

29 February 2008

Powerflute Oyj

Joint venture established to manage future wood procurement

Highlights:

- Joint venture company formed with Myllykoski Oyj to manage wood procurement for both companies
- New entity will procure wood principally from Finland but also from the Baltic Sea region
- New arrangement secures wood supply as Powerflute grows
- New arrangement will benefit from improved supply chain efficiencies

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 that it has agreed to establish a joint venture company with Myllykoski Oyj ("Myllykoski") to manage the parent companies' wood procurement and secure supply as the businesses grow.

The new entity will manage wood procurement for Powerflute's Savon Sellu mill and for Myllykoski's Finnish mills. The combined demand for fibre wood from Powerflute and Myllykoski's Finnish mills will be approximately 2.5 million cubic metres per year. The new joint venture will ensure continuity of supply for both parent companies mills in Finland which in turn will benefit from lower costs and higher efficiencies due to the synergies between the companies, namely complementary grades of wood and similar geographies, and a lean organisation.

The new entity will procure wood principally from Finland but will also import wood. Subject to certain regulatory approvals, the parties expect the joint venture to be up and running in the course of the summer of 2008. The joint venture company will be responsible for supplying wood for Powerflute at the beginning of 2010 when Powerflute's current supply agreement with Metsäliitto Co-operative is due to end.

Powerflute and Myllykoski have proactively chosen to establish the joint venture due to current changes in the forestry environment. Wood is a vital and strategically important raw material for both companies and the new entity will enable both companies to tighten control of their wood procurement arrangements and to secure supply.

The CEO of Powerflute Don Coates said:

"In the current operating environment, wood procurement is a strategic issue and we wanted to develop a viable concept together with Myllykoski. We are confident that the establishment of this wood procurement organisation will further improve the efficiency and cost saving measures which we have implemented in Savon Sellu since 2005, as well as provide the opportunity for strategic planning. Whilst the arrangement will increase Powerflute's need for working capital, the project is estimated to have a positive impact on costs once the joint venture is established.

“The continuity of supply which the new entity will provide will be central in supporting our growth aspirations for Powerflute and we look forward to working with Myllykoski as we bring a fresh player to the wood market.”

Myllykoski Oyj’s President and CEO Sverre Norrgård says:

“A joint procurement venture is a natural and cost-effective alternative in the Finnish forestry. The needs of Myllykoski and Powerflute for wood complement each other. The Myllykoski mill uses fresh spruce wood as its raw material, while the Sunila pulp mill uses pine pulpwood and sawmill chips. Powerflute’s Savon Sellu, on the other hand, uses birch wood as its sole wood raw material. We also believe that a new reliable organisation brings a new dynamic to the wood market which should be beneficial to forest owners and should encourage domestic harvesting.”

Ends

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Background Information

About Powerflute

Powerflute is a holding company and, through its wholly-owned subsidiary Savon Sellu Oy, operates a 300,000 tonne per annum rated capacity paper mill which is also called “Savon Sellu”. The Mill is located near Kuopio, Finland on the shores of Lake Kallavesi and manufactures a specialised high quality grade of semi-chem fluting called nordic semi-chem fluting which is made primarily from birch wood sourced from Finland and Russia. In accordance with its strategy, the Company may in the future also acquire and manage complementary companies or assets related to paper and packaging or other forestry derivatives.

The Group’s key customers comprise corrugated board and packaging manufacturers including International Paper Company and Smurfit Kappa Group. The majority of the Group’s sales are in Western Europe. For the financial period ended 31 December 2006 the Group’s turnover was €98.3 million and the profit before tax was €5.4 million. EBITDA for the financial periods ended 31 December 2005 and 2006 was €3.7 million and €12.4 million respectively. The Company has published on 10 January 2008 a pre-close trading update according to which the EBITDA for the financial period ended 31 December 2007 on ordinary activities will grow approximately 60 per cent above the EBITDA achieved in the financial period ended 2006. The Company’s Certified Advisor on Firsth North is E.Öhman J:or Fondkommission AB.

About Myllykoski

Myllykoski is a family owned international paper group with manufacturing in Finland, Germany, Switzerland and the United States and sales offices around the world. The Finnish roots of the parent company go back to 1892. The Group's products consist of wood-containing uncoated and coated publication papers, including newsprint. Customers include publishers, printers, and retailers worldwide. Myllykoski is among the largest publication paper producers in the world. Myllykoski operates nine paper mills with a total annual capacity of 3 million tons, including the alliance partner Rhein Papier GmbH of which Plattling Papier is a part. The Group companies employ 3,000 people. Myllykoski is known as a pioneer in using new technologies as well as recycled fibres for paper production. All European mills are certified with the environmental management System ISO 14000. Myllykoski's vision is to be the premier publication paper brand recognized for creativity and positive business solutions.