

29 July 2009

POWERFLUTE OYJ
INTERIM REPORT
for the six months ended 30 June 2009

Powerflute Oyj (the "Company" or "Powerflute"), the packaging group with established positions in Nordic semi-chemical fluting and coated woodfree papers, today announced results for the six months ended 30 June, 2009. Powerflute is listed on the AIM market of the London Stock Exchange (Ticker: POWR) and on the First North list, the alternative market of the OMX Nordic Exchange Stockholm AB (Ticker POW1V)

Financial Highlights

- Revenue increased to €120.4m (H1 2008: €55.6m)
- Underlying EBITDA was €5.6m (H1 2008: €7.3m), including €8.0m from Scheufelen
- Operating profit was €33.9m including a gain of €34.7m on acquisition of Scheufelen
- Profit before tax was €31.4m (H1 2008: €3.6m profit)
- Basic EPS of 22.2 cents per share including impact of gain on acquisition of Scheufelen
- Underlying loss per share of 1.8 cents (H1 2008: profit 2.9 cents per share)
- Net debt increased to €50.1m (€41.6m at 31 December 2008)
- Net asset value per share was €0.40

Operating Highlights

- Papierfabrik Scheufelen ("Scheufelen") performed in line with expectations despite extremely challenging market conditions validating the decision to proceed with the acquisition
- Trading in Savon Sellu has been weak throughout the period due to volume and price erosion and this significantly impacted the Group's results in the first half
- Decisive action has been taken in both businesses to manage the impact of the economic downturn with annualised savings of €15.0m in Scheufelen and €6.0m in Savon Sellu expected
- Dermot Smurfit (Chairman) will continue to act as Chief Executive until a replacement is found
- Outlook for Scheufelen remains positive as the benefit of post-acquisition improvement initiatives are realised, while prices and volumes at Savon Sellu are showing some signs of stabilisation

Powerflute Chairman, Dermot Smurfit commented:

"The Group's recent acquisition, Scheufelen the manufacturer of coated woodfree papers, has shown extraordinary resilience in this difficult operating environment and performed in line with our expectations. However, our Nordic semi-chemical fluting business, Savon Sellu, suffered from very weak demand and considerable price erosion and this significantly impacted the Group's performance in the first half.

“Although market conditions remain challenging, the outlook for Scheufelen remains positive and we expect performance to continue to improve as the benefit of post-acquisition improvement initiatives are realised. There are early signs of a return to price stability and increasing volumes at Savon Sellu and we expect there to be some limited improvement in performance during the second half.

“There will continue to be a strong focus on tight cost controls, cash management, and operational development throughout the second half. This, together with the strong support we enjoy from our banks, means the Group is well positioned to withstand the challenges it currently faces and to benefit from any market recovery.”

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About Powerflute

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

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

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

CHAIRMAN'S STATEMENT

GROUP RESULTS

Market conditions have continued to be extremely challenging across all paper grades throughout much of the first half of 2009 and both of the Group's businesses were adversely affected by weak demand and intense pressure on pricing levels.

Following the acquisition of Papierfabrik Scheufelen ("Scheufelen"), a manufacturer of coated woodfree papers based in Germany, on 1 January 2009, the Group's revenues for the six months ended 30 June 2009 more than doubled to €120.4m (2008 - €55.6m). Operating profit for the period was €33.9m (2008 - €4.6m), but this included a gain of €34.7m recognised on the acquisition of Scheufelen. Profit before tax was €31.4m (2008 - €3.6m profit).

Underlying EBITDA was €5.6m (2008 - €7.3m). This included an EBITDA profit of €8.0m from Scheufelen which performed in line with expectations despite encountering very challenging market conditions. In contrast, the Group's Nordic semi-chemical fluting business experienced very weak demand and suffered considerable price erosion during the first half. This resulted in an EBITDA loss of €0.5m (2008 - profit €8.9m) at Savon Sellu and significantly impacted the Group's results for the period.

Following a strong performance in the first half, the outlook for Scheufelen remains positive. Although market conditions continue to be challenging, we expect performance to continue to improve as the benefit of post-acquisition improvement initiatives are realised and to be in line with our initial expectations. There are early signs of a return to price stability and increasing volumes at Savon Sellu and we expect there to be some limited improvement in performance during the second half.

Notwithstanding the challenges faced by the Group during the first half, we continue to be cash generative and our lenders remain strongly supportive.

GRAPHIC PAPERS

The Group completed the acquisition of Scheufelen on 1 January 2009. We are pleased to report that despite very challenging trading conditions during the first half, Scheufelen has performed in line with our expectations and reported EBITDA of €8.0m on sales of €84.7m for the six months ended 30 June 2009.

The resilience shown during the period reflects both the underlying strength of the Scheufelen business and the immediate, pro-active steps taken by our management to achieve a rapid turnaround following the acquisition. The improvement initiatives outlined at the time of the acquisition, including the reduction of the workforce to 500 employees and the planned reductions in raw material costs, have all been realised and we are on target to achieve the forecast annualised savings of €15.0m.

During the period we implemented a rolling programme of curtailments to effectively match supply with demand and maintain inventory at acceptable levels. With less than 15 days finished goods inventory on hand, Scheufelen is performing considerably better than the sector average in this regard. Towards the end of the period, we began to see the benefits of initiatives to reduce waste and improve efficiency and we are confident of making further progress in the second half.

PACKAGING PAPERS

The performance of our Nordic semi-chemical fluting business, Savon Sellu, during the first half was very disappointing. EBITDA from operating activities reduced to a loss of €0.5m (2008 – EBITDA profit €8.9m) on sales down by 36% to €35.7m (2008 - €55.6m).

During the period, the market for Nordic semi-chemical fluting was adversely affected by the very difficult conditions in the market for recycled grades of fluting, where overcapacity and weak demand resulted in exceptionally low prices. Substitution of these inferior grades in certain applications, together with competitor activity, resulted in both volume and price erosion in the markets for Nordic semi-chemical fluting, particularly towards the end of the period.

In response to the challenging market conditions we have worked closely with our customers, suppliers and workforce to achieve savings wherever possible. We have implemented a program of rolling shutdowns and short-time working with the support of our employees and we are targeting further annualised savings in excess of €6.0m through a combination of more effective purchasing of raw materials, operational improvement initiatives and downsizing.

ACQUISITIONS

The Group completed the acquisition of the business and assets of Scheufelen on 1 January 2009 and the results of Scheufelen have been consolidated into those of the Group for the period ended 30 June 2009.

The total acquisition cost was €34.7m, comprising €18.5m for the property, plant and equipment, €10.6m for the inventory, €2.8 for other items and €2.8m of transaction related costs. The acquisition was funded by an increase in the Group's borrowings and from the proceeds from a share placing.

A provisional Purchase Price Allocation exercise has been undertaken, the results of which are reflected in the financial statements presented for the period ended 30 June 2009. The total fair value of the net assets acquired is currently estimated to be €34.3m, comprising intangible assets of €14.4m, property, plant and equipment of €59.3m, inventories of €13.2m, other receivables of €0.1m and provisions for liabilities and charges of €2.7m. Certain of the valuations are still subject to further investigation and review and accordingly the final determination of fair value of the assets may change.

The Group remains committed to its strategy of acquiring attractively priced "orphan assets" which have the potential to be significantly earnings enhancing and to create value for shareholders. The difficult economic environment and the challenges faced by many of the companies in our sector have contributed to a marked increase in acquisition opportunities in recent months and we continue to evaluate opportunities as they are presented to us.

TAXATION

The tax gain of €0.7m (2008 – tax charge €1.0m) is based upon the expected annual tax rates of 26% in Finland and 30% in Germany (2008 – 29%) on profit before taxation.

EARNINGS PER SHARE AND DIVIDENDS

Basic earnings per share for the six months ended 30 June 2009 was 22.2 cents per share (2008 – 2.9 cents per share). However, this included the impact of the gain arising on acquisition of Scheufelen. On an underlying basis, the loss per share for the period was 1.8 cents. In view of the uncertain economic environment, the Board did not propose the payment of a dividend for the year ended 31 December 2008 to the Annual General Meeting and does not intend to make any payment on account or propose any interim dividend for the year ending 31 December 2009.

CASH FLOW

The Group started the year with net debt of €41.6m, comprising bank and other borrowings of €51.5m offset by cash and cash equivalents of €9.9m.

During the first half of 2009, the Group generated €1.7m of cash flow from operating activities (2008 - €10.4m) after an increase in net working capital of €4.2m. The principal uses of funds were payment of deferred consideration relating to the Scheufelen acquisition €5.1m, loan repayments of €3.4m and interest and other financing costs of €2.5m. Capital expenditure for the six months ended 30 June 2009 was €2.3m (2008 - €5.0m).

Net debt at 30 June 2009 was €50.1m, comprising bank and other borrowings of €53.0m offset by cash and cash equivalents of €2.9m.

LIQUIDITY AND COVENANTS

Notwithstanding the challenges faced by the Group during the first half, we continue to be cash generative and our lenders remain strongly supportive. There have been no material changes to any of the Group's bank facilities since 31 December 2008, other than as a result of scheduled repayments. The maturity profile of the Group's bank debt remains as set out in the 2008 Annual Report.

TREASURY MANAGEMENT AND CURRENCY RISK

The main functional currency of the Group is the Euro. The Group has transactional and balance sheet exposures to the US dollar. The transactional exposure arises as approximately 15% of the Group's sales by volume and value and approximately 25% of its raw material and consumable purchases are denominated in US dollars. The balance sheet exposure arises in connection with the assets and liabilities arising from these transactions.

BOARD AND MANAGEMENT

As previously announced, the Board was strengthened during the period by the addition of Dr Ulrich Scheufelen and David Walton, whose appointments were confirmed at the Annual General Meeting of shareholders held in Kuopio on 28 April 2009. Dr. Scheufelen, who was previously a member of the advisory board and the principal shareholder of Scheufelen, joined the Board as a Non-Executive Director. David Walton was appointed as the Group's Chief Financial Officer on 1 January 2009.

On 15 June 2009, Don Coates resigned from his position as Chief Executive Officer and as a Director to seek new opportunities outside the Group. The Board has initiated a search for a successor and will update the market as soon as is practicable. However, until such time as an appointment is made Dermot Smurfit will continue to act as Chief Executive.

CURRENT TRADING AND FUTURE PROSPECTS

Following a strong performance in the first half, the outlook for Scheufelen remains positive. Although market conditions continue to be challenging, we expect performance to continue to improve as the benefit of post-acquisition improvement initiatives are realised and to be in line with our initial expectations. There are early signs of a return to price stability and increasing volumes at Savon Sellu and we expect some limited improvement in performance during the second half.

There will continue to be a strong focus on tight cost controls, cash management, and operational development throughout the second half. This, together with the strong support we enjoy from our banks, means the Group is well positioned to withstand the challenges it currently faces and to benefit from any market recovery.

Dermot Smurfit
Chairman and Chief Executive
29 July 2009

INTERIM CONSOLIDATED INCOME STATEMENT
for the six months ended 30 June 2009

		Six months ended 30 June		Year ended 31 December
	Note	2009 €000	2008 €000	2008 €000
Revenue	5	120,407	55,555	108,027
Other operating income		110	200	337
Changes in inventories of finished goods and work in progress		(1,360)	2,868	700
Raw materials and consumables used		(71,468)	(30,448)	(57,471)
Employee benefits expense		(18,646)	(6,954)	(13,837)
Other expenses		(23,364)	(13,890)	(25,924)
Share of losses of associates		(41)	-	(434)
Gain recognised on acquisition	4	34,726	-	-
Depreciation and amortisation		(6,496)	(2,703)	(5,403)
Operating Profit	6	33,868	4,628	5,995
Finance income		19	76	130
Finance expenses		(2,450)	(1,154)	(2,539)
Profit before taxation		31,437	3,550	3,586
Income tax expense	7	731	(1,010)	(1,045)
Profit for the period		32,168	2,540	2,541
Attributable to				
- equity holders of the company		32,168	2,540	2,541

Earnings per share (cents per share)

Basic	22.2	2.9	2.8
Diluted	22.2	2.9	2.8

The notes on pages 12 to 20 form an integral part of this condensed consolidated interim financial information

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 30 June 2009

	Note	Six months ended 30 June		Year ended
		2009 €000	2008 €000	31 December 2008 €000
Profit for the period		32,168	2,540	2,541
Net (loss) / gain on cash flow hedges		669	2,309	(1,500)
Income tax		(174)	(600)	390
Other comprehensive income (loss) for the period, net of tax	10	495	1,709	(1,110)
Total comprehensive income for the period, net of tax		32,663	4,249	1,431
Attributable to - equity holders of the company		32,663	4,249	1,431

The notes on pages 12 to 20 form an integral part of this condensed consolidated interim financial information

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2009

		30 June	30 June	As at
	Note	2009	2008	31 December
		€000	€000	2008
				€000
ASSETS				
Non-current assets				
Property, plant and equipment	9	91,337	34,443	33,946
Intangible assets		14,283	3,233	2,175
Investment in an associate	4	1,079	194	610
Prepayments for acquisition		-	-	25,295
Derivative financial instruments	10	-	1,067	-
Deferred income tax asset		1,730	128	1,106
Total non-current assets		108,429	39,065	63,132
Current assets				
Inventories		23,033	13,960	12,901
Trade and other receivables		26,787	19,096	18,805
Derivative financial instruments	10	-	1,242	510
Current income tax asset		126	-	-
Cash and short-term deposits		2,945	5,955	9,896
Total current assets		52,891	40,253	42,112
TOTAL ASSETS		161,320	79,318	105,244
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Issued share capital		88	88	88
Hedging reserve		(615)	1,709	(1,110)
Reserve for invested non-restricted equity		9,602	-	9,602
Retained earnings		49,251	16,997	17,223
Total equity		58,326	18,794	25,803
Non-current liabilities				
Interest-bearing loans and borrowings	12	42,724	26,148	44,449
Provisions		1,300	-	-
Employee benefit liability		-	309	-
Derivative financial instruments	10	186	-	765
Other liabilities		235	-	-
Deferred income tax liabilities		17,636	5,145	5,756
Total non-current liabilities		62,081	31,602	50,970
Current liabilities				
Trade and other payables		26,595	20,313	20,551
Interest-bearing loans and borrowings	12	10,302	4,164	7,064
Employee benefit liability		121	-	121
Derivative financial instruments	10	714	-	735
Current income tax liabilities		3,181	4,445	-
Total current liabilities		40,913	28,922	28,471
Total liabilities		102,994	60,524	79,441
TOTAL EQUITY AND LIABILITIES		161,320	79,318	105,244

The notes on pages 12 to 20 form an integral part of this condensed consolidated interim financial information

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2009

	<u>Attributable to equity holders of the company</u>				
	Share capital €000	Hedging reserve €000	Reserve for invested non- restricted equity €000	Retained earnings €000	Total equity €000
As at 1 January 2009	88	(1,110)	9,602	17,223	25,803
Profit for the period	-	-	-	32,168	32,168
Other comprehensive income(loss)	-	495	-	-	495
Total comprehensive income	-	495	-	32,168	32,663
Share based payments	-	-	-	(140)	(140)
At 30 June 2009	88	(615)	9,602	49,251	58,326
As at 1 January 2008	88	-	-	17,085	17,173
Profit for the period	-	-	-	2,540	2,540
Other comprehensive income(loss)	-	1,709	-	-	1,709
Total comprehensive income	-	1,709	-	2,540	4,249
Share based payments	-	-	-	334	334
Dividends relating to 2007 paid in April 2008	-	-	-	(2,962)	(2,962)
At 30 June 2008	88	1,709	-	16,997	18,794

The notes on pages 12 to 20 form an integral part of this condensed consolidated interim financial information

INTERIM CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 30 June 2009

	Note	Six months ended 30 June		Year ended 31 December
		2009 €000	2008 €000	2008 €000
Operating activities				
Profit before tax from continuing operations		31,437	3,550	3,586
Non-cash:				
Depreciation of property, plant and equipment		5,120	1,750	3,305
Amortisation of intangible assets		1,376	953	2,098
Gain recognized on acquisition	4	(34,726)	-	-
Share-based payment expense		(140)	334	559
Change in financial instruments		237	-	306
Finance income		(19)	(76)	(130)
Finance expense		2,450	1,154	2,539
Share of net loss in associate		41	-	434
Movements in provisions, pensions and government grants		-	-	(188)
Working capital adjustments:				
Change in trade and other receivables		(8,128)	7,319	6,794
Change in inventories		3,051	(4,971)	(3,912)
Change in trade and other payables		903	404	(1,711)
Income tax paid		105	-	(3,962)
Net cash flows from operating activities		1,707	10,417	9,718
Cash flows from investing activities				
Purchase of property, plant and equipment	9	(2,276)	(4,970)	(6,119)
Investment in an associate	4	(397)	(194)	(1,044)
Prepayments for acquisition	4	-	-	(22,950)
Acquisition of a subsidiary	4	(5,061)	-	-
Interest received		19	76	130
Net cash flows from investing activities		(7,715)	(5,088)	(29,983)
Cash flows from financing activities				
Proceeds from issue of shares		-	-	10,000
Transaction costs of issue of shares		-	-	(398)
Proceeds from borrowings		5,033	-	23,415
Repayment of borrowings	12	(3,375)	(2,000)	(4,000)
Payment of finance lease liabilities		(151)	(98)	(251)
Interest and similar costs paid		(2,450)	(1,099)	(2,428)
Dividends paid	13	-	(2,962)	(2,962)
Net cash flows from financing activities		(943)	(6,159)	23,376
Net decrease in cash and cash equivalents		(6,951)	(830)	3,111
Cash and cash equivalents at start of period		9,896	6,785	6,785
Cash and cash equivalents at period end		2,945	5,955	9,896

The notes on pages 12 to 20 form an integral part of this condensed consolidated interim financial information

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Corporate Information

Powerflute Oyj is a public limited company incorporated and domiciled in Finland. The address of the registered office is Sorsasalo/Box 57, FI-70101 Kuopio, Finland. The Company has a primary listing on 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 29 July 2009.

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

The principal activities of the company and its subsidiaries ("the Group") are described in Note 5.

2 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2009 have been prepared in accordance with *IAS 34 Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2008.

3 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008, except for the adoption of new Standards and Interpretations as of 1 January 2009, noted below:

IFRS 8 Operating Segments

This standard requires disclosure of information about the Group's operating segments. The Group had only one business segment until 31 December 2008. From 1 January 2009, the Group had three business segments, which are presented in Note 5.

IAS 1 Revised Presentations of Financial Statements

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement or in two linked statements.

Other standards adopted with effect from 1 January 2009 (*IFRS 2 Share-based Payment- Vesting Conditions and Cancellations*, *IFRS 7 Financial Instruments: Disclosures*, *IAS 23 Borrowing Costs (Revised)*, *IAS 32 Financial Instruments: Presentation* and *IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation*, *IFRIC 13 Customer Loyalty Programmes*, *IFRIC 9 Reassessment of Embedded Derivatives* and *IAS 39 Financial Instruments: Recognition and Measurement*, *IFRIC 16 Hedges of a Net Investment in a Foreign Operation*, annual improvements in 2008) did not have any impact on the accounting policies, financial position or performance of the Group.

4 Business Combinations

Acquisition of Papierfabrik Scheufelen

On 1 January 2009, the Group acquired the business and assets of Papierfabrik Scheufelen, a manufacturer of coated woodfree papers based in Lenningen, Germany. The acquisition has been accounted for using the purchase method of accounting. The purchase price allocation of the tangible and intangible assets is preliminary and may be adjusted as a result of obtaining additional information regarding preliminary estimates of fair values made at the date of purchase. The interim condensed consolidated financial statements include the results of Papierfabrik Scheufelen from the acquisition date.

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

	Fair value recognized on acquisition €000	Previous carrying value €000
Property plant and equipment	59,318	73,000
Intangible assets	14,401	
Inventories	13,183	10,600
Other receivables	98	
	<hr/> 87,000	
Provisions and liabilities	(2,669)	
	<hr/> 84,331	
Deferred taxes	(15,349)	
Net assets acquired	68,982	
	<hr/>	
Consideration paid	28,050	
Consideration accrued	3,900	
Costs directly attributable to the acquisition	2,773	
Net acquisition cost	34,723	
	<hr/>	
Gain on acquisition	34,259	
Deferred taxes recognised in prior period	467	
Gain recognised on acquisition	34,726	

The previous carrying value stated above is the unaudited net book value at which the assets acquired were recorded in the accounting records of Papierfabrik Scheufelen immediately prior to their acquisition by Powerflute. The Group's investment in Scheufelen at 31 December 2008 was € 25,295,000 which was recognised in the financial statements as a prepayment for acquisition within non-current assets.

The excess of the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over their cost amounted to € 34,726,000 which has been reported within operating profit as a gain recognised on acquisition.

Papierfabrik Scheufelen filed for insolvency protection in July 2008. In October 2008, following a competitive sale process during which the business was actively marketed for sale by an Administrator appointed by the creditors of Scheufelen, Powerflute reached agreement to acquire the business and assets of Scheufelen, but not the liabilities. The total acquisition cost was € 34.7m. It is our understanding that no other serious bidders emerged during the sale process and that the principal alternative to acceptance of the Powerflute offer was cessation of the business and sale of the assets.

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") in which the Group holds a 33% interest. In April 2009, the Group made a further investment of € 308,000 in Harvestia's reserve for invested non-restricted equity. The joint venture is accounted for using the equity method and at 30 June 2009 the carrying value of the investment was € 1,079,000 (30 June 2008 - € 194,000, 31 December 2008 - € 610,000).

5 Segmental information

For management purposes, the Group is organized into business units based upon the products and services which it supplies. There are currently three reportable operating segments: Graphic Papers, Packaging Papers and Central. Graphic Papers is involved in the production and sale of coated woodfree papers for use in premium-quality printing applications. Packaging Papers is involved in the production and sale of Nordic semi-chemical fluting for use in premium-grade corrugated-box applications. Central includes the cost of corporate and other central services. No operating segments have been aggregated to form the above reportable operating segments.

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

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

Six months ended 30 June 2009	Graphic Papers €000	Packaging Papers €000	Central €000	Adjustments and eliminations €000	Total €000
Revenue					
Third party	84,719	35,688	-	-	120,407
Inter-segment	-	-	-	-	-
Total revenue	84,719	35,688	-	-	120,407
Results					
Segment EBITDA profit/(loss)	8,046	(505)	(1,903)	-	5,638
Gain on acquisition					34,726
Depreciation and amortisation					(6,496)
Operating profit					33,868
Finance income					19
Finance expenses					(2,450)
Profit before taxation					31,437

Six months ended 30 June 2008	Graphic Papers €000	Packaging Papers €000	Central €000	Adjustments and eliminations €000	Total €000
Revenue					
Third party	-	55,555	-	-	55,555
Inter-segment	-	-	-	-	-
Total revenue	-	55,555	-	-	55,555
Results					
Segment EBITDA profit/(loss)	-	8,939	(1,608)	-	7,331
Depreciation and amortisation					(2,703)
Operating profit					4,628
Finance income					76
Finance expenses					(1,154)
Profit before taxation					3,550

Segment assets	Graphic Papers €000	Packaging Papers €000	Central €000	Adjustments and eliminations €000	Total €000
At 30 June 2009	98,350	81,247	-	(18,277)	161,320
At 31 December 2008	25,295	79,949	-	-	105,244

6 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	
	2009	2008
	€000	€000
Gain on acquisition	34,726	-
Costs associated with landfill remediation	-	392

7 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.

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

	Six months ended	
	30 June	
	2009	2008
	€000	€000
Current income tax	3,181	1,636
Deferred income tax	(3,912)	(626)
Income tax expense (gain)	(731)	1,010

8 Earnings per share

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

Diluted earnings per share is calculated in accordance with the requirements of IAS 33 – *Earnings per share*, by dividing net profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of shares that would be issued on conversion of all the dilutive ordinary shares into ordinary shares.

	Six months ended 30 June	
	2009 € 000	2008 € 000
Net profit attributable to ordinary equity holders of the parent	32,168	2,540
	Thousands	Thousands
Weighted average number of shares for Basic Earnings per Share	144,818	88,000
Effect of dilution:		
Share options	-	-
Weighted average number of shares adjusted for dilution	144,818	88,000

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

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

9 Property, plant and equipment

In addition to the acquisition of Papierfabrik Scheufelen (see Note 4), the Group acquired assets with a cost of €2,276,000 during the six months ended 30 June 2009 (2008: €4,970,488).

10 Derivative Financial Instruments

Cash flow hedges in other comprehensive income

	30 June 2009 €000	30 June 2008 €000
Net of tax:		
Gains/(losses) arising during the year	547	1,709
Less reclassification adjustments for gains/(losses) included in the income statement	(52)	-
	495	1,709

	As at 30 June 2009		As at 30 June 2008	
	Assets €000	Liabilities €000	Assets €000	Liabilities €000
Forward foreign exchange contracts	-	-	-	-
Commodity derivatives	-	900	2,309	-
Total	-	900	2,309	-
Less: non-current portion				
Forward foreign exchange contracts	-	-	-	-
Commodity derivatives	-	186	1,067	-
	-	186	1,067	-
Current Portion	-	714	1,242	-

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

Hedge accounting has been applied to commodity derivatives. Gains and losses arising on commodity derivatives are recognized in the hedging reserve in equity and are recognized in the income statement during the period or periods in which the hedged forecast transaction affects the income statement. This is generally within 12 to 36 months of the balance sheet date.

11 Share-based payments

On 15 June 2009, Don Coates resigned from his position as Chief Executive Officer and as a Director of Powerflute Oyj. Under the rules of the Powerflute Stock Option Plan ("PSOP"), Mr Coates is obliged to surrender his entitlement to share options. This has been accounted for as a cancellation in accordance with *IFRS 2 Share-based Payments* and the resulting gain of € 449,000 has been recognised in full during the period ended 30 June 2009. The net gain resulting from all share-based payments amounted to € 140,000.

12 Borrowings and loans

	30 June 2009 €000	As at 30 June 2008 €000	31 December 2008 €000
Non-current	42,724	26,148	44,449
Current	10,302	4,164	7,064
	53,026	30,312	51,513

Movements in borrowings are analysed as follows:

	€000
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
Six months ended 30 June 2009	
Opening amount as at 1 January 2009	51,513
Repayment of loans from financial institutions	(3,375)
Change in other interest bearing liabilities	4,888
Closing amount as at 30 June 2009	53,026

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

13 Dividends

There were no dividends paid related to the period 31 December 2008. A dividend of €2,962,000 that related to the period to 31 December 2007 was paid in April 2008.

14 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 2008.

a) *Transactions with related parties*

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

	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
	€000	€000	€000	€000
Joint venture Harvestia Oy				
2009	3	7,504	550	1,370
2008	-	-	-	-

b) *Key management compensation*

Key management compensation for the six months ended 30 June 2009 amounted to € 1,335,000 (2008 - € 1,109,000) analysed as follows:

	Six months ended 30 June	
	2009	2008
	€000	€000
Salaries and other short term benefits	928	421
Directors' fees	190	123
Other fees and benefits	357	231
Share-based payments	(140)	334
	1,335	1,109

c) *Directors' interest in employee share incentive plans*

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

Issue date	Expiry date	Exercise price	Number outstanding	
			30 June 2009	30 June 2008
			Thousands	Thousands
3 May 2007	31 May 2012	£1.10	2,640	4,400

15 Events occurring after the balance sheet date

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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying condensed consolidated interim financial information of Powerflute Oyj ("Powerflute" or "the Company") for the six months ended 30 June 2009, consisting of the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Cash Flow Statement, together with related Notes 1 to 15. 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 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 inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34.

Without qualifying our conclusion we draw attention to Note 4 to the financial statements. The purchase price allocation of tangible and intangible assets is preliminary and may be adjusted as a result of obtaining additional information regarding preliminary estimates of fair values made at the date of purchase.

ERNST & YOUNG OY

Authorised Public Accountants

29 July 2009

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.