

6th August 2008

POWERFLUTE OYJ
INTERIM REPORT
for the six months ended 30 June 2008

Powerflute Oyj (the "Company" or "Powerflute"), a manufacturer of premium quality Nordic semi-chemical fluting for use in the production of high-quality corrugated board for food and other demanding packaging applications, today announced results for the six months ended 30 June, 2008. Powerflute is listed on the AIM market of the London Stock Exchange (Ticker: POWR) and on the First North list, the alternative market of the OMX Nordic Exchange Stockholm AB (Ticker POW1V)

Financial highlights

- Turnover at € 55.6m (2007 - € 55.9m), reflecting improved pricing offset by lower volumes due to planned annual maintenance shutdown
- Operating profit increased by 15% to € 4.6m (2007 - € 4.0m)
- Profit before tax increased by 42% to € 3.5m (2007 - € 2.5m)
- Basic EPS increased by 45% to 2.9 cents per share (2007 – 2.0 cents per share)
- Interim dividend of 1.681 cents per share as previously stated
- Net borrowings reduced to € 24.4m (€ 25.6m at 31 December 2007)

Operating highlights

- First North listing February 2008 - alternative market of the OMX Nordic Exchange Stockholm
- New head-box installed during planned annual maintenance shutdown
- Wood supply joint venture established to secure supply and improve efficiencies

Powerflute Chairman, Dermot Smurfit commented:

"We are pleased with our performance in the first half of 2008 given the challenging economic environment and the difficult conditions within the forest products and corrugated packaging sectors. During the first half, efficiencies at the mill improved and the installation of the new head-box, which was a major capital project for the Company, was successfully completed on time and within budget."

"We expect conditions in the second half to be more difficult due to weaker demand and increasing wood and energy costs. However, Powerflute is well positioned for growth in the longer-term due to our strong market position in an attractive and premium paper grade."

Contacts

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About Powerflute

Powerflute Oyj operates a paper mill in Kuopio, Finland where it manufactures Nordic semi-chemical fluting for use in the production of high-quality corrugated board for food and other demanding packaging applications. Powerflute is a public company and its shares are traded on the AIM market of the London Stock Exchange and on First North, the alternative market of the OMX Nordic Exchange Stockholm AB. For further information, please visit www.powerflute.com

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 Company 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 Company's control, actual results or performance may differ materially from those expressed or implied by such forward-looking statements.

POWERFLUTE OYJ
INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2008
CHAIRMAN'S STATEMENT

INTRODUCTION

The first half of 2008 has brought challenging trading conditions for all of those involved in forest products and corrugated packaging. Across the industry, margins are under pressure due to rising wood costs and increasing energy prices and the deteriorating economic environment has made it more challenging to pass cost increases along the supply chain. Against this background, we are pleased with the underlying performance of the business in the first half but now expect performance in the second half to be below our previous expectations.

OPERATING REVIEW

Demand for Nordic semi-chemical fluting was reasonably strong during the first quarter. Delivered and produced volumes held up well for most of the second quarter despite some toughening of conditions in global containerboard markets towards the end of the period. The mill performed well in the first half, offsetting substantial cost increases through improved production efficiencies and better pricing.

Sales for the six months ended 30 June 2008 were virtually unchanged at € 55.6m (2007 - € 55.9m). This reflects the achievement of significantly better average selling prices on sales volumes which were lower than the previous year principally due to the planned annual maintenance shutdown in May.

The annual maintenance shutdown for 2008 took place during the first half of the year; whereas in 2007 it took place during the second half. This year's shutdown was also longer than usual due to the extra time required for installation of the new head-box on the paper machine. We took advantage of this additional downtime to carry out other maintenance procedures and upgrades which will improve the efficiency and performance of the mill over the medium-term.

Contribution margins improved compared with the prior year, indicating that we were successful in recovering increases in raw material and energy costs through productivity gains and more effective pricing. However, the benefit of this was offset by the volume and cost impact of the maintenance shutdown and to a lesser extent by the increased cost of disposing of process waste and by-products in an environmentally responsible manner.

The extended maintenance shutdown resulted in eight days less production than in the prior year, reducing production volumes by some 6,000 tonnes and gross margin by some €1.0m. As a result, underlying profit from operating activities before interest and taxation and non-recurring items reduced by 16% to € 5.7m (2007 - € 6.8m), while the underlying EBITDA from operating activities also reduced to € 8.5m (2007 - € 9.3m).

Profit before tax increased by 42% to € 3.6m (2007 - € 2.5m). However, this was in part due to the results for 2007 being impacted by non-recurring items such the costs of the Initial Public Offering which took place in May 2007.

CAPITAL EXPENDITURE

The investment of € 4.4m in a new head-box for the paper machine at Savon Sellu was successfully completed during the planned annual maintenance shutdown in May. The initial results from the investment are very encouraging and include a marked improvement in manufacturing tolerances and paper strength which results in better performance on our customers' production lines.

LIQUIDITY

During the six months ended 30 June 2008, net debt reduced to € 24.4m (from € 25.6m at 31 December 2007). Cash flow generated from operating activities improved to € 10.4m (2007 - € 6.1m). The principal uses of funds were capital expenditure (€ 5.0m), payment of dividends (€ 3.0m) and payment of interest and other finance costs (€ 1.2m).

WOOD PROCUREMENT

In February 2008, we announced the establishment of a joint venture with Myllykoski Corporation, one of the world's leading producers of publication papers. The new business, which is to be called Harvestia Oy, will manage the wood procurement requirements of both companies and will provide Powerflute with security and continuity of supply when its current wood procurement contract expires in December 2009. We expect Harvestia's wood procurement activities to commence later this year.

ACQUISITIONS

Powerflute continues to pursue its strategy of achieving growth through the acquisition of underperforming forest products businesses. During the first half of the year a number of potential acquisition opportunities were evaluated. In each case, the Board concluded that the returns available were not sufficient to justify the assumption of additional business risk or leverage in the current uncertain economic environment.

In recent months, there has been a marked softening in sellers' price expectations in response to the deteriorating economic climate. We continue to believe that opportunities will arise to grow through acquisition and to realise value for our shareholders.

ACCOUNTING POLICIES

Powerflute uses derivative instruments to hedge risks associated with fluctuations in foreign currency, interest rates and the price of certain commodities. International Financial Reporting Standards require that such derivatives should normally be valued at fair market value at the balance sheet date and any notional gain or loss recognised as revenue or cost in the income statement.

The recent escalation in energy prices has resulted in very significant notional gains on derivative instruments used to hedge exposure to electricity prices. At 30 June 2008, the notional gains on commodity derivatives were in excess of € 2.3m (€ 0.7m at 31 December 2007) and if accounted for on the normal basis would materially distort the reported operating performance. Accordingly we have decided to take a more conservative alternative approach which is permitted under International Financial Reporting Standards and to adopt hedge accounting for such derivatives.

Under hedge accounting, notional gains and losses on derivatives used to hedge against fluctuations in energy prices will be taken to a hedging reserve within equity and transferred to the income statement during the period in which the hedged cost is incurred. The impact of adopting this approach in the six months ended 30 June 2008 is to reduce reported profit before tax by € 2.3m and underlying EBITDA by € 1.6m.

DIVIDEND

As previously stated in the Annual Report for the year to 31 December 2007 and as authorised by the Annual General Meeting held in April 2008, the Board of Directors intends to pay an interim dividend for the year ending 31 December 2008 of 1.681 cents per share. This dividend is expected to be paid before the end of October 2008.

OUTLOOK

Demand during the seasonally quieter summer months has been considerably weaker than in the same period of 2007, most noticeably in the important southern European markets. Although the autumn fruit harvest is currently predicted to be good, we expect trading conditions to remain challenging throughout the second half of 2008.

The second half will benefit from the absence of an extended maintenance shutdown. However, wood and energy costs are expected to continue to rise and we anticipate strong competition due to the weak market conditions.

In the absence of a strong recovery in demand and an improvement in the competitive environment, the Board believes that profit from operating activities for the year ending 31 December 2008 will be some way below that of the previous year. However, we are confident that we are well positioned for growth in the longer-term due to our strong market position in an attractive and premium paper grade.

Dermot Smurfit
Chairman
6 August 2008

INCOME STATEMENT
for the six months ended 30 June 2008

	Note	Six months ended 30 June		Year ended 31 December
		2008 € 000	2007 € 000	2007 € 000
Revenue	4	55,555	55,888	115,737
Other operating income		200	699	2,034
Changes in inventories of finished goods and work in progress		2,868	237	(684)
Raw materials and consumables used		(30,448)	(26,568)	(56,518)
Employee benefits expense		(6,954)	(7,096)	(14,424)
Other expenses		(13,890)	(16,609)	(28,435)
Depreciation and amortisation		(2,703)	(2,514)	(5,262)
Operating Profit	5	4,628	4,037	12,448
Finance income		76	81	70
Finance expenses		(1,154)	(1,620)	(2,706)
Profit before taxation		3,550	2,498	9,812
Income tax expense	6	(1,010)	(703)	(2,757)
Profit for the period		2,540	1,795	7,055
Attributable to				
- equity holders of the company		2,540	1,795	7,055

Earnings per share (cents per share)

Basic	2.9	2.0	8.0
Diluted	2.9	2.0	8.0

BALANCE SHEET
at 30 June 2008

		30 June	30 June	As at
		2008	2007	31 December
	Note	€ 000	€ 000	2007
				€ 000
ASSETS				
Non-current assets				
Property, plant and equipment	8	34,443	28,733	31,132
Intangible assets		3,233	5,313	4,273
Investment in an associate	9	194	-	-
Deferred income tax asset		128	794	112
Total non-current assets		37,998	34,840	35,517
Current assets				
Inventories		13,960	10,134	8,989
Trade and other receivables		19,096	23,383	25,740
Derivative financial instruments	10	2,309	63	675
Cash and short-term deposits		5,955	6,747	6,785
Total current assets		41,320	40,327	42,189
TOTAL ASSETS		79,318	75,167	77,706
EQUITY AND LIABILITIES				
Capital and reserves attributable to equity holders of the company				
Issued share capital		88	88	88
Fair value and other reserves		1,709	-	-
Retained earnings		16,997	11,469	17,085
Total equity		18,794	11,557	17,173
Non-current liabilities				
Interest-bearing loans and borrowings	11	26,148	30,206	28,192
Employee benefit liability		309	670	309
Deferred income tax liabilities		5,145	5,077	5,150
Total non-current liabilities		31,602	35,953	33,651
Current liabilities				
Trade and other payables		20,313	21,812	19,909
Interest-bearing loans and borrowings	11	4,164	4,156	4,164
Derivative financial instruments	10	-	136	-
Current income tax liabilities		4,445	1,553	2,809
Total current liabilities		28,922	27,657	26,882
Total liabilities		60,524	63,610	60,533
TOTAL EQUITY AND LIABILITIES		79,318	75,167	77,706

STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2008

	Attributable to equity holders of the company			Total equity € 000
	Share capital Note	Other reserves € 000	Retained earnings € 000	
Balance at 1 January 2007	88	-	9,550	9,638
Profit for the period	-	-	1,795	1,795
Share based payments	-	-	124	124
Balance at 30 June 2007	88	-	11,469	11,557
Balance at 1 July 2007	88	-	11,469	11,557
Profit for the period	-	-	5,260	5,260
Share based payments	-	-	356	356
Balance at 31 December 2007	88	-	17,085	17,173
Balance at 1 January 2008	88	-	17,085	17,173
Profit for the period	-	-	2,540	2,540
Share based payments	-	-	334	334
Cash flow hedges net of tax	-	1,709	-	1,709
Total recognized income for the period ended 30 June 2008	-	1,709	2,874	4,583
Dividends relating to 2007 paid in April 2008	-	-	(2,962)	(2,962)
Balance at 30 June 2008	88	1,709	16,997	18,794

CASH FLOW STATEMENT
for the six months ended 30 June 2008

	Note	Six months ended 30 June		Year ended 31 December
		2008 € 000	2007 € 000	2007 € 000
Cash flows from operating activities				
Profit before tax from continuing operations		3,550	2,498	9,812
Non-cash:				
Depreciation of property, plant and equipment		1,750	1,475	3,207
Amortisation of intangible assets		953	1,039	2,055
Share-based payment expense		334	124	480
Gain on disposal of property, plant and equipment	5	-	(586)	(586)
Finance income		(76)	(81)	(70)
Finance expense		1,154	1,620	2,706
Movements in provisions, pensions and government grants		-	-	(361)
Working capital adjustments:				
Change in trade and other receivables		7,319	(2,964)	(5,671)
Change in inventories		(4,971)	812	1,957
Change in trade and other payables		404	4,523	2,237
Income tax paid		-	(2,324)	(2,466)
Net cash flows from operating activities		10,417	6,136	13,300
Cash flows from investing activities				
Purchase of property, plant and equipment	8	(4,970)	(1,411)	(5,493)
Investment in an associate		(194)	-	-
Proceeds from sale of property	8	-	2,880	2,880
Interest received		76	81	272
Net cash flows from investing activities		(5,088)	1,550	(2,341)
Cash flows from financing activities				
Payment of finance lease liabilities		(98)	(77)	(176)
Repayment of borrowings	11	(2,000)	(7,600)	(9,600)
Interest and similar costs paid		(1,099)	(1,420)	(2,556)
Dividends paid	12	(2,962)	-	-
Net cash flows from financing activities		(6,159)	(9,097)	(12,332)
Net decrease in cash and cash equivalents		(830)	(1,411)	(1,373)
Cash and cash equivalents at start of period		6,785	8,158	8,158
Cash and cash equivalents at 30 June		5,955	6,747	6,785

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. General Information

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

This condensed consolidated interim financial information was approved for issue by resolution of the Company's Board of Directors on 5 August 2008.

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

2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2008 has been prepared in accordance with *IAS 34 Interim Financial Reporting*.

The condensed consolidated interim financial information does not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with IFRSs.

3. Significant accounting policies

Except as described below, the accounting policies adopted in the preparation of the condensed consolidated interim financial information are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2007.

The accounting treatment of derivative instruments used to hedge exposure to fluctuations in energy prices has been changed. In previous financial statements, such derivatives were valued at fair market value at the balance sheet date and any notional gain or loss recognised as revenue or cost in the income statement. However, following the recent sharp rise in energy prices the recognition of notional gains on such derivatives on this basis would have a material impact on the income statement. Accordingly we have decided to take an alternative approach which is permitted under International Financial Reporting Standards and to adopt hedge accounting. Under hedge accounting, notional gains and losses on such derivatives will be taken to a hedging reserve within equity and transferred to the income statement during the period in which the hedged cost is incurred.

The following new standards, amendments to standards or interpretations are changes in IFRS standards and IFRIC interpretations and have been adopted with effect from 1 January 2008:

- IFRIC 12, 'Service Concession Arrangements'
- IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'

These changes have no effect on the financial position or performance of the Group.

4. Segmental information

The Group has only one business segment.

5. Operating profit

The following items of unusual nature, size or incidence have been recognized in operating profit during the period:

	Six months ended 30 June	
	2008 € 000	2007 € 000
Expenses associated with the IPO in May 2007	-	2,843
Expenses associated with an aborted transaction	-	451
Net profit arising on disposal of certain property assets	-	(586)
Costs associated with landfill remediation	392	-

6. Income tax expense

Income tax is recognized based upon management's best estimate of the weighted average annual income tax rate expected for the full financial year. The average annual tax rate used for the six months to 30 June 2008 is 26%.

	Six months ended 30 June	
	2008 € 000	2007 € 000
Income tax on profit for the period	1,636	1,542
Adjustment to deferred income tax	(626)	(839)
Income tax expense	1,010	703

7. Earnings per share

Basic earnings per share is calculated on profit for the period attributable to equity shareholders of € 2.5m (2007 – € 1.8m) apportioned over the weighted average number of Ordinary Shares in issue during the period of 88,000,000 (2007 – 88,000,000).

The calculation of diluted earnings per share has been determined in accordance with the requirements of IAS 33 – *Earnings per share*. The weighted average number of Ordinary Shares in issue has been adjusted to take account of all dilutive potential Ordinary Shares.

8. Property, plant and equipment

During the six months ended 30 June 2008, the Group acquired assets with a cost of € 4,970,488 (2007: € 1,411,341). Assets with a net book value of € 2,294,000 were disposed of by the Group during the six month period ended 30 June 2007 resulting in a net gain on disposal of € 586,000.

9. Business Combinations

On 29 February 2008, the Group entered into an agreement with Myllykoski Corporation for the establishment of a wood procurement joint venture to be known as Harvestia Oy ("Harvestia"). The Group holds a 33% interest in Harvestia and as at 30 June 2008 had invested € 194,000 in start-up and related costs. This has been recorded as an investment in an associate in the balance sheet at 30 June 2008.

10. Derivative Financial Instruments

	As at 30 June 2008		As at 30 June 2007	
	Assets € 000	Liabilities € 000	Assets € 000	Liabilities € 000
Forward foreign exchange contracts	-	-	-	136
Commodity derivatives	2,309	-	63	-
Total	2,309	-	63	136
Less: non-current portion				
Forward foreign exchange contracts	-	-	-	-
Commodity derivatives	1,067	-	-	-
	1,067	-	-	-
Current Portion	1,242	-	63	136

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

Although forward foreign exchange contracts have been entered into for hedging purposes, hedge accounting has not been applied and changes in the fair value of forward foreign exchange contracts are recognized immediately in the income statement.

Hedge accounting has been applied to commodity derivatives with effect from 1 January 2008. Gains and losses arising on commodity derivatives are recognized in the hedging reserve in equity and are recognized in the income statement during the period or periods in which the hedged forecast transaction affects the income statement. This is generally within 12 to 18 months of the balance sheet date.

11. Borrowings and loans

	30 June 2008 € 000	As at 30 June 2007 € 000	31 December 2007 € 000
Non-current	26,148	30,206	28,192
Current	4,164	4,156	4,164
	30,312	34,362	32,356

Movements in borrowings are analysed as follows:

	€ 000
Six months ended 30 June 2007	
Opening amount as at 1 January 2007	41,590
Repayment of loans from financial institutions	(5,600)
Repayment of shareholder loan	(2,000)
Change in other interest bearing liabilities	372
Closing amount as at 30 June 2007	34,362
Six months ended 30 June 2008	
Opening amount as at 1 January 2008	32,356
Repayment of loans from financial institutions	(2,000)
Change in other interest bearing liabilities	(44)
Closing amount as at 30 June 2008	30,312

The Group has sufficient working capital and undrawn financing facilities to service its operating activities and to meet its requirements for capital investment in continuing activities.

12. Dividends

A dividend of € 2,962,000 that related to the period to 31 December 2007 was paid in April 2008 (2007 – nil).

As previously stated in the Annual Report for the year to 31 December 2007 and as authorised by the Annual General Meeting held in April 2008, the Board of Directors intends to pay an interim dividend for the year ending 31 December 2008 of 1.681 cents per share. This dividend is expected to be paid before the end of October 2008.

This interim dividend, amounting to € 1,479,300, has not been recognised as a liability in this interim financial information. If paid, it will be recognised in shareholders' equity in the year to 31 December 2008.

13. Related Party Transactions

Certain of the Group's directors and members of its executive management team have significant beneficial and non-beneficial interests in the ordinary share capital of the Group. Full details of these interests are disclosed in the annual financial statements for the year ended 31 December 2007.

Key management compensation for the six months ended 30 June 2008 amounted to € 775,000 (2007 - € 1,058,000) analysed as follows:

	Six months ended	
	30 June	
	2008	2007
	€ 000	€ 000
Salaries and other short term benefits	421	783
Directors' fees	123	145
Other fees and benefits	231	130
	775	1,058

Other fees and benefits include amounts paid to Directors, or to companies in which Directors have personal interests, for services provided in addition to their services as Directors.

14. Events occurring after the balance sheet date

Details of the proposed interim dividend are included in note 12 above.

INDEPENDENT REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying interim financial information of Powerflute Oyj ("Powerflute" or "the Company") for the six months ended 30 June 2008, consisting of the Income Statement, Balance Sheet, Cash Flow Statement, and Statement of Changes in Equity, together with the related Notes 1 to 14. We have read the other information contained in the interim financial information and considered whether it contains any apparent misstatements or material inconsistencies.

This 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 work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The interim financial information is the responsibility of and has been approved by the Directors of Powerflute. The Directors are responsible for preparing the interim financial information in accordance with IAS 34 – Interim Financial Reporting and using accounting policies consistent with those applied in preparing the preceding annual financial statements except where any changes and the reasons for them are disclosed. Our responsibility is to express a conclusion on the interim financial information based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34.

ERNST & YOUNG OY
Authorised Public Accountants
5 August 2008

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.