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POWERFLUTE OYJ

ACQUISITION AND PLACING

Introduction

Powerflute Oyj ("Powerflute"), is pleased to announce that its agreement to acquire the assets of Papierfabrik Scheufelen GmbH & Co KG ("Scheufelen") announced on 1 October 2008 (the "Acquisition") has become unconditional. Total consideration for the property, plant and equipment is €20m, with a further anticipated investment of €25m in working capital. Completion of the Acquisition is expected to take place by 31 December 2008.

The Acquisition is being financed through a combination of €40m of new term debt and factoring facilities and a cash placing of 56,818,174 new Powerflute shares (the "Placing Shares") with certain existing shareholders and new institutional investors at a price of 16p (€0.176) per share (the "Placing Price") to raise €10 million (before expenses) (the "Placing"). The Placing Price represents a 3% premium to the average closing middle market price of 15.5p for the five business days preceding this announcement.

Highlights

- Scheufelen is a well equipped and highly regarded participant in the Coated Wood Free ("CWF") sector. The Powerflute Board (the "Board") estimates the replacement cost of Scheufelen's assets to be in excess of €300m
- Recent restructuring activity in the CWF sector has led to outright reductions of capacity in Europe and the Board believes the opportunity for improved margins in this market are good
- Scheufelen is benefiting from a significant price increase (€50 per tonne) for its CWF product announced and implemented in October 2008
- The market prices of Scheufelen's principal raw materials (hardwood and softwood pulp) have declined sharply in recent months. Energy costs are also expected to be considerably below 2008 levels
- The prospects for immediate profit improvement within Scheufelen, following cost reduction measures implemented in the last six months are very significant
- Placing of 56,818,174 Placing Shares at 16p (€0.176) per Placing Share to raise €10 million (before expenses) arranged by Collins Stewart Europe Limited ("Collins Stewart")
- The Board believes that, having taken into account the new shares being issued, the Acquisition will be materially earnings enhancing and value creative for shareholders

Dr. Dermot F. Smurfit, Chairman of Powerflute, said:

“I am delighted that we are now able to declare the proposed acquisition of Scheufelen unconditional. This acquisition is an excellent fit for our strategy and will be transformational for Powerflute. We look forward to delivering a material improvement to Scheufelen’s profitability. Shareholders have been highly supportive of this acquisition and I am pleased that our founder shareholders committed additional funds early in the process to help ensure its success. As a Board, we look forward to creating significant value for all our shareholders through delivering on our plans for Scheufelen and Savon Sellu.”

Rationale for the transaction

The Board of Powerflute believes that recent announcements of restructuring activity in the CWF sector will lead to a substantial improvement in the balance between supply and demand and will create an environment in which CWF producers can improve their margins to acceptable levels. Although the current economic uncertainty may result in some short-term decline in demand, the CWF sector would appear to be poised for cyclical recovery and the Board is confident that market conditions will improve in the medium term.

Scheufelen is a well equipped and highly regarded participant in the CWF sector with a strong position in certain robust, niche markets. As such, it is well positioned to withstand any short-term reduction in demand and to take advantage of any medium-term cyclical recovery. Powerflute's management team is expected to contribute significantly to improving Scheufelen's operating performance and margins.

Notwithstanding any change in market conditions, the Board of Powerflute is confident that the performance of Scheufelen can be significantly improved as a result of the restructuring outlined above and other measures to be implemented once the business is under Powerflute ownership. The business and operations of Scheufelen will be substantially restructured by the Administrator prior to completion of the acquisition by Powerflute. Amongst other things, this will result in a reduction in the workforce of approximately 19 per cent.

Overall, annualised improvements to EBITDA of approximately €20-25m have been identified, made up of cost savings already implemented by the Administrator of €7m, manufacturing efficiencies of €3-5m and a full year impact of €10-15m from the price increase successfully adopted in October 2008. Accordingly, the Board is confident that the Acquisition will be materially earnings enhancing for Powerflute in 2009.

Structure of proposed transaction, financing and impact on Powerflute

Scheufelen filed for insolvency protection on 17 July 2008 and since then has been operating under the management of Dr. Jobst Wellensiek, who was initially appointed as preliminary insolvency administrator ("Administrator") and then upon the opening of the formal insolvency proceedings on 1 October 2008 was confirmed as Administrator by the Esslingen Local Court.

Under the terms of the Acquisition, Powerflute will acquire all of the goodwill, intellectual property, tangible fixed assets and business operations of Scheufelen from the Administrator of the Scheufelen estate for consideration of €20m and will also acquire inventories at their net realisable value. Powerflute will not acquire trade or other receivables and will not assume any of the trade, financial or other liabilities.

Immediately prior to the commencement of insolvency proceedings, the net book value of the tangible fixed assets to be acquired was approximately €8 million. Powerflute will undertake a fair value accounting exercise in accordance with the requirements of IFRS following completion of the Acquisition. Approximately 500 employees will transfer to a new company established specifically for the purposes of the Acquisition. The business will continue to

trade under the name "Papierfabrik Scheufelen" and will continue as a producer of CWF papers.

The purchase consideration consists of an initial cash payment for the property, plant and equipment of €20 million due to the insolvency estate on completion. Powerflute will then invest up to €25 million in working capital and capital projects during 2009. As part of the transaction, Powerflute has entered into committed new debt facilities totalling €20m and has secured committed factoring facilities of up to €30m to support the rebuilding of Scheufelen's working capital position.

Powerflute's net debt, including utilisation of the debt factoring facility, following completion of the transaction is expected to be approximately €65 million.

Proposed Board appointment

It is the current intention of the Board of Directors of Powerflute to propose the appointment of Dr Ulrich Scheufelen as a director of Powerflute at the next Annual General Meeting of the company which is expected to take place in April 2009.

Details of the Placing

Powerflute has agreed to raise approximately €10 million (before expenses) by means of a Placing by Collins Stewart of new ordinary shares with certain existing shareholders and new institutional shareholders. Pursuant to a Placing Agreement dated 17 December 2008 (the "Placing Agreement") Collins Stewart has agreed to procure placees for the Placing at the Placing Price, such placees to comprise institutional investors and certain existing shareholders (including certain of the Directors as described below). Collins Stewart has not agreed to underwrite the Placing.

The Placing Shares will be issued credited as fully paid and will rank pari passu in all respects with the existing Powerflute shares, including as to the right to receive and retain all dividends and other distributions declared, made or paid after Admission.

Application will be made to the London Stock Exchange for the Placing Shares to be admitted to trading in AIM. It is expected that Admission will become effective and that dealings in the Placing Shares will commence at 8.00 a.m. (London time) on 24 December 2008 (or such later date as Collins Stewart and Powerflute may agree, not being later than 31 December 2008).

If Powerflute has not allotted the Placing Shares by 23 December 2008, or such later date as Collins Stewart and Powerflute shall agree (not being later than 31 December 2008) the Placing Agreement shall terminate and the placing proceeds shall be repaid to placees.

The Annual General Meeting of Powerflute Oyj held on 16 April 2008 authorised the Board to resolve on an issue of up to 88,000,000 new shares, including an issue in deviation from the shareholders' pre-emptive subscription right. Based on this authorisation the Board has made the decision to issue the shares as referred to above and, accordingly, the Placing is not subject to further shareholder approval.

Following the introduction of the Prospectus Rules on 1 July 2005 and the consequential increase in costs and the time required for AIM companies to raise new equity capital on a pre-emptive basis, the Directors believe that the Placing is the most cost effective and expeditious method of raising new equity capital and do not consider that it would be practicable to complete a pre-emptive share offering in the time available to be able to complete the Acquisition. Accordingly, the Placing Shares have not been and will not be offered generally to Powerflute shareholders, whether on a pre-emptive basis or otherwise. In

addition, the Placing Shares are not being made available to the public and are not being offered in any jurisdiction where it would be unlawful to do so.

The number of Powerflute Shares in issue at the date of this announcement is 88,000,000 and the number of Powerflute Shares in issue following allotment of the Placing Shares will be 144,818,174.

Related Party Transaction

The participation of certain Directors and substantial shareholders in the Placing is a Related Party Transaction under AIM Rule 13. The Independent Directors, who have not participated in the placing, having consulted with Collins Stewart Europe Limited, consider that the subscription in the Placing for 25,543,452 Placing Shares in aggregate by Dr Dermot J. Smurfit, William D Coates, Ian Halliday and Sir Michael Smurfit is fair and reasonable so far as shareholders are concerned.

Scheufelen

Scheufelen operates a single paper mill with total annual production capacity of some 300,000 tonnes located in Oberlenningen, approximately 50 kilometres from Stuttgart in Southern Germany.

Scheufelen's business is concentrated within a 500 kilometre radius of its Oberlenningen base, in markets where it is able to achieve a competitive advantage due to geographical proximity and responsiveness to customer requirements. The majority of Scheufelen's output is sold to commercial printers and paper merchants in Germany, Switzerland, Austria, France and Italy. The principal CWF paper products of Scheufelen are marketed under the BVS brand and represent more than 80% of sales. In addition, Scheufelen manufactures and distributes a range of premium grade CWF papers. For the year ended 31 December 2007, Scheufelen delivered 285,000 tonnes and achieved net sales of €211 million (unaudited).

Scheufelen's raw material and other manufacturing costs include expenditure on hardwood and softwood pulp, chemicals and pigments (which are used in the manufacture of paper and coatings) and energy. Wood pulp is an internationally traded commodity whose prices are generally quoted in US Dollars and are linked to quoted indices. The chemicals and pigments used by Scheufelen are also internationally traded commodities. Scheufelen does not have any power generation capabilities and all of its electricity and gas requirements are purchased from external suppliers.

In recent years, Scheufelen's margins have been under pressure due to the general oversupply of CWF papers in Europe and the impact of rising raw materials, energy and other input costs. In the year ended 31 December 2007, Scheufelen reported EBITDA of €3.1 million (unaudited) and in the six months immediately prior to filing for insolvency in July 2008, Scheufelen was loss making at the EBITDA level.

The market

CWF papers are used in the production of high quality printed advertising and promotional material. Production of CWF papers in Europe is dominated by six major producers who between them represented approximately 85% of the total annual production of more than 10 million tonnes before the capacity reductions outlined below.

Demand for CWF papers in Europe is currently estimated to be approximately 7.7 million tonnes and is forecast to grow by approximately 1.4% per year, reaching 8.6 million tonnes by 2015 (source: Poyry Forest Industry Consulting GmbH). The majority of the growth is forecast to occur in Eastern Europe.

During 2007 and 2008, several of the larger producers of CWF papers announced rationalisation of their CWF capacity. On 29 September 2008, the market leader Sappi announced that it would acquire the CWF businesses of M-Real and outlined plans for further mill closures. Together, the announced capacity reductions suggest the removal of approximately 1.2 million tonnes from the market before the end of 2010.

Ends

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Legal Notice

Collins Stewart, which is authorised and regulated in the United Kingdom by the FSA, is acting for Powerflute as Nominated Adviser and Broker for the purposes of the AIM Rules in connection with the Acquisition and the Placing and will not be responsible to anyone other than Powerflute for providing the protections afforded to customers of Collins Stewart or for providing advice in relation to the Acquisition and the Placing and the other arrangements described in this announcement.

The release, publication or distribution of this announcement in certain jurisdictions may be restricted by law and therefore persons in such jurisdictions into which this announcement is released, published or distributed should inform themselves about and observe such restrictions.

No offer, invitation or inducement to acquire shares or other securities in Powerflute is being made by this announcement.

Certain statements contained in this announcement may constitute forward-looking statements. Any such forward-looking statements involve risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Powerflute, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements speak only as of the date of this announcement and there can be no assurance that the results and events contemplated by such forward-looking statements will, in fact, occur. Powerflute expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein, save as required to comply with any applicable legal or regulatory obligations (including the AIM Rules), whether as a result of new information, future events or otherwise. In addition, any reference in this announcement to the price at which Powerflute shares have been bought or sold in the past or the yield on Powerflute shares cannot be relied on as a guide to future performance.

This announcement is not an invitation nor is it intended to be an inducement to engage in investment activity for the purpose of section 21 of FSMA. The Placing Shares are in any

event being placed only with (i) persons who have professional experience in matters relating to investments and who are investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 of the United Kingdom (the “Financial Promotion Order”) or (ii) persons who fall within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations etc.”) of the Financial Promotion Order (all such persons together being referred to as “relevant persons”). Any investment or investment activity to which this announcement relates is available only to relevant persons and will be engaged in only with relevant persons. Anyone other than a relevant person must not rely on this announcement.

The Placing Shares have not been, and nor will they be, registered under the United States Securities Act of 1933 as amended (the “**Securities Act**”) or qualified for sale under the laws of any state of the United States or under the applicable laws of any of Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan and, subject to certain exceptions, may not be offered or sold in the United States or to, or for the account or benefit of, US persons (as such term is defined in Regulation S under the Securities Act) or to any national or resident of Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan.