>Net cash flows received / used in investing activities</b>	<b>1,550</b>	<b>(689)</b>	<b>(2,910)</b>
<b>Financing activities</b>			
Proceeds from share issue	-	-	1,000
Payment of finance lease liabilities	(77)	(28)	(68)
Proceeds from borrowings, net	-	-	12,542
Repayment of borrowings	9 (7,600)	(2,800)	-
Interest and similar costs paid	(1,420)	(801)	(2,675)
Payment to shareholders of Savon Sellu Oy	-	-	(14,811)
<b>Net cash flows used in financing activities</b>	<b>(9,097)</b>	<b>(3,629)</b>	<b>(4,012)</b>
Net decrease / increase in cash and cash equivalents	(1,411)	4,311	5,821
Cash and cash equivalents at the beginning of period	8,158	2,337	2,337
<b>Cash and cash equivalents at 30 June</b>	<b>6,747</b>	<b>6,648</b>	<b>8,158</b>

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 1) Corporate Information

The interim consolidated financial statements of Powerflute Oyj ("the Company") for the six months ended 30 June 2007 have been authorised for issue in accordance with a resolution of the directors. 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 superior quality semi-chemical fluting. The Group's products are sold globally, the main market being Europe.

### 2) Basis of preparation and accounting policies

#### 2.1 Basis of preparation

The interim consolidated financial statements for the six months ended 30 June 2007 have been prepared observing the recognition and valuation principles of IFRS standards, but all the requirements of IAS 34 were not complied with.

The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2006 expressed in the Admission Document.

#### 2.2 Significant accounting policies

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006, except for the following new changes in IFRS standards and IFRIC interpretations adopted on 1 January 2007, which have no effect on the financial position or performance of the Group:

- IFRS 7 Financial Instruments Disclosures
- Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment

### 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 held 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 combined 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.

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

#### **4) Segment information**

The Group has only one business segment.

#### **5) Other operating income and expenses**

Other operating income and expenses for the six months ended 30 June 2007 include the following one off items:

Other operating income includes a gain on a property disposal of € 586,000, see also note 7.

Other expenses include the costs associated with the IPO and the costs of an aborted transaction totaling € 3,535,000.

## 6) Income tax

	For the six months ended 30 June	
The major components of income tax expense in the interim consolidated income statement are:	2007	2006
	Unaudited	Unaudited
	€ 000	€ 000
Current income tax		
Current income tax charge	(1,542)	(869)
Deferred income tax		
Relating to origination and reversal of temporary differences	839	54
<b>Income tax expense</b>	<b>(703)</b>	<b>(815)</b>

## 7) Property, plant and equipment

### Acquisitions and disposals

During the six months ended 30 June 2007, the Group acquired assets with a cost of € 1,411,341 (2006: € 718,099).

Assets with a net book value of € 2,294,000 were disposed by the Group during the six month period ended 30 June 2007 resulting in a net gain on disposal of € 586,000.

## 8) Share-based payment

On 3 May 2007, 5,280,000 share options were granted to senior executives under the Powerflute Stock Option Scheme. The exercise price of the options of 0,16 EUR is equal to the market price of the shares on the date of grant.

The fair value of the options granted is estimated at the date of grant using a Black & Scholes pricing model, taking into account the terms and conditions upon which the options were granted. The contractual life of each option granted is five years. There are no cash settlement options. The fair value of options granted during the six months ended 30 June 2007 was estimated on the date of grant at €124,000 using the following assumptions:

Dividend yield (%) - dividend prognosis not available yet and has not been used	
Expected volatility (%)	26.6
Risk - free interest rate (%)	4.18
Expected life (years)	4.08
Weighted average share price (€)	0.31

## 9. Interest-bearing loans and borrowings

### Repayment of debt

During the six months ended 30 June 2007 the Group repaid €5,600,000 secured loans to bank and €2,000,000 unsecured capital loans to shareholders.

## 10) Related Party Transactions

The following table provides the total amount of transactions which have been entered into with related parties during the six months ended 30 June 2007 and 2006.

	For the six months ended 30 June	
	2007	2006
	Unaudited	
Compensation of key management personnel of the Group	€ 000	€ 000
Short term employee benefits	783	700
Directors' fees	145	72
Other fees	130	265
	1,058	1,037

Other fees include consultancy fees paid to Directors or payments for services rendered from companies in which Directors have personal interests.

Shareholder capital loan	As at 30 June	
	2007	2006
	Unaudited	
	€ 000	€ 000
	1,000	3,000

## 11. Financial instruments

Set out below are hedges with changes in value, as at 30 June 2007 and 2006.

### Fair values of derivative financial instruments

	As at 30 June	
	2007	2006
	Unaudited	
	€ 000	€ 000
Forward foreign exchange contracts	(136)	800
Utilities derivatives	63	975
	<b>(73)</b>	<b>1,775</b>

The carrying values are considered to approximate the fair values, because the maturity of derivatives is less than one year.

Derivatives 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 operating 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.