LAROX®

ANNUAL REPORT 2006

Contents

The World of Larox

Larox develops, designs and manufactures industrial filters and is a leading technology company in its field. Larox is a full service solution provider in filtration for separating solids from liquids. Comprehensive aftermarket services throughout the lifespan of the Larox solution form an essential part of our operations. Companies in mining and metallurgy, chemical processing and related industries benefit from our high-efficiency process technologies, products and solutions.

We provide our clients with an unrivalled combination of process expertise and service. We deliver complete solutions, which exceed the goals for product quality, yield, value and consistency. We help our clients to simplify their production processes, improve the profitability of the processes and help to save energy in an environmentally friendly way. All solutions are designed for application-specific needs to meet all process performance requirements of clients and their customers.

All Larox technologies are based either on overpressure including automatic vertical pressure filters, horizontal filter presses and polishing filters, or on under-pressure including horizontal vacuum belt filters, ceramic disc filters and conventional vacuum disc and drum filters. In addition to Larox product names are Ceramec, Hoesch, Pannevis, Scanmec and Scheibler. Most of the product names have served the markets for several decades and all of them are supported by Larox aftermarket services.

We are where our customers are. Larox serves its global clients through its extensive network of sales and service offices and representatives world-wide. Product engineering and manufacturing facilities are located in Lappeenranta, Finland and in Utrecht, The Netherlands. Other locations for product engineering are Espoo, Finland and Alsdorf, Germany. ■

Larox Group

Larox Corporation, the parent company of the Larox Group, is headquartered in Lappeenranta, Finland. Larox Corporation's B share is listed on the Helsinki Stock Exchange.

The Larox Group also consists of eleven operative subsidiaries in Australia, Brazil, Chile, Germany, Great Britain, Mexico, The Netherlands, Poland, South Africa, United States and Zambia. The average number of employees in the Group in 2006 was 450. ■

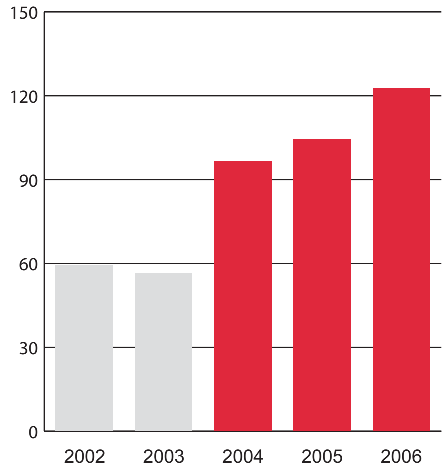
Larox in Brief

KEY FIGURES OF LAROX GROUP

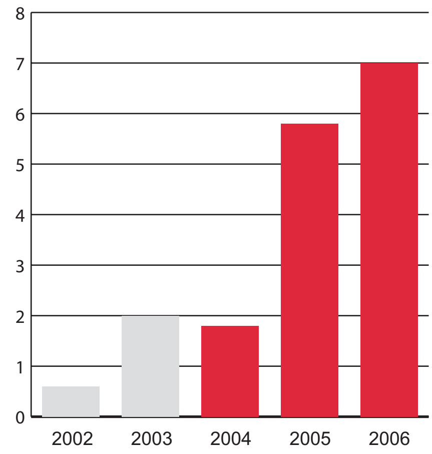
1000 EUR	1-12/2006	1-12/2005
New orders	137 971	121 470
Group order backlog at end of period	44 911	29 845
Net sales	122 809	104 324
Operating profit (EBIT)	8 931	6 670
% of net sales	7.3	6.4
Net financial costs	1 887	879
% of net sales	1.5	0.8
Result before taxes	7 044	5 790
Result for the period	5 004	4 502
Investments	2 285	1 832
Shareholders' equity per share at end of period, EUR	2.84	2.68
Equity ratio %	33.9	29.9
Return on equity, %	19.4	19.7
Return on invested capital, %	16.7	12.6
Liabilities and shareholders' equity	83 295	84 269
% of net sales	67.8	80.8
Contingent liabilities	27.8	27.9
Earnings per share, EUR	0.53	0.49
Dividend per share, EUR	*) 0.30	0.24
Trading price at end of period, EUR	9.00	6.10
Market capitalization at end of period, EUR million **)	84.4	56.6
Average number of personnel	450	438
Number of personnel at end of period	446	445
Net sales per person	273	238

**) Board of directors proposal to the annual general meeting of Larox Corporation shareholders.*
***) A-share data is based on the B share's last trading rate of the financial year (weighted average)*

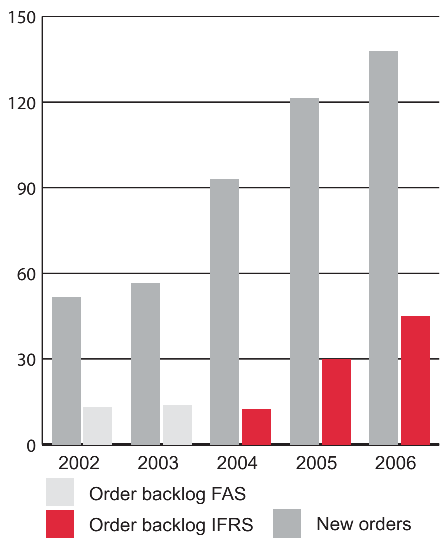
Net sales, EUR million



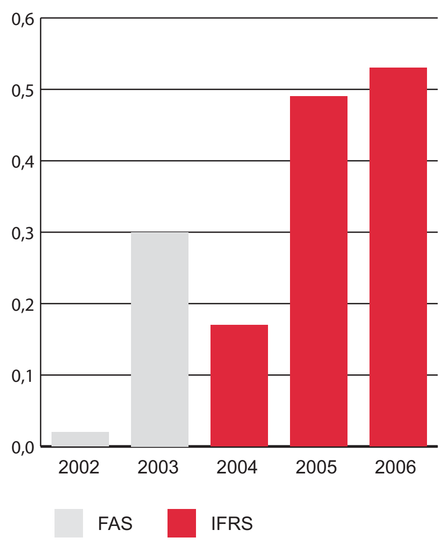
Profit/loss before taxes, EUR million



New orders and order backlog, EUR million



Earnings per share, EUR



Shareholder Information

Annual general meeting of shareholders

The annual general meeting of Larox Corporation shareholders will be held on Friday, 30 March 2007 at 11 a.m. at Larox Corporation headquarters, Tukkikatu 1, 53900 Lappeenranta, Finland.

Shareholders who are registered in the shareholders' register maintained by the Finnish Central Securities Depository Ltd. no later than 20 March 2007 have the right to participate in the annual general meeting of shareholders.

Shareholders who wish to participate in the annual general meeting of shareholders must notify the company no later than 23 March 2007 at 2 p.m. Notification can be made in writing to Larox Corporation, P.O. Box 29, 53101 Lappeenranta, by phone +358 5 668 8211, fax +358 5 668 8277 or email to tuula.poutanen@larox.com. Possible powers of attorney or other authorizations are requested be given with the notification of participation.

The copies of the financial statements and the proposals by the board of directors are available to the shareholders one week before the meeting at Larox Corporation headquarters. Copies of these documents are available on request.

Payment of dividends

Based on the proposal by the board of directors the dividend for the past fiscal year, which ended on 31 December 2006, is EUR 0.30 per share. Shareholders who are registered in the shareholders' registry maintained by the Finnish Central Securities Depository Ltd. on 4 April 2007, the matching day of dividend payment, are entitled to the dividend. The dividends will be paid on 13 April 2007.

Financial reports in 2007

In addition to the Annual Report, Larox will publish three Interim Reports in 2007;

- January – March 27 April 2007
- January – June 10 August 2007
- January – September 26 October 2007

The financial reports will be published in Finnish and English. The Annual Report, the Interim Reports, Stock Exchange Releases and other information on Larox Corporation are available in Finnish and English at www.larox.com.

A copy of the printed Annual Report will be sent to each shareholder. Shareholders are requested to inform the bank or banking house which takes care of their book-entry securities accounts on possible changes of address. Finnish Central Securities Depository Ltd. only updates the information of book-entry securities accounts if a shareholder has an account there. The Interim Reports will be available in photocopies. All financial reports can be ordered from Larox Corporation, P.O. Box 29, FIN-53101 Lappeenranta, Finland, tel. +358 5 668 811, fax +358 5 6688 277 or info@larox.com.

Investor relations

The investor communications policy of Larox has been designed to provide correct and real-time information to all market participants on a regular and equal basis.

Any questions about the business activities of Larox can be addressed to:

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Investment Analyses

Investment analyses of Larox have been made by companies including:

FIM Securities Ltd, Evli Bank Plc, Kaupthing Bank Oyj and OKO Bank plc.

Larox is not responsible for the views presented in the analyses. ■

Mission and Vision

Mission

Our business is solid/liquid separation; we are adding stakeholder value by making our customers' processes more competitive.

Vision

Larox as the world process industry's solid/liquid separation solution provider. ■

Larox Values

People to people – Sisu – Progress
Together… we make it happen… one step ahead for the benefit of our customers.

People to people
Listening to the customer, co-operation and mutual understanding is the foundation of how we do business.

We build strong, positive relationships with our customers and with each other.

In all of our interactions, we emphasize openness, honesty, equality, teamwork and good business spirit.

Sisu
We work in a pioneering way with courage, commitment, determination and perseverance at all levels, and we develop ourselves professionally with the same resolve.

We do what we promise.

Progress
We develop and improve our know-how, expertise and functional capabilities to develop creative and state-of-the-art solutions for the benefit of our customers.

We share and learn from our experiences and grow together as a team.

We advance and succeed through learning, training, open discussion and the free exchange of ideas.

Larox Strategy and Financial Targets

Target-oriented focusing on narrow field of expertise

We are in the business of providing value adding process solutions to industrial and other companies utilizing wet processing. Larox separates the best from the rest – our goal is to be the best in solid/liquid separation.

Profitable growth is the key

Our growth strategy is supported by target–oriented focusing on narrow field of expertise in solid/liquid separation, filtration, niche-technologies and customer segments in global markets.

We emphasize and develop our unique differentiation driven concept of customer service comprising of the Larox way of operating, strong customer relationships and wide sales and after sales service network focusing 100 % on solid/liquid separation.

Growth is based on motivated expert personnel with knowledge and skills, broad product and service portfolio enabling to increase customer share by satisfying wider range of customer's filtration needs, continuous product and application development and increasing the share of After Sales Service of the total business.

Larox will continue in the chosen line of global, customer oriented, innovative, competent and high quality operation.

Financial targets

- Profitable growth for 2007- 2009
- Good profitability, target operating profit (EBIT) of > 8 %
- Return on invested capital (ROI) = 20 %
- Equity ratio of 40 %
- Dividend pay-out of 30 to 50% of earnings per share ■

Business Environment

Larox is a full-service solution provider

Larox designs and manufacturers industrial filters, which are used in separation processes in industries that utilize wet processing. Larox is a leading innovator for the separation of solid and liquid substances, which is often a business-critical process step in particular for companies in mining and metallurgical industries and in chemical process industries.

Larox is a full-service solution provider within this field and the only truly global player 100 % focused on filtration. The cyclical investment demand typical of Larox's business is levelled out by comprehensive Performance for Life – aftermarket services throughout the life of the Larox solution, which is typically between 15 and 25 years and more.

Our business consists of selling new process solutions (equipment) and after sales services to installed and operating filter base. Equipment selling requires without exception the procedures that a customer's investment decision making process includes, which based on our experience takes often even two years from the first contact to a contract. Selling after sales services includes consumables and spare parts, modernizations, upgrades and technical as well as maintenance services.

In our wide product range we have unique products such as automatic vertical pressure filters, capillary action disc filters as well as pressure and gas tight horizontal vacuum belt filters. Our products are heavy investment goods with a typical weight from 4 up to 129 tons, height from 2.3 up to 7.6 meters and throughputs from 0.1 up to 230 tons/hour dry solids. Filter unit prices range typically from EUR 0.2 up to 2.0 million. Typical contract sizes are from EUR 1.0 to 3.0 million in Mining and Metallurgical industries and from EUR 0.3 to 1.5 million in the chemical process industry. Largest contracts can be EUR 6.0 million in mining and EUR 4.0 million in chemicals.

Key market drivers

Demand for all Larox products is driven by general business cycles. In an up-cycle clients can choose our solutions when expanding capacity or removing production bottlenecks. In a down-cycle our solutions can help our clients to reduce production and environmental costs. Throughout the cycles, clients need maintenance, consumables and spare parts services.

Investment decisions in Mining and Metallurgical industries are transparent and fairly easy to follow. Metal prices and metal demand, mainly in car and vehicle manufacturing and construction industries, trigger investments.

Investment decisions in Chemical Process industry are less transparent and triggers for in-

vestments are unique for each client segment. Typically investment decisions are guided by the demand for paper, plastics, foodstuffs, pharmaceuticals and partly environmental legislation.

Market size and main solid/liquid separation methods

Total filter market size is approximately EUR 2 300 million offering an approximately EUR 930 million market for Larox. Average annual demand growth rate in Mining and Metallurgy is approximately 3 % and between 3% to 10 % in Chemical Process industry depending on the market segment.

In addition to thermal drying all solid/liquid separation equipment in the markets are based on one of the four main solid/liquid separation methods: gravity, centrifugal force, vacuum or pressure. All Larox filtration technologies are based on vacuum or pressure (market size of approximately EUR 930 million).

Sensitivity of Larox's business to market changes

A rise in metal prices can effect positively on demand for Larox products. Effect on the internal costs of Larox however is negative as the main raw materials for our products are different grades of mild and stainless steel.

A rise in other commodity prices can effect positively on demand for Larox products. Effect on internal costs can be regarded as negative because e.g. plastic components are quite commonly used in our products.

If US dollar strengthens against euro the effect on demand for Larox products can be positive especially in US dollar dependant market areas (e.g. in South and North America and Russia). Effect on internal costs is neutral since the majority of our costs are euro based.

A rise in energy prices generally makes processing plants put efforts on finding ways to decrease e.g. thermal drying costs. Larox equipment can reduce or even eliminate the duties of other equipment (dryers, ultra-filtration, wash systems, plant effluent systems). Effect on internal costs is neutral.

If safety, health and environmental legislation tightens it can have a positive effect on demand for Larox products. Effect on Larox's internal costs is neutral.

Competitor analysis

Competition in the solid/liquid separation business is fairly fragmented. Consolidation is in early stages.

The most remarkable acquisitions during the last years have been:

- GL &V acquired Dorr-Oliver (1999) and Eimco Process Equipment Co. (2002)
- Larox acquired Scheibler Filters Ltd. (2002) and Outokumpu Technology's filter business (2004)
- Andritz acquired Bird Machine and Netzsch (2004)
- GKD-Gebr Kufferath AG acquired IST-Delkor Pty (2006)

There are only a handful of global full-service players: Larox, GL &V, Metso Minerals and Andritz. These control roughly 25 – 30 % of the EUR 930 million market. Out of these only Larox focuses solely in solid/liquid separation and publishes its annual figures for this business.

Larox is the global market leader in the following industry segments:

- In Mining and Metallurgy: pressure filtration of metal concentrates and copper electrolyte purification in electrorefining process
- In Chemical Process Industry: pressure filtration of starches and precipitated calcium carbonate (PCC) and filtration of zeolites

Larox is unique in the above mentioned group of companies because:

- It is 100 % focused on solid/liquid separation, filtration, technologies
- It has an innovative and highly proven R & D success in this field
- It has unique offerings in its broad product range and unique service concept

Additionally there are many small companies operating locally or regionally and typically focused on offering single products to narrow market segments. ■

Our Customer Relationship Concept Aims at Partnership

Larox will continue to focus on solid/liquid separation, but with a wider range of solutions and deeper level of expertise. The cornerstones of our operations are the unique Larox customer service approach, continuous product and process development, and the expertise and skills of Larox people.

Our customers are leading producers in their fields, either nationally or internationally. We want our customers to see us as a reliable partner. Our expertise is at their disposal before an order, during and after delivery, and until the end of a product's life.

In our tightly defined field of expertise, Larox can help customers simplify their production processes, improve profitability and save energy in an environmentally friendly way. Larox equipment can reduce or even eliminate the duties of other equipment, such as dryers, ultra-filtration, wash systems and plant effluent systems. They can improve product quality, yield, value and consistency. And they can eliminate e.g. thermal drying with fossile fuel.

To achieve our strategic targets we have a high focus on Research and Development. Larox invests 5 % to 6 % of its annual net sales in R & D. It includes Larox's spending on research, equipment and process development, automation products as well as testing operations.

All Larox Group companies have ISO 9001:2000 quality certification audited annually. Larox Corporation was the first Finnish company to receive certificate SFS-EN 729-2:1995 (SFS-EN ISO3834-2) for fusion welding of metallic materials.

We believe that with our expert and motivated personnel continuing to concentrate on managing customer relationships, keeping our products and technologies competitive and maintaining efficient operations, we can fulfil the expectations of all our interest groups and maintain long-term customer relationships with the leading companies in different fields of business. The fact that a large number of the orders we receive are repeat orders from our existing customers is a clear proof that continuous product development and high-quality customer service bring results.

Mining and Metallurgical industries

The industry is heavily consolidating and is typically dominated by global players. Metal prices and demand is healthy, driven mainly by China and other Asian countries. Mining & Metallurgical companies are expanding production and de-bottlenecking plants to improve efficiency and to lower operating costs. There is a growing trend to reduce the number of suppliers and a preference for a wider scope of services is expected from the suppliers. A ”new” customer segment, junior mining companies, is emerging often with limited financial resources, which results in projects with small budgets. Larox can offer solutions also for this customer segment.

Mines and concentrator plants are typically built close to the ore-body. The company running the mine and concentrator plant operations has often many international owners in different countries, which emphasizes the need for global customer relationship management. Larox has a global customer relationship management system to meet this demand.

Metal production is localized closer to the markets with high demand. There is also a trend for direct leaching of metals from ore or movement into production processes replacing the traditional flotation process. Larox has solutions also for these processes.

Larox is the global market leader in pressure filtration of metal concentrates and in supplying polishing filters to copper electrorefining process for electrolyte purification.

Chemical Process industry

The Chemical Process industry faces ever-increasing demands – saving energy, conserving valuable resources, and improving productiv-

ity and environmental performance, to name a few. At the same time industries are consolidating and the markets dominated by global players. Demand is healthy in China and other Asian countries and picking up elsewhere. In Asia and also in China private and privatised companies are emerging.

Today's industrial minerals, food and pharmaceutical and chemical products require increasingly cost-efficient and environmentally friendly processing. Larox addresses this need through product development, ongoing consultation, global customer relationship management and by optimising the performance of existing installations.

Larox is the global market leader in pressure filtration of starches and precipitated calcium carbonate (PCC) and in filtration of zeolites.

After sales services - Performance for Life

Larox products are in continuous day and night operation in our customers' production processes throughout the year. This sets high requirements on reliability and availability – both the equipment and associated services must perform. Larox can offer the most comprehensive After Sales Service portfolio in the branch.

We help customers stay competitive. We accomplish this by ensuring that our solutions operate efficiently and economically with optimum process results. Larox offers full-service cooperation agreements including preventive maintenance and spare part logistics planning, the actual service procedures, optimized spare parts services, and emergency services.

Larox's technical service optimizes and improves the performance of the Larox process solution. To achieve the best possible result, we build close relationships with clients to understand their specific needs and deliver an increasing amount of value. Our actions are driven by customer satisfaction.

Larox's spare parts service secures the availability and performance of the Larox process solution. To achieve this, we ensure optimal, on-time availability of spare parts. Ensuring continuous system and process availability is the driving force behind our spare part delivery chain.

Larox's modernization service provides tailored modifications for all types of existing Larox installations. These modifications help improve the capacity, performance and availability of the equipment. Modernizations range from improved components and optional devices to expansions and even full-scale upgrades.

Every Larox client is provided a designated Larox support engineer, providing an efficient single point of contact. Each client's support engineer is based in the nearest Larox office. Installed equipment base of approximately 3 500 filters in over 1 000 clients' plants with typical life-cycle between 15 to 25 years and more keeps our service personnel busy. ■

Important Events

January

■ *Release concerning registration of the increase of Larox Corporation share capital:* The subscription of a total of 105,900 Larox Corporation B shares, which the Larox Corporation Board of Directors approved on 21 December 2005, was registered at the Trade Register today. The registered share capital of Larox Corporation is EUR 5,628,960 and the number of shares 9,381,600.
(Stock Exchange Release 13.1.2006)

February

■ *Release concerning the Financial Statements for 2005:* The Larox Group profit for the fiscal year 2005 totalled EUR 5.8 million. The operating profit totalled EUR 6.7 million. Net sales totalled EUR 104.3 million. Order backlog at the end of the fiscal year totalled EUR 29.8 million. New quantity of orders received during the fiscal year totalled EUR 121.5 million. The return on shareholders' equity was 19.7 %. The return on invested capital was 12.6 %. Equity ratio was 29.9 %. Earnings per share totalled EUR 0.49.
(Stock Exchange Release 16.2.2006)

April

■ *Interim Financial Report January - March:* Larox Group's result before tax for the three months totalled EUR -0.6 million. Net sales totalled EUR 25.1 million. Order backlog at the end of the review period totalled EUR 29.5 million. The amount of new orders received during the review period totalled EUR 24.9 million.

The Annual General Meeting of the shareholders of Larox Corporation on 30 March 2006 confirmed the annual financial statements of the company and the Group. A dividend of EUR 0.24 per share, in total EUR 2.2 million, was distributed in accordance with the proposal of the Board of Directors.
(Stock Exchange Release 27.4.2006)

May

■ *Significant Filter Orders from Mining Industry:* Larox has been awarded several contracts to supply filters to mining and metallurgical companies in Australia (First Quantum and Oceana Gold), Canada (Teck Cominco),

China (Jinlong Copper and Daye Nonferrous Metals) and Spain (Duro Felguera). Total value of the orders is approximately 6 million euros.
(Press Release 31.5.2006)

June

■ ***Larox Received Major New Orders Worth Over 10 Million Euros:*** Larox has received in June four major new orders to supply filters to mining and chemical companies in South Africa (PGM concentrate filtration), Zambia (copper concentrate filtration), India (iron ore filtration) and China (pharmaceutical application). Total value of the orders is approximately 10 million euros.
(Press Release 27.6.2006)

August

■ ***Interim Financial Report January- June:*** Larox Group's result before tax for the six months totalled EUR 0.5 million. Net sales totalled EUR 54.1 million. Order backlog at the end of the review period totalled EUR 37.7 million. The amount of new orders received during the review period totalled EUR 63.0 million.

For the second quarter of the year net sales totalled EUR 29.0 million and profit before tax totalled EUR 1.1 million. The amount of new orders received during the second quarter of the year totalled EUR 38.0 million.
(Stock Exchange Release 10.8.2006)

September

■ ***Larox Announces New Filter Orders Worth Over 6 Million Euros:*** Larox was awarded in July quarter by new orders worth of 6.7 million euros to supply 15 filters to chemical and mining companies in Chile (Quiborax), Colombia, Mexico, U.S.A, Germany, Denmark (AarhusKarlshamn), Kazakhstan and China.
(Press Release 4.9.2006)

October

■ ***Etteplan and Larox Widen Engineering Design Cooperation:*** Etteplan Oyj and Larox Corporation signed a letter of intent to widen engineering design cooperation. As a part of the agreement, 10 employees working in engineering and documentation functions related to delivery projects and maintaining of products at Larox offices in Finland, will transfer to Etteplan as so called former employees on 1 January 2007. The agreement, after entering into force, guarantees expert and flexible availability of engineering design services to Larox Corporation. The parties aim at finalizing the agreements by the end of December 2006.
(Stock Exchange Release 9.10.2006)

■ ***10 Million Euro Filter Deals for Larox from Mining Industry:*** Larox has been awarded several major contracts from mining and metallurgical companies in Japan (JGC, Sumitomo's Niihama plant and Toyo smelter and refinery), Peru (Volcan), Australia and in the U.S.A. Total value of the orders is approximately 10 million euros.
(Press Release 19.10.2006)

■ ***Interim Financial Report January- September:*** Larox Group's result before tax for the nine months totalled EUR 2.7 million. Net sales totalled EUR 82.4 million. Order backlog at the end of the review period totalled EUR 41.8 million. The amount of new orders received during the review period totalled EUR 94.5 million.

For the third quarter of the year net sales totalled EUR 28.3 million and profit before tax totalled EUR 2.2 million. The amount of new orders received during the third quarter of the year totalled EUR 31.5 million.
(Stock Exchange Release 27.10.2006)

November

■ ***Larox Has Terminated Its Component Manufacturing Functions in The Netherlands:*** Larox Group has terminated component-manufacturing functions in its wholly owned subsidiary Larox B.V. in Utrecht in The Netherlands. As a result fixed labour has reduced by 12 persons. Personnel arrangements have been carried out through employment terminations.

The arrangement is estimated to cause a one-time cost, which is approximately 0.8 million euros. The cost will be realized during this year. The aim of the arrangement and its estimated improvement in Larox B.V.'s annual financial result will be 0.6 million euros starting from the fiscal year 2007.
(Stock Exchange Release 6.11.2006)

December

■ ***Larox Receives Several Major Filter Orders:*** Solid/liquid separation solutions provider Larox has received several major filter orders from chemical and mining companies in Germany (chemical industry applications), Turkey (chemical industry application), Mexico (zinc and copper concentrate filtration) and Australia (Boddington Gold Mine). The orders consist of twelve filters, which will be delivered during 2007-2008. The total value of the orders is approximately EUR 13.5 million.
(Press Release 21.12.2006)

President's Review

We have reason to be extremely satisfied with 2006, as our position in the fragmented filter segment was strengthened. Net sales increased by 17.7 % over the previous year to EUR 122.8 million, thus achieving the target for net sales that we set in 2004. Furthermore, this growth was entirely organic, as no acquisitions were made in 2006. Our sales have also increased profitably: Larox's operating profit for the 2006 fiscal year increased by 33.9% to EUR 8.9 million.

We entered 2006 with a healthy order backlog. Sales of products and services for the Mining and Metallurgy industries and the Chemical process industry, as well as sales of aftermarket products and services, all exceeded their targets. The year progressed steadily, and we improved cumulatively our previous year's performance in each quarter in terms of both sales and profitability. Our cash flow remained very strong throughout the entire year.

Approximately 95% of Larox net sales were generated outside Finland. Larox is a global player that has a strong presence in each of its target markets. The geographic distribution of net sales was as follows: North, Central and South America 36.3%, Asia and Australasia 23.6%, and Europe, CIS, Middle East and Africa 40.1%.

Larox on the right path

The strong growth in net sales and profitability is a clear sign that the strategy we have chosen is effective. Our focus on a narrow area of expertise combined with a broad product portfolio and excellent client relationships have created positive results. Larox's brand, service and quality high-tech products are also strengths compared with our competitors. Based on our results this strategy has proven to be good, and our business activities will continue to guarantee services to customers throughout the entire lifespan of their Larox solutions.

Our client relationships are long term, and the orders we receive have grown larger in size. It is quite common these days for a single order to include products from 2 or 3 product lines. Our customers are also more active in seeking partners who can offer filters for all key process phases or even handle the operations of entire filtration process. We have been able to meet these demands through our comprehensive aftermarket operations.

Profitable growth also in the future

We entered the year with a bigger order backlog than ever before in Larox's history, approximately EUR 45 million. This provides a good basis for our operations in 2007.

Strong demand for our customers' products is helping increase demand also for Larox products and services and allowing us to seek a growth in sales. We therefore have good reason to believe that the healthy and profitable growth of our net sales will continue.

Larox also aims to improve margins. The Western European cost base of some of our products is eating into our margins compared with competitors who have transferred the manufacture of similar products to lower-cost countries. Larox therefore still has the potential to improve profitability. Both the operating profit margin and the return on invested capital should continue to grow in the future as they did in 2006.

We have discontinued our own component manufacturing operations in Central Europe. The aim is to increase the organization's flexibility and profitability. The partial outsourcing of engineering design activities in Finland has the same purpose.

Expenditure on research and product development remained at the same level as in the previous year. Our product development has focussed strongly on the standardization of products and components, which will help improve margins. We also launched several new generation Hoesch and Pannevis products. We have already received our first orders for the new generation of Pannevis products.

The channels for sourcing materials and components could pose a challenge in the future. As demand grows our suppliers must also have the capacity to serve our growing company. We aim to secure our sourcing channels in order to ensure uninterrupted production.

Excellent outlook

The Mining industry has experienced intense globalization, as a result of which it can no longer be analyzed in terms of regions. An order from a global customer can come from one continent and the delivery made to another continent.

The outlook for the Mining and Metallurgical industries is good. Our customers have many

ongoing investment projects that I believe will continue for another couple of years. The prices of metals are at a high level, and our customers are investing in their plants in order to increase capacity and eliminate production bottlenecks.

The Chemical industry is harder to predict due to its rapid cycles and sometimes unexpected fluctuations. New projects come and go at a fast pace. Demand has nevertheless been at a good level and improving in all market areas. Our biggest customers are in China and elsewhere in Asia, as well as in Europe.

Chemical industry orders receive less publicity than orders from the Mining and Metallurgical industries due to the fact that contracts within the Chemical industry are often confidential. This can create a misleading image of equipment deliveries to the chemical industry and its growth potential, which remains excellent.

Significant development has been made in aftermarket operations. In 2006 we signed new agreements for operating and maintaining filters. In these cases Larox handles the entire filtration process and operation of the equipment for the customer. These contracts offer new opportunities for our aftermarket operations.

The strong demand for our customers' products and their increasing production can be seen in the aftermarket sector. Equipment has to operate around the clock, seven days a week. This requires a lot from the equipment and its maintenance. When equipment is utilized this intensely, maintenance operations and the availability and efficient delivery of spare parts are put to the test. We are able to meet our customers' requirements, which reinforce the productivity of their operations.

Thank you

My thanks go to our entire staff, which has performed well to achieve the good results in 2006. Larox's most important resource is the expertise of our personnel and their motivation to apply this expertise for the good of the company. Our growing operations also challenge our employees to grow alongside the company in their positions of responsibility. The ability of our staff to carry out international cooperation, as well as the importance of good leadership and management, must be emphasized within Larox now and in the near future.

I would also like to thank Larox's shareholders, customers and partners for a good year. Thank you for your trust in Larox and in our products.

Toivo Matti Karppanen

Board of Directors' Report

Business operations
Demand for Larox's products was positive in essential markets. Order accumulation developed well throughout the whole year and the order backlog at the end of the year was clearly bigger than in the previous year. Orders received in the Group grew by 13.6 % from the year of comparison and totalled EUR 138 million. Group order backlog grew by 50.5 % from the end of the year 2005 and was EUR 44.9 million at the end of 2006.

The economic trend, which favoured industrial investments, had a positive effect on the Group result. Demand in the Mining and Metallurgical industries remained healthy and it was driven by high prices of metals resulting from growing consumption of metals mostly in China and other Asian countries. In Chemical Process industry demand is recovering in all market areas, especially in Europe.

Approximately 95 % of Larox net sales were generated outside Finland. The geographical division of net sales was as follows:

	1-12/2006	1-12/2005	1-12/2004
North, Central and South America	36.3%	34.3%	36.9%
Asia and Australasia	23.6%	26.4%	26.4%
Europe, CIS, Middle East, Africa	40.1%	39.3%	36.7%

Group structure

There were no changes in Group structure during the fiscal year.

Profits and profitability

The Larox Group result before taxes for the fiscal year totalled EUR 7.0 million (EUR 5.8 million), i.e. 5.7 % (5.6 %) of net sales. Operating profit totalled EUR 8.9 million (EUR 6.7 million). Net sales totalled EUR 122.8 million (EUR 104.3 million). Depreciation totalled EUR 3.4 million (EUR 3.9 million) and the share taken by net sales was 2.8 % (3.8 %). Result for the fiscal year totalled EUR 5.0 million (EUR 4.5 million).

Order backlog at the end of the fiscal year totalled EUR 44.9 million (EUR 29.8 million). New orders received during the fiscal year totalled EUR 138 million (EUR 121.5 million). The return of shareholders' equity was 19.4 % (19.7 %). Return on invested capital was 16.7 % (12.6 %). Earnings per share totalled EUR 0.53 (EUR 0.49).

Operating profit includes EUR 0.9 million one-time cost, recorded in the last quarter, which were caused by the termination of the component manufacturing functions in The Netherlands product factory in Utrecht. In the future, The Netherlands product factory will buy these components from sub-suppliers. This was informed in a stock exchange release on 6 November 2006.

Financing

The interest-bearing debts totalled EUR 29.0 million (EUR 40.0 million). Group's net financing costs totalled EUR 1.9 million (EUR 0.9 million) and the share taken by net sales was 1.5 % (0.8 %). Net financing costs include losses resulted from unrealized exchange rate revaluations. The equity ratio was 33.9 % (29.9 %) and the debt-equity ratio was 1.1 (1.6).

Investments

Larox Group investments totalled EUR 2.3 million (EUR 1.8 million). The investments were mainly directed to development, IT applications and replacement investments.

Research and product development

Expenditure by the Larox Group on research, equipment and process development, automation products and test filtration in the fiscal year was

	2006	2005	2004
EUR million	6.8	6.9	6.6
% of net sales	5.5	6.6	6.8

At the beginning of the year Larox started a project in cooperation with Lappeenranta University of Technology and TEKES (Finnish Funding Agency for Technology and Innovation) aimed at improving the efficiency of test filtration by statistic methods. In the project a computer programme will be developed, which guides the test filtration engineer and makes an optimal test plan that gives a maximum amount of information using a minimum-size test sample. The project will be completed by the end of 2007 and applied in test filtration.

The main focus in product development was related to launching new products and continuously improving the existing products. New product launches during the fiscal year were high volume Hoesch Fast Opening Filter Press and Pannevis Side Vacuum Belt Filter ranges. The first orders for new design belt filters were received during the fiscal year.

Larox has been further investing in and working on with the redesign, standardization and modularization of the Hoesch Filter Press and the Pannevis Vacuum Belt Filter families.
As a result and to meet tightening customer specifications as well as new requirements of European Atex-directives, Larox will have a more cost efficient design and the filters will meet the latest industry standards.

Larox now has Atex-proven solutions for customers who have solid/liquid separation applications with explosion proof atmospheres. As a result of product continuous improvement Larox has succeeded to improve with several customers their process results and the reliability of the Larox solution.

Personnel

The average number of personnel employed by the Group in the review period was 450 (438). See table 1 and table 2

The board of directors and auditors

In Larox Corporation annual general meeting of shareholders on 30 March 2006 Mr. Timo Vartiainen, Ms. Katariina Aaltonen, Mr. Teppo Taberman, Mr. Thomas Franck and Mr. Matti Ruotsala were re-elected to the Board. Mr. Timo Vartiainen was elected Chairman of the Board and Mr. Teppo Taberman was elected Vice Chairman in the organizational meeting

Table 1

At the end of the year the number of personnel by area was as follows:

AREA	2006	2005	2004
Finland	210	215	212
Other European countries	139	147	151
North America	27	26	24
South and Central America	33	25	22
Asia and Australasia	17	17	13
Middle East and Africa	20	15	13
Personnel total	446	445	435

Table 2

Employee benefits expenses are divided as follows:

1000 EUR	1 Jan –31 Dec, 2006	1 Jan –31 Dec, 2005	1 Jan –31 Dec, 2004
Salaries and fees	-23 219	-21 407	-20 575
Pension expenses, defined contribution plans	-2 228	-2 273	-2 102
Pension expenses, defined benefit plans	-33	-4	258
Share-based payments	-57	-100	0
Other employee benefits	-2 555	-2 584	-2 483
Employee benefits expenses, total	-28 092	-26 369	-24 902

of the board of directors held immediately after the annual general meeting of shareholders.

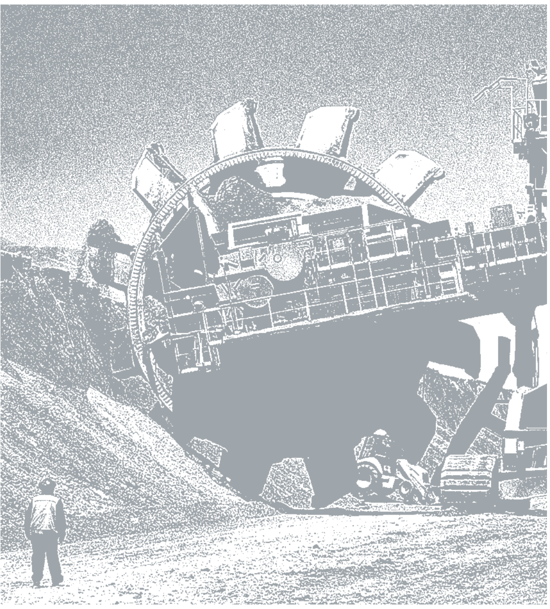
The annual general meeting of shareholders elected the following main auditors: APA Kim Karhu and auditing society PricewaterhouseCoopers Oy with primary responsibility resting with APA Kaija Leppinen. APA Henrik Sormunen and APA Jarmo Alén were elected deputy auditors.

Administration

In 2006 the main principles of corporate governance, recommended by the Helsinki Stock Exchange (OMX), the Central Chamber of Commerce and the Confederation of Finnish Industries (EK) were adopted in the Larox Corporation. The company's Board of Directors has confirmed the principles, and these can be found on the Larox Corporation website: www.larox.com.

Risks and uncertainty factors

Investments in customers' fields of business affect Larox's business. The most remarkable risks that may affect the Group's business and financial result are caused by overall development of economic trends, which is reflected in the financial situation and demand in the customers' fields of operation. The development of demand is followed based on general economic situation, e.g by utilizing test filtrations, order backlog and three (3) and six (6) months' sales forecasts.



There are a lot of competitors in the business. In addition to international companies a great number of smaller local companies compete with Larox.

The Group's dependency on one single customer is limited but loosing more customers may have financial consequences.

The Group has paid special attention to risks related to the increase of material and subcontracting costs.

The risks related to stability and availability of the Group personnel have been acknowledged and the Group has taken measures to retain the management and other personnel in the Group and to facilitate recruiting of new personnel.

Different financial instruments are used to manage financial risks. The purpose is to protect the Group against changes that are unfavourable to the Group's financial situation. The objective of the Group is to minimize the impacts of fluctuations in financial markets on the Group's cash reserves, profits and shareholders' equity. The main risks are currency risks and interest rate risks. The Group treasury function manages financial risks centrally according to the currency policy approved by the board of directors.

Larox has insurance coverage on material damages and legal liability for damages. Insurance coverage on unexpected risks is however limited.

Environmental matters

Direct environmental influence of Larox's business is minor. The Group takes care of the proper sorting and further handling of its wastes, including hazardous wastes. The portion of energy expenses was 1.9 % (1.5 %) of other operating expenses.

Authorization given to the board of directors to decide on the increase of share capital through a new share issue

The annual general meeting of shareholders on 30 March 2006 authorized the Board of Directors to decide on the increase of share capital by a maximum of EUR 330 000 by offering a maximum of 550 000 new B-series shares to be subscribed but this authorization was not used during the review period.

Issue of equity instruments, subscription of B-series shares based on the management incentive system

Based on Larox Corporation share issue to the top management in 2004, a total of 27 075 of the subscribed B-series shares, the restriction period of which ended on 1 December 2006, are released for trading together with other Larox Corporation B-series shares.

In the share issue to the top management a total of 108 300 B-series shares were subscribed. The restriction periods of other shares subscribed in this share issue will end on 1 December 2007 regarding 37 905 shares and on 1 December 2008 regarding 43 320 shares.

Larox Corporation published the terms of the share issue of 2004 to the top management in stock exchange releases of 16 February 2004 and 17 March 2004.

Share and shareholders

The trading with Larox shares 1 January – 31 December 2006 totalled 2 570 733, which is 27.4 % of the total number of shares. The value of the trading totalled EUR 19.9 million. The lowest price of the Larox share was EUR 6.12 and the highest EUR 9.35 per share. The closing trading price of the share was EUR 9.00 per share and the market value of the capital stock EUR 84.4 million. At the end of 2006 the number of shareholders was 743.

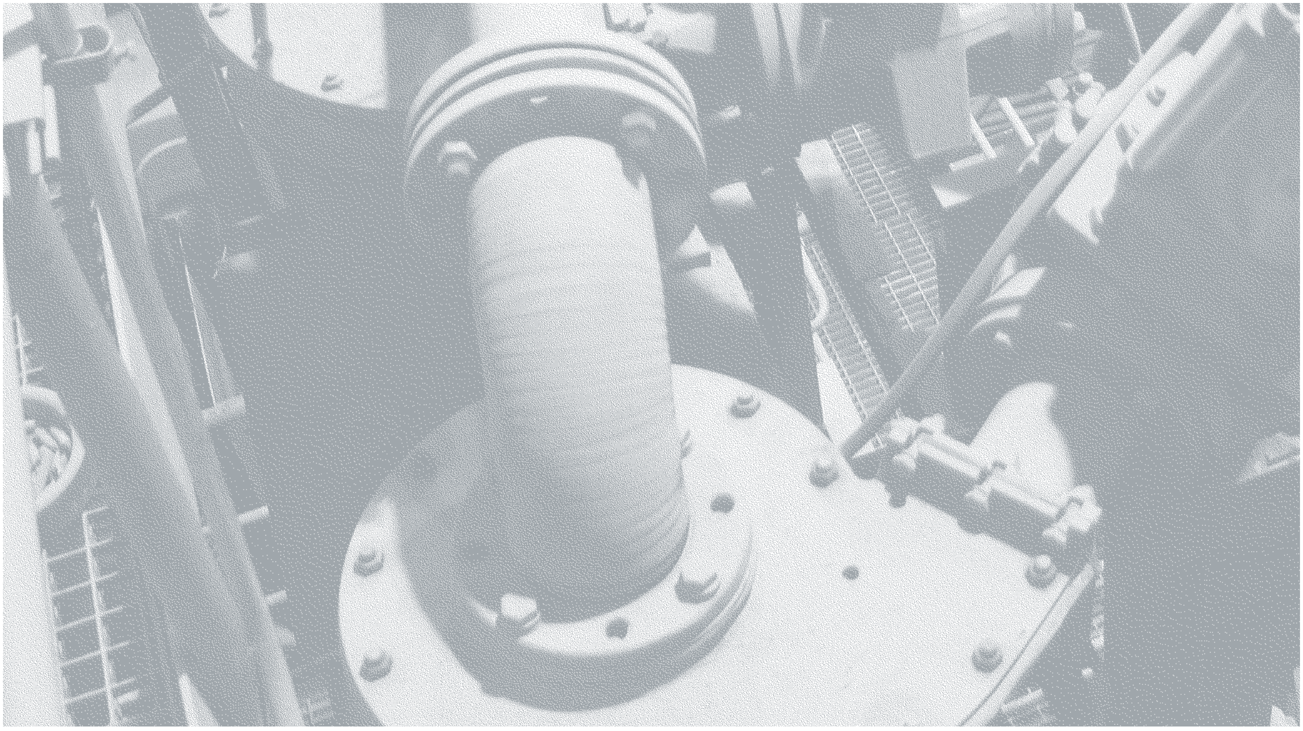
Events after the balance sheet date

In Finland the engineering design cooperation with Etteplan Oyj was widened. As a part of the agreement, 10 employees transferred to Etteplan on 1 January 2007.

Good development of order backlog has continued in January.

Future prospects

The market situation is expected to continue favourable and the Group net sales and profitability are expected to improve from the previous year. The good order backlog at the turn of the year, EUR 44.9 million (EUR 29.8 million) and the already started procedures supports this. The orders of approximately EUR 9 million, received at the beginning of 2007 (stock exchange release of 5 February 2007) are



proof of strong investment activity in filters. Positive demand of metals, which is expected to continue strong and the recovering demand in the Chemical Process industry influence specially investment decisions.

Distribution of profits

Parent company's dividends available for the distribution totalled EUR 12.3 million, of which the profit for the fiscal year is EUR 5.2 million. The board proposes to the annual general meeting of shareholders dividend to be distributed EUR 0.30 per share, i.e. a total of EUR 2.8 million. No esssential changes have taken place in financial situation of the company after the balance sheet date. Proposed dividend to be distributed does not endanger the solvency of the company.

Key ratios of Larox Group

1000 EUR	1-12/2006	1-12/2005	1-12/2004
New orders	137 971	121 470	93 204
Group order backlog at end of period	44 911	29 845	12 425
Net sales	122 809	104 324	96 470
Operating profit (EBIT)	8 931	6 670	3 894
% of net sales	7.3	6.4	4.0
Net financial costs	1 887	879	2 069
% of net sales	1.5	0.8	2.1
Result before taxes	7 044	5 790	1 825
Result for the period	5 004	4 502	1 508
Investments	2 285	1 832	32 580
Shareholders' equity per share at end of period, EUR	2.84	2.68	2.25
Equity ratio %	33.9	29.9	28.9
Return on equity, %	19.4	19.7	8.6
Return on invested capital, %	16.7	12.6	8.0
Liabilities and shareholders' equity	83 295	84 269	72 523
% of net sales	67.8	80.8	75.2
Contingent liabilities	27.8	27.9	30.0
Earnings per share, EUR	0.53	0.49	0.17
Dividend per share, EUR	*) 0.30	0.24	0.17
Trading price at end of period, EUR	9.00	6.10	4.66
Market capitalization at end of period, EUR million **)	84.4	56.6	43.2
Average number of personnel	450	438	436
Number of personnel at end of period	446	445	435
Net sales per person	273	238	221

**) Board of directors proposal to the annual general meeting of Larox Corporation shareholders.*

***) A-share data is based on the B share's last trading rate of the financial year (weighted average).*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Consolidated Financial Statements, IFRS

Consolidated Income Statement, IFRS

1000 EUR	Note	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Net sales	3)	**122 809**	**104 324**
Other operating income	5)	1 680	1 019
Change in inventories of finished goods and work in progress		-1 287	-329
Materials and services	6)	- 59 743	-46 157
Employee benefits expense	7)	- 28 092	-26 369
Depreciation and amortization	8)	-3 412	-3 931
Other operating expenses	9)	-23 023	-21 888
OPERATING PROFIT		**8 931**	**6 670**
Financial income	11)	890	897
Financial expenses	12)	-3 032	-1 988
Share of profit in associates	18)	255	212
PROFIT BEFORE TAX		**7 044**	**5 790**
Income tax expense	13)	-2 040	-1 288
PROFIT FOR THE PERIOD		**5 004**	**4 502**

Earnings per share calculated on profit attributable to equity holders of the parent:			
EPS basic and diluted (EUR)	14)	0.53	0.49

The notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheet, IFRS

1000 EUR	Note	31 Dec, 2006	31 Dec, 2005
Assets			
NON-CURRENT ASSETS			
Intangible assets	15)	18 871	19 336
Goodwill	16)	2 948	3 179
Property, plant and equipment	17)	9 566	10 622
Investments in associates	18)	1 153	1 006
Available-for-sale investments	19)	208	273
Deferred tax asset	20)	3 561	2 097
NON-CURRENT ASSETS		**36 307**	**36 512**
CURRENT ASSETS			
Inventories	21)	19 842	15 964
Trade receivables and other receivables	22)	24 984	29 575
Income tax receivable		210	481
Cash and bank	23)	1 952	1 737
CURRENT ASSETS		**46 988**	**47 756**
TOTAL ASSETS		**83 295**	**84 269**
Equity and liabilities			
SHAREHOLDERS' EQUITY	24)		
Share capital		5 629	5 565
Share issue			64
Share premium account		5 777	5 777
Other reserves		60	124
Translation differences		-69	-145
Retained earnings		15 271	13 516
SHAREHOLDERS' EQUITY		**26 668**	**24 901**
NON-CURRENT LIABILITIES			
Deferred tax liability	20)	2 511	1 333
Long-term liabilities, interest-bearing	25)	19 405	24 829
Employee benefit obligations	26)	479	500
Non-current provisions	27)	1 341	1 254
NON-CURRENT LIABILITIES		**23 736**	**27 916**
CURRENT LIABILITIES			
Short-term liabilities, interest-bearing	25)	9 619	15 187
Trade payables and other payables	28)	23 272	16 265
CURRENT LIABILITIES		**32 891**	**31 452**
TOTAL EQUITY AND LIABILITIES		**83 295**	**84 269**

The notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flow, IFRS

1000 EUR	Note	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Cash flow from operating activities			
Profit for the period		5 004	4 502
Adjustments to the profit for the period:			
Depreciation and amortization	8)	3 412	3 931
Gains on disposals of fixed assets		-207	-4
Share of profit of associated companies	18)	-255	-212
Unrealized exchange gains and losses		462	-542
Financial income and expenses	11, 12)	1 679	1 633
Income taxes	13)	2 040	1 288
Change of the working capital:			
Change in inventories		-5 253	-1 208
Change in trade and other receivables		3 486	-7 243
Change in trade and other payables		7 682	2 524
Change in provisions		105	303
Interest paid in operating activities		-1 814	-1 794
Interests received in operating activities		79	30
Other financial items in operating activities		-310	403
Income taxes paid in operating activities		-1 229	-2 020
Net cash generated from operating activities		**14 881**	**1 592**
Cash flow from investing activities			
Investments in property, plant and equipment and intangible assets		-2 045	-1 832
Income from disposal of property, plant and equipment and intangible assets		208	4
Income from disposals of other investments		65	
Dividends received from investments		100	23
Net cash used in investing activities		**-1 672**	**-1 805**
Cash flow from financing activities			
Share issue			310
Short-term loans made		3 896	12 647
Repayments of short-term loans		-10 608	-6 177
Long-term loans made		2 000	
Repayments of long-term loans		-5 885	-3 643
Repayments of finance leases		-56	-634
Dividends paid		-2 226	-1 576
Net cash generated from financing activities		**-12 879**	**925**
Net change in cash and cash equivalents		**330**	**712**
Cash and cash equivalents 1 Jan		1 737	962
Effect of the foreign exchange rates		-114	62
Cash and cash equivalents 31 Dec	23)	1 952	1 737

The notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity, IFRS

Parent company's shareholders' equity 1000 EUR	Share capital	Share issue premium	Fair value reserve	Hedging reserve	Other reserves	Translation differences	Retained earnings	Total
SHAREHOLDERS' EQUITY 1 JANUARY 2005	**5 564**	**5 532**		**0**	**134**	**-100**	**9 760**	**20 890**
Impact of implementation of new standards*)							175	175
ADJUSTED SHAREHOLDERS' EQUITY 1 JANUARY 2005	**5 564**	**5 532**		**0**	**134**	**-100**	**9 935**	**21 065**
Cash flow hedging								
Transferred to profit or loss for the period				-15				-15
Profit of fair value revaluation			138					138
Change in translation difference					11	-44	771	738
Other changes					-145			-145
Recognized directly in retained earnings**)							-216	-216
Net profits and losses recognized directly in shareholders equity			**138**	**-15**	**-134**	**-44**	**555**	**500**
Profit for the period							4 502	4 502
Total profits and losses			**138**	**-15**	**-134**	**-44**	**5 057**	**5 002**
Dividend distribution							-1 576	-1 576
Rights issue	1	5						6
Non-registered share issue	64	240						304
Share-based payments							100	100
SHAREHOLDERS' EQUITY 31 DECEMBER 2005	**5 629**	**5 777**	**138**	**-15**	**0**	**-144**	**13 516**	**24 901**

**)Impact of IAS 32 and IAS 39 adoption.*

***)Adjustment to deferred taxes from previous periods.*

Parent company's shareholders' equity 1000 EUR	Share capital	Share issue premium	Fair value reserve	Hedging reserve	Translation differences	Retained earnings	Total
SHAREHOLDERS' EQUITY 1 JANUARY 2006	**5 629**	**5 777**	**138**	**-15**	**-145**	**13 516**	**24 901**
Cash flow hedging							
Transferred to profit or loss for the period				-30			-30
Profit of fair value revaluation			-33				-33
Change in translation difference					75	-1 081	-1 006
Net profits and losses recognized directly in shareholders equity			**-33**	**-30**	**75**	**-1 081**	**-1 069**
Profit for the period						5 004	5 004
Total profits and losses			**-33**	**-30**	**75**	**3 923**	**3 935**
Dividend distribution						-2 226	-2 226
Share-based payments						57	57
SHAREHOLDERS' EQUITY 31 DECEMBER 2006	**5 629**	**5 777**	**105**	**-44**	**-70**	**15 270**	**26 668**

The notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Accounting principles

Principal activities
Parent company of the Group, Larox Corporation, is a Finnish public limited company domiciled in Lappeenranta at the registered address of Tukkikatu 1, 53900 Lappeenranta. The company is listed on the Helsinki Stock Exchange since 1988. Larox is a full-service solution provider in filtration for separating solids from liquids. Larox's filtration technologies are utilized mainly in mining and metallurgy and chemical processing. Comprehensive aftermarket services throughout the lifespan of the Larox solution form an essential part of our operations. Larox has subsidiaries and sales offices in 13 countries and wide network of representatives. In 2006 the Larox Group net sales were 122.8 million euros, of which over 95 % were generated outside Finland.

The Board of Directors has approved the financial statements on 15 February 2007.

Basis for preparation of the financial statements
These are the consolidated financial statements of Larox in accordance with International Financial Reporting Standards (IFRS) accepted in use by EU. All the valid IAS and IFRS standards and SIC and IFRIC interpretations at 31 December 2006 have been applied in the preparation. Prior to IFRS, Larox's financial reporting was based on Finnish Accounting Standards (FAS). The consolidated financial statements are presented in thousands of euros and they have been prepared under the historical cost conventions excluding available-for-sale investments (partly) and derivative contracts.

The appliance of new IFRS standards or standard amendments
In 2007 the Group will start to apply a new standard IFRS 7 Financial instruments: Disclosures, published by IASB in 2005. The Group's opinion is that the new standard will mainly affect the notes of the Group financial statements.

The Group believes that other standard amendments or interpretations published by 31 December 2006 will not have an effect on financial reporting of the Group. These are:

– IFRIC 12, Service Concession Arrangements *)
– IFRS 8, Operating segments *)
– IFRIC 10, Interim Financial Reporting and Impairment *)
– IFRIC 11, IFRS 2 - Group and Treasury Share Transactions *)
– IFRIC 7, Applying the restatement approach under 29, Financial reporting in hyperinflationary economies
– IFRIC 8, Scope of IFRS 2
– IFRIC 9, Reassessment of Embedded Derivates

**)EU has not yet approved standard/interpretation in use.*

Comparability with information from prior period
The presentation of inventories has been changed for the finished products and materials and supplies. Spare parts are included in finished products, whereas they were included in materials and supplies in prior financial statements of the parent company.

Principles of consolidation
The consolidated financial statements include the parent company Larox Corporation and all subsidiaries where over 50 % of the subsidiary's

voting rights are controlled directly or indirectly by the parent company, or the parent company is otherwise in control of the company. Acquired companies are accounted for using the purchase method according to which the assets and liabilities of the acquired company are measured at fair value at the date of acquisition. The cost of goodwill is the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Associated company, Larox Flowsys Oy, where Larox Corporation holds voting rights of 49% and in which it has significant influence, but not control, over the financial and operating policies, is included in the consolidated financial statements using the equity method. Group's share of the profit or loss of an associated company is shown in the consolidated income statement. Investment in the associated company upon the date of acquisition adjusted for changes in the associated companies' equity after the date of acquisition are shown in the balance sheet under "Investments in associates".

All intra-group transactions, receivables, liabilities and unrealized margins, as well as distribution of profits within the Group, are eliminated.

Foreign currency transactions

Foreign currency transactions are translated into euros using the exchange rate prevailing at the dates of the transactions. Receivables and liabilities in foreign currencies are translated into euros at the exchange rate prevailing at the balance sheet date. Foreign exchange gains and losses related to normal business operations are treated as adjustments to sales or costs. Exchange gains and losses related to financial items are included in financial income or expenses. Income statements of subsidiaries, whose functional and reporting currency is not euro, are translated into euros at the average exchange rate during the financial period. Their balance sheets are translated at the exchange rate prevailing at the balance sheet date and the translation differences are entered in equity. If a subsidiary is sold, cumulative translation differences are recognized in the income statement as part of the gain or loss of the sale.

Non-monetary items which are measured at fair value are translated into functional currency using the exchange rate prevailing at the date when the fair value was determined. Otherwise non-monetary items are translated at transaction date rate.

Revenue recognition

Sales of goods are recognized after the significant risks and rewards that are connected with ownership have been transferred to the buyer, as well as the effective control of those goods. Revenue from long-term construction contracts is recognized based on the stage of completion, when the outcome of a project can be reliably estimated. The stage of completion is measured by using the cost-to-cost method under which the percentage of completion is defined as the ratio of costs incurred to total estimated costs. Possible estimated losses are recognized in the income statement immediately. Sales are shown net of indirect sales taxes and discounts.

Research and development costs

Research and development costs are expensed as they are incurred, except for certain development costs which are capitalized when it is probable that a development project will generate future economic benefits and certain commercial and technological criteria have been met. Capitalized development expenses, comprising mainly materials, supplies, direct labor and related overhead costs are amortized on a systematic basis over their expected useful lives.

Income taxes

The Group's income tax expense includes taxes of the Group companies based on taxable profit for the period, tax adjustments for previous periods and the change in deferred income taxes. The income tax effects of items recognized directly in equity are similarly recognized. Deferred taxes are measured with enacted tax rates and stated using the liability method for temporary differences arising between the book values in financial reporting and tax bases of assets and liabilities. Temporary differences arise from depreciation difference on property, intragroup inventory profits, defined benefit plans, provisions, accelerated depreciation and tax losses and credits carried forward. Deferred tax assets are recognized to the extent in which it is probable that future taxable profits will be available, against which it can be utilized.

Goodwill and other intangible assets

Goodwill and brands with indefinite useful lives are not amortized, but tested annually for impairment.

Other intangible assets include capitalized development expenses, patents, licenses, customer relations, technology, supplier relationships and process development. The valuation of intangible assets acquired in a business combination is based on fair value and amortized on a straight-line basis over expected useful lives.

Other intangible assets are stated at cost and amortized on a straight-line basis. An intangible asset is recognized only if it is probable that the future economic benefits that are attributable to the asset will flow to the Group, and the cost of the asset can be measured reliably. All other expenditure are expensed as incurred. Depreciation periods of intangible assets are as follows:

Development costs	10 years
Intangible rights	4 – 18 years
Customer relations	17 years
Technology	8–18 years
Supplier relations	15 years
Process development	12 – 20 years

Property, plant and equipment

Property, plant and equipment acquired by Group companies are stated at historical cost, depreciations and impairments included. The assets of acquired companies are stated at their fair values at the date of acquisition. The carrying value of the property, plant and equipment in the balance sheet represents the cost less accumulated straight-line depreciation and any impairment charges. Depreciation is based on the following expected useful lives:

Buildings	5 – 40 years
Machinery	4 – 10 years

Depreciation methods are reviewed at the end of each financial year. Land is not depreciated. Exceptionally remarkable repairs and maintenance costs are recognized to the income statement during the financial year in which they are incurred. The cost of major renovations is included in the asset's carrying amount when it is probable that the Group will derive future economic benefits from the existing asset.

Borrowing costs
Borrowing costs are expensed in the period they are incurred. Transaction costs which clearly relate to a specific loan are included in the initially recognized amount and periodized using the effective interest rate method.

Government grants
Government or other grants are recognized as income on a systematic basis over the periods necessary to match them with the related costs. Investment grants are deducted from the value of the asset they relate to.

Impairments
Property, plant and equipment and other non-current assets, including intangible assets, are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Goodwill, intangible assets not yet available for use and brands with indefinite useful lives are in all cases tested annually. An impairment loss is the amount by which the carrying amount of the assets exceeds the recoverable amount. The recoverable amount is determined by reference to discounted future net cash flows expected to be generated by the asset. A previously recognized impairment loss is reversed if there has been a change in the circumstances and the recoverable amount has changed since the recognition of impairment. However, the reversal must not cause a higher adjusted value than the carrying amount that would have been determined if no impairment loss had been recognized in prior years. Impairment losses recognized for goodwill are not reversed.

Leases
Leases of property, plant and equipment where the Group has substantially all the rewards and risks of ownership are classified as finance leases. Finance leases are capitalized at the fair value of the leased property or at a lower estimated present value of the minimum lease payments. Each lease payment is allocated between the capital liability and finance charges. The corresponding rental obligations, net of finance charges, are included in interest-bearing liabilities. Property, plant and equipment acquired under finance lease contracts are depreciated over the shorter of the useful life of the asset or lease period. Leases of assets, where the lessor retains substantially all the risks and benefits of ownership, are classified as operating leases. Payments made on operating leases are expensed on a straight-line basis over the lease periods.

Financial assets and liabilities
Financial assets are classified as loans and receivables, held-to-maturity assets, and available-for-sale financial assets. Classification is made at the original acquisition by the purpose of the financial assets. Financial assets are removed from profit or loss when the Group has forfeited its right to the cash flows based on the agreement or when it has transfered the significant risks and rewards outside the Group.

Loans and receivables are recognized at the settlement date and measured at amortized cost using the effective interest rate method. Transaction costs are included in the initially recognized amount. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and are not classified by the company as held for trading. This class includes Group's financial assets that have been generated by cash equivalents, goods or services to the debtor. They are included in current and non-current financial assets: latter, with maturity over 12 months.

Available-for-sale assets are measured at fair value and the evaluation is based on quoted rates, market prices, or appropriate valuation models. Equity investments are designated as available-for-sale financial assets. Unlisted equity investments for which fair value cannot be reliably measured are recognized at cost less impairment. Fair value changes of available-for-sale investments are recognized directly in equity. In the event such an asset is disposed of, the accumulated fair value changes are released from equity to financial income and expenses in the income statement. Purchases and sales of available-for-sale financial assets are recognized at the trade date.

Derivatives which are not designated as hedges are classified as financial assets and financial liabilities at fair value through profit or loss. These are recognized at trade date, at fair value. Fair value is based on quoted market prices and rates.

Cash and cash equivalents comprise cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities in the balance sheet.

Financial liabilities are recognized at the settlement date and measured at amortized cost using the effective interest rate method. Transaction costs are included in the initially recognized amount.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

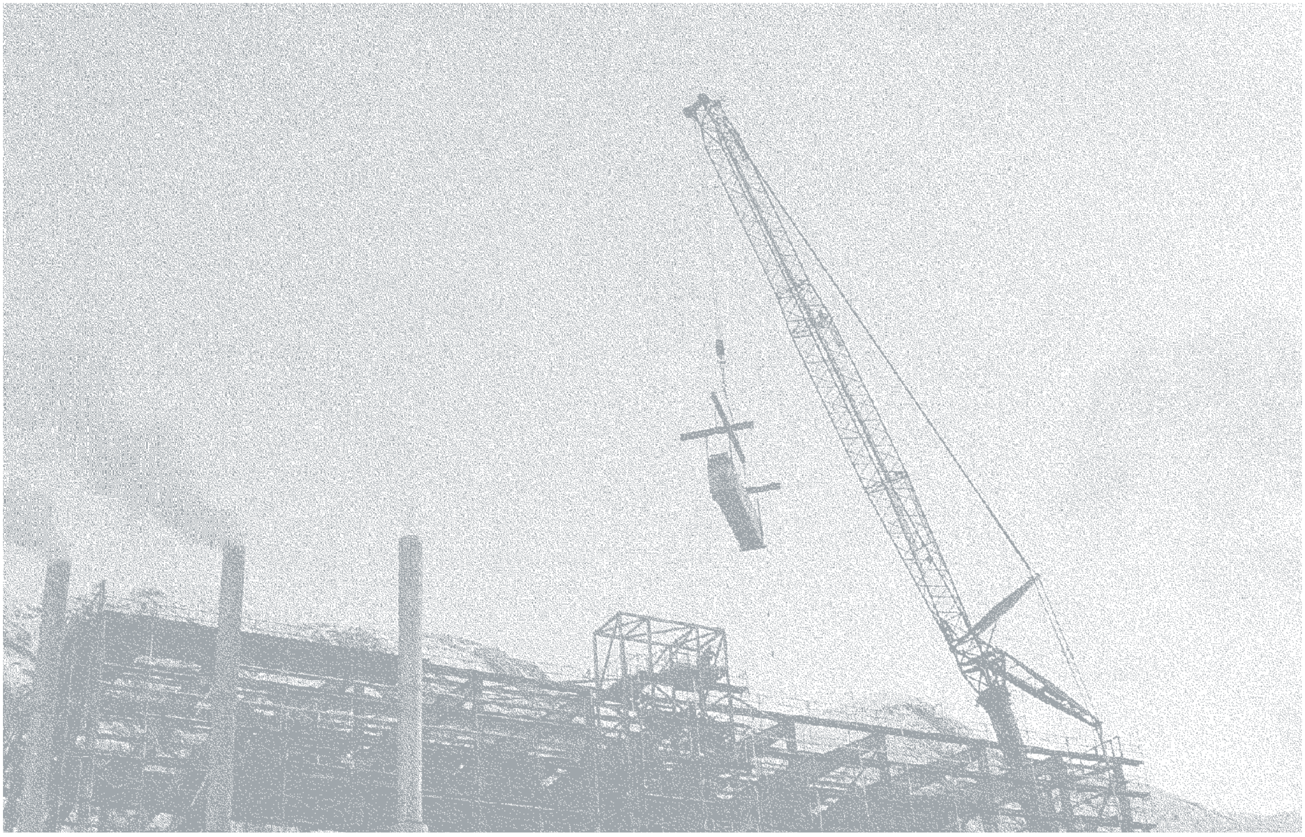
When there is objective evidence that the available-for-sale financial asset is impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in profit or loss. In the case of equity securities classified as available for sale, impairment loss recognised in profit or loss is not reversed through profit or loss subsequently. Reversal of an impairment loss recognised on a debt instrument is recognised in profit or loss.

Derivatives and hedge accounting
All derivatives are initially recognized at fair value on the date Larox has entered into the derivative contract, and are subsequently remeasured at fair value. Determination of fair values is based on quoted market prices and rates, discounting of cash flows and option valuation models.

Fair values of currency forwards and swaps are determined by discounting the future nominal cash flows at relevant interest rates and then converting the discounted cash flows to the base currency using spot rates. Fair values are checked by comparing them to the values confirmed by the counter parties.

Part of derivatives and other financial instruments may be designated as hedging instruments, in which case hedge accounting under IAS 39 is applied. If hedge accounting is applied to external sales or purchases, fair value changes in derivatives are recognized directly as adjustments to sales and purchases in the income statement. If hedge accounting is not applied, fair value changes in derivatives are recognized directly as other operating income and expenses in the income statement.

When starting to apply hedge accounting, Group documents the hedged object and hedging instrument according to the requirements of IAS 39. Hedging instruments are subject to prospective and retrospective testing of effectiveness at each balance sheet date. Fair value changes in derivatives, which are assigned to hedge forecasted transactions (cash flow hedging), are recognized in equity to the extent that the hedge is effective. Such accumulated fair value changes are released into income statement as adjustments to sales or purchases in the period which



the hedged cash flow affects income statement. The ineffective portion of the gain or loss of the hedging instrument is recognized in income statement. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

The Group applies hedge accounting also to the translation risk related to the net investments in foreign operations. Accumulated gains and losses from hedges are recognized as income statement only if the hedged subsidiary is sold or liquidated. All recognized fair value changes to equity are net of tax.

Inventories
Inventories are stated at the lower of historical cost calculated on an "average cost" basis or net realizable value. Costs include raw materials, direct labor, other direct costs and related production overheads, but exclude borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Trade receivables
Trade receivables are carried at their original invoice amount. Credit losses are recognized when there is objective evidence that the Group will not be able to collect all amounts according to the original terms of the receivables.

Provisions
Provisions are recognized in the balance sheet when Group has a present, legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Warranty provisions include the costs arising from the product repairment or replacement if the warranty period is valid at the end of the financial period. Warranty provisions are based on specific project estimates and historical experiences. Provisions can arise also from onerous contracts.

Employee benefits
The Group companies in different countries have various pension plans in accordance with local conditions and practices. The plans are classified as either defined contribution plans or defined benefit plans. The contributions to defined contribution plans are charged to the income statement in the year to which they relate.

The liability of defined benefit pension plan is the present value of the defined benefit obligation less the fair value of plan assets together with adjustments for unrecognized actuarial gains or losses. The costs of providing pensions are charged to the income statement so as to spread the regular costs over the working lives of employees.

Share-based payments
The Group has applied IFRS 2 Share-based Payments standard to the share issue directed to top management in years 2004 and 2005. The part of the share issue is valued at fair value at the grant date of benefit and it is recognized in the income statement and to the retained earnings as share-based benefit during the period of employment obligation related to the ownership of the shares. The fair value of the benefit is the trading price of the share at the grant date less subscription price which is the weighted average trading price in February 2004, less 50 percent. The amount recognised as an expense is based on Group's estimate how much shares will be held by the benefit receivers when the obligation of employment related to the shares expires. The estimate will be updated at each balance sheet date.

2. Critical judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of the financial statements in accordance with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expenses during the reporting period. The estimates are based on management's best knowledge of current events and actions but actual results may differ from those estimates. The following assets and liabilities include a high degree of management estimate and assumptions and their carrying value can therefore materially differ from current value within the next financial year.

Goodwill
Goodwill is tested at least annually for impairment. Other long-lived assets are reviewed when there is an indication that impairment may have

occurred. Estimates are made of the future cash flows expected to result from the use of the asset and its eventual disposal. The valuation is inherently judgmental and highly susceptible to change from period to period because it requires Larox to make assumptions about future supply and demand related to its customer industries, future sales prices and what cost savings will be achievable. Also changes in the discount rates used has affect to the results of impairment tests.

Derivatives
The Group policy on translation risk exposure aims to minimise this risk by funding investments in the same currency as the net assets whenever possible and economically viable. Derivative financial instruments that do not fulfill the criteria for hedge accounting are fair valued with the effect appearing in other operating income or expenses in the Income Statement.

Income taxes
Group company income taxes for the period, tax adjustments from prior periods and deferred tax changes are recognized in Group's income taxes. For items recognized directly in equity, any related tax effects are also recognized directly in equity. Deferred tax liability or asset is accounted for the temporary differences arising between the carrying amounts in the consolidated financial statements and tax bases of assets and liabilities on the estimated date of tax payment. Temporary differences arise among others from depreciation difference, internal inventory margins, defined pension plan, provisions, appropriations and unused tax liability entitlements. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Estimates used in profit forecasts may differ from the actual which can lead to recognition of tax assets as an expense through profit and loss.

Reserve for warranty costs
The warranty reserve is based on specific project estimates and the history of past warranty costs. The typical warranty period is 12-18 months from the date of customer acceptance of the delivered equipment. For sales involving new technology and long-term delivery contracts, additional warranty reserves can be established on a case by case basis to take into account the potentially increased risk.

3. Segment reporting

The organisational operations of Larox are Project Business and After Sales Services. These operations have been combined to a single reportable business segment. The operations of Larox have substantially similar financial features, technology, production processes, customers, distribution and marketing strategies, regulatory environment and shared resources.

The secondary segment reporting format of Larox is based on geographical segments. The main market areas are:

1. North, Central and South America
2. Asia and Australasia
3. Europe, CIS, Middle East and Africa

The sales in the geographical segments are presented according to the location of customers and assets and investments according to the their location.

Geographical segments

Net sales 1000 EUR	2006	2005
North, Central and South America	44 556	35 682
Asia and Australasia	29 028	27 654
Europe, CIS, Middle East and Africa	49 225	40 989
Total net sales	**122 809**	**104 324**

Assets 1000 EUR	2006	2005
North, Central and South America	12 620	11 227
Asia and Australasia	5 864	6 664
Europe, CIS, Middle East and Africa	90 571	91 154
Internal items	-25 760	-24 776
Total assets	**83 295**	**84 269**

Investments 1000 EUR	2006	2005
North, Central and South America	267	169
Asia and Australasia	167	136
Europe, CIS, Middle East and Africa	1 851	1 527
Total investments	**2 285**	**1 832**

4. Long-term projects

Net sales include EUR 61.5 million revenue recognized of long-term projects in 2006 (EUR 50.2 million in 2005).

For long-term projects in progress the aggregate amount of costs incurred and recognized profits (less recognized losses) at the end of the period was EUR 16.5 million (EUR 7.5 million on 31 Dec, 2005). For long-term projects in progress the amount of advances received included in the balance sheet was EUR 4.7 million (EUR 0.8 million on 31 Dec, 2005). The gross amount due from customers was EUR 7.1 million (EUR 3.2 million on 31 Dec, 2005) and gross amount due to customers was EUR 2.2 million (EUR 0.0 million on 31 Dec, 2005) for the projects.

5. Other operating income

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Rental income	7	6
Grants	169	211
Gain on disposal of non-current assets	208	530
Provisions	90	40
Derivative income	879	161
Other operating income	327	72
Total other operating income	**1 680**	**1 019**

6. Materials and supplies

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Purchases during the period	-58 187	-45 034
Change in inventories	3 069	1 666
External services	-4 625	-2 789
Total materials and supplies	**-59 743**	**-46 157**

7. Employee benefits expense

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Salaries and fees	-23 219	-21 407
Pension expenses, defined contribution plans	-2 228	-2 273
Pension expenses, defined benefit plans	-33	-4
Share-based payments	-57	-100
Other employee benefits	-2 555	-2 584
Total employee benefits expense	**-28 092**	**-26 369**

The average number of personnel employed by the Group	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Office personnel	364	337
Workers	86	101
Total	**450**	**438**

8. Depreciation and amortization

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Intangible assets		
Activated development costs	-146	-149
Intangible rights	-675	-729
Other intangible assets	-1 107	-1 070
Total	**-1 928**	**-1 948**

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Property, plant and equipment		
Land areas	-4	-3
Buildings	-252	-256
Machinery	-1 163	-1 518
Other tangible assets	-65	-206
Total	**-1 484**	**-1 983**
Total depreciation and amortization	**-3 412**	**-3 931**

9. Other operating expenses

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Adjustment items to sales	-5 902	-5 200
Consumables and supplies	-627	-974
Real estate maintenance	-963	-859
Rents	-1 444	-1 279
Staff expenses	-666	-698
Private car expenses	-619	-354
Travelling expenses	-3 450	-3 949
Advertising and marketing costs	-1 870	-1 704
External services	-3 727	-2 940
IT	-984	-861
Derivative expenses	-393	-1 349
Other operating expenses	-2 378	-1 722
Total other operating expenses	**-23 023**	**-21 888**

10. Research and development costs

The income statement includes R&D costs EUR 6.0 million (EUR 6.3 million 2005).
To the balance sheet R&D costs have been activated EUR 0.8 million (EUR 0.6 million 2005).

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Research and development costs	6 000	6 300
Capitalized as an asset	800	600
Proportion of net sales	5.5 %	6.6 %

11. Financial income

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Dividends received		23
Interest income	79	30
Exchange gains	804	827
Other financial income	7	17
Total financial income	**890**	**897**

12. Financial expenses

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Interest expenses	-1 858	-1 794
Exchange losses	-1 172	-158
Other financial expenses	-2	-37
Total financial expenses	**-3 032**	**-1 988**

13. Income tax expense

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Current year tax expense	-2 389	-1 488
Tax expense for previous years	-52	-51
Change in deferred tax assets and liabilities	401	251
Other direct tax		-1
Income taxes	**-2 040**	**-1 288**

Reconciliation of income before taxes with total income taxes:

1000 EUR	2006	2005
Profit before taxes	7 044	5 790
Tax calculated at the domestic corporation tax rate	-1 831	-1 505
Effect of different tax rates in foreign subsidiaries	118	35
Non-deductible expenses/tax-free income	-31	-18
Tax expense for previous years	-52	-51
Unrecognised deferred tax assets of the losses	-645	
Deferred taxes	401	251
Income taxes in the income statement	**-2 040**	**-1 288**

14. Earnings per share

Earnings per share calculated from profit attributable to equity holders of the company

Basic and diluted earnings per share, (EUR)	0.53	0.49
Weighted average number of ordinary shares:		
- Basic and diluted	9 377 899	9 275 325

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. At the moment, the Group does not have any instruments adding the number of diluting ordinary shares.

15. Intangible assets (excluding goodwill)

1 Jan-31 Dec, 2006 1000 EUR	Development costs	Intangible rights	Technology	Customer relations
Acquisition cost 1 Jan	1 279	8 310	5 463	3 752
Translation differences		-86		
Additions	813	734		
Acquisition cost 31 Dec	2 092	8 958	5 463	3 752
Cumulative depreciations 1 Jan	-259	-4 419	-1 018	-520
Translation differences		3		
Depreciation for the period	-146	-675	-512	-215
Cumulative depreciations 31 Dec	-405	-5 091	-1 530	-735
Carrying value 31 Dec, 2006	**1 687**	**3 867**	**3 933**	**3 017**

1 Jan-31 Dec, 2006 1000 EUR	Brands	Supplier relations	Process development	Total
Acquisition cost 1 Jan	1 792	3 782	1 933	26 311
Translation differences				-86
Additions				1 547
Acquisition cost 31 Dec.	1 792	3 782	1 933	27 772
Cumulative depreciations 1 Jan		-504	-256	-6 975
Translation differences				3
Depreciation for the period		-252	-128	-1 928
Cumulative depreciations 31 Dec		-756	-384	-8 900
Carrying value 31 Dec, 2006	**1 792**	**3 026**	**1 549**	**18 871**

1 Jan.-31 Dec, 2005 1000 EUR	Development costs	Intangible rights	Technology	Customer relations
Acquisition cost 1 Jan	713	8 039	5 463	3 752
Translation differences		25		
Additions	566	246		
Acquisition cost 31 Dec	1 279	8 310	5 463	3 752
Cumulative depreciations 1 Jan	-97	-3 569	-509	-305
Cumulative depreciations of transfers	-13			
Translation differences		-120		
Depreciation for the period	-149	-729	-509	-215
Cumulative depreciations 31 Dec	-259	-4 419	-1 018	-520
Carrying value 31 Dec, 2005	**1 020**	**3 891**	**4 446**	**3 231**

1 Jan-31 Dec, 2005 1000 EUR	Brands	Supplier relations	Process development	Total
Acquisition cost 1 Jan	1 792	3 782	1 893	25 434
Translation differences				25
Additions			40	852
Acquisition cost 31 Dec	1 792	3 782	1 933	26 311
Cumulative depreciations 1 Jan		-252	-128	-4 860
Cumulative depreciations of transfers				-13
Translation differences				-120
Depreciation for the period		-252	-128	-1 982
Cumulative depreciations 31 Dec		-504	-256	-6 975
Carrying value 31 Dec, 2005	**1 792**	**3 278**	**1 677**	**19 336**

Trade marks have indefinite useful lives. Most of the trade marks have been in the market for decades and all of them are supported by the Group's after market services. In addition, trade marks are not tied to useful lives of any specified technology.

16. Goodwill and impairment testing

1 Jan-31 Dec, 2006 1000 EUR	Goodwill
Acquisition cost 1 Jan	3 047
Acquisition cost 31 Dec	3 047
Translation differences	-100
Translation differences 31 Dec	-100
Carrying value 31 Dec, 2006	**2 947**

1 Jan-31 Dec, 2005 1000 EUR	Goodwill
Acquisition cost 1 Jan	3 047
Acquisition cost 31 Dec	3 047
Translation differences	132
Translation differences 31 Dec	132
Carrying value 31 Dec, 2005	**3 179**

Goodwill is allocated to Larox's business as a whole and it cannot be allocated to separate cash generating units.

Goodwill and brands with an indefinite useful life are tested yearly in case of an impairment. Also brands are allocated to whole business. The recoverable amount is based on the value in use. The future cash flow estimates used in the calculations are based on the financial plans approved by the management covering a four-year period. The most important assumptions used in the plans are the stable growth of sales, operating profit over 8% (EBIT) and return on invested capital (ROI) at 20%. Discount rate is the weighted average pre-tax cost of capital (WACC) as defined for Larox. The discount rate was 9.5 % in 2006 (8.1% in 2005). As a result of the performed impairment tests, no impairment losses have been recognized. Management believes that reasonable changes in the key assumptions on which the value in use is based on, will not cause any carrying amount to exceed its recoverable amount.

17. Property, plant and equipment

1 Jan-31 Dec, 2006 1000 EUR	Land areas	Buildings	Machinery and equipment	Machinery and equipment, finance lease	Other intangible assets	Total
Acquisition cost 1 Jan	1 147	8 998	16 330	784	964	28 222
Translation differences		-18	-113		-8	-139
Additions			684	59	27	770
Disposals			-244		-21	-265
Acquisition cost 31 Dec	1 147	8 980	16 657	843	962	28 589
Cumulative depreciations 1 Jan	-10	-4 230	-12 109	-519	-731	-17 599
Translation differences			57		3	60
Depreciation for the period	-4	-252	-1 024	-139	-65	-1 484
Cumulative depreciations 31 Dec	-14	-4 483	-13 076	-657	-793	-19 023
Carrying value 31 Dec, 2006	**1 132**	**4 497**	**3 581**	**186**	**169**	**9 566**

1 Jan-31 Dec, 2005 1000 EUR	Land areas	Buildings	Machinery and equipment	Machinery and equipment, finance lease	Other intangible assets	Total
Acquisition cost 1 Jan	1 137	8 914	15 518	1 388	786	27 743
Translation differences		22	274		14	310
Additions	10	62	508	257	144	981
Disposals			-105	-861	6	-960
Transfers between items			134		14	148
Acquisition cost 31 Dec	1 147	8 998	16 330	784	964	28 222
Cumulative depreciations 1 Jan	-7	-3 974	-10 703	-628	-512	-15 824
Cumulative depreciations				496		496
Translation differences			-276		-13	-289
Depreciation for the period	-3	-256	-1 130	-388	-206	-1 983
Cumulative depreciations 31 Dec	-10	-4 230	-12 109	-519	-731	-17 599
Carrying value 31 Dec, 2005	**1 136**	**4 767**	**4 220**	**265**	**234**	**10 622**

18. Investments in associates

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Acquisition cost 1 Jan	1 006	787
Share of the profit	255	212
Dividends received	-100	
Recognized directly to equity	-8	7
Carrying value 31 Dec	**1 153**	**1 006**

Associated companies, 1000 EUR	2006	2005
Larox Flowsys Oy, Lappeenranta		
Share (%)	49	49
Assets	4 911	4 448
Liabilities	2 557	2 395
Sales	12 721	10 899
Profit/loss for the period	520	432

19. Available-for-sale investments

Available-for-sale investments consist in their entirety of unlisted shares and they are carried at fair value or cost, if reliable fair values cannot be established or they do not differ materially from their initial cost. Investments are carried at cost, when the range of the reasonable estimates of fair values is wide and the probabilities of different estimates cannot be moderately estimated. The Group does not practise active investment activities. The investments are mainly directed to the shares of Go Awaste Management Services (PTY) LTD. Furthermore, the Group holds a few non-profit making shares.

20. Deferred tax assets and liabilities

1000 EUR	1 Jan, 2006	Recognized in income statement	31 Dec, 2006
Deferred tax assets			
Intercompany profit in inventory	653	264	917
Retirement benefit and other provisions	61	-51	9
Tax losses and tax credits carried forward	2 506	946	3 452
Impairments of fixed assets	11		11
Deferred tax assets, total	**3 231**	**1 158**	**4 389**
Netting of deferred tax assets and liabilities	-1 134	306	-828
Deferred tax assets, net	**2 097**	**1 464**	**3 561**
Deferred tax liabilities			
Tax over book depreciation	733	33	766
Fair value adjustments of net assets acquired and other assets	414	-144	270
Fair value of available-for-sale investments and derivative financial instruments	108	-108	
IFRS-adjustments			
POC - bookings	678	744	1 422
Other adjustments	534	347	881
Deferred tax liablilities, total	**2 467**	**872**	**3 339**
Netting of deferred tax assets and liabilities	-1 134	306	-828
Deferred tax liablilities, net	**1 333**	**1 178**	**2 510**

1000 EUR	1 Jan, 2005	Recognized in income statement	Recognized in equity	Translation difference	31 Dec, 2005
Deferred tax assets					
Intercompany profit in inventory	630	23			653
Retirement benefit and other provisions	80	-19			61
Tax losses and tax credits carried forward	1 267	1 224		15	2 506
Impairments of fixed assets		11			11
IFRS-adjustments	714	-699		-15	0
Deferred tax assets, total	**2 692**	**539**			**3 231**
Netting of deferred tax assets and liabilities	-1 734	600			-1 134
Deferred tax assets, net	**958**	**1 139**			**2 097**
Deferred tax liabilities					
Tax over book depreciation	567	167	-1		733
Fair value adjustments of net assets acquired and other assets	608	-194			414
Fair value of available-for-sale investments and derivative financial instruments	108				108
IFRS-adjustments	655	499		59	1 212
Deferred tax liablilities, total	**1 938**	**472**	**-1**	**59**	**2 467**
Netting of deferred tax assets and liabilities	-1 734	600			-1 134
Deferred tax liablilities, net	**203**	**1 072**	**-1**	**59**	**1 333**

According to the strategic opinion of the Group the deferred tax receivables, EUR 3.5 million in 2006 (EUR 2.5 million in 2005) recognized of the losses will be reduced of the future taxable income. On 31 December 2006 neither 31 December 2005, the Group had no such losses which probably could not be utilized in future.

21. Inventories

1000 EUR	31 Dec, 2006	31 Dec, 2005
Materials and supplies	9 083	9 076
Work in progress	325	522
Finished products	9 737	5 831
Advance payments for inventories	696	534
Total inventories	**19 842**	**15 964**

In the period the carrying amount of inventories was reduced by EUR 368 thousand to correspond for its net realization value (EUR 533 thousand in 2005).

22. Trade receivables and other receivables

1000 EUR	31 Dec, 2006	31 Dec, 2005
Trade receivables	17 370	24 163
Receivables from associated companies	18	4
Receivables of unfinished projects	4 987	2 926
Accrued receivables	439	982
Derivative receivables	57	17
Other receivables	2 113	1 482
Total trade receivables and other receivables	**24 984**	**29 575**

There is no material credit risk related to receivables. Group recognized during the financial year credit losses of trade receivables EUR 44 thousand (EUR 131 thousand in 2005).

23. Cash and bank

1000 EUR	31 Dec, 2006	31 Dec, 2005
Cash and bank	1 952	1 737
Total cash and bank	**1 952**	**1 737**

24. Shareholders’ equity

Share capital 1000 EUR	Shares (1000 pcs) A serie	Shares (1000 pcs) B serie	Share capital	Share premium issue	Total
Equity 1 Jan 2005	2 124	7 149	5 564	5 532	11 095
Bonus issue		2	1	5	6
Non-registered share issue		106	64	240	304
Equity 31 Dec, 2005	**2 124**	**7 257**	**5 629**	**5 777**	**11 406**
Equity 31 Dec, 2006	**2 124**	**7 257**	**5 629**	**5 777**	**11 406**

The shares are divided into A-series and B-series shares. The company may have a maximum of four million (4 000 000) shares in the A series and a maximum of sixteen million (16 000 000) shares in the B series. The shares of the company have no nominal value. The accounting counter value is EUR 0.60. Each share in the A series entitles the holder to twenty (20) votes and each share in the B-series to one vote.

Translation differences

Translation differences include the translation differences of translating financial statements of foreign entities. Also gains and losses of hedging net investments made to foreign entities are included in translation differences when requirements of hedging are met.

Hedging reserve

Hedging reserve includes the fair value changes in derivative instruments used in cash flow hedging.

Fair value reserve

Fair value reserve includes the fair value changes in available-for-sale investments.

Dividends

After the balance sheet date the board of directors has proposed a dividend of EUR 0.30 to be paid.

Share issue directed to management

The annual general meeting of shareholders on 17 March 2004 decided to increase the company’s share capital through a new share issue by a minimum of EUR 60 and a maximum of EUR 126 000, by offering a minimum of one hundred and a maximum of 210 000 new B shares of the company, which have an accounting counter value EUR

0.60, to be subscribed for by the company's top management. The new B shares have an equal value with the other B shares of the company and entitle to full dividend from the accounting period during which the increase of the share capital is registered at the trade register.

The subscription price of the shares is the weighted average of the trading rates of the company's B share on the Helsinki Exchanges in February 2004, divided by three, (taking into account the effect of splitting the share), less 50 percent. The share subscription period in the issue began on 1 May 2004 and ended on 16 December 2005. Each participant had to subscribe for at least 100 shares by 28 December 2004 to have a subscription right. By 28 December 2004 a total 2 400 B-shares were subscribed and the increase in share capital and number of shares were registered at the trade register on 9 March 2005. Furthermore 105 900 shares were subscribed in the share issue directed to the company's top management by 16 December 2005. These shares were registered to the trade register on 13 January 2006.

Issue prices:

	2006		2005	
	Issue price per share, EUR	Shares 1000 pcs	Issue price per share, EUR	Shares 1000 pcs
On 1 January			2.86	207.6
Granted				
Exercised			2.86	-105.9
Lapsed			2.86	-101.7
On 31 December				0.0

Should a person who has subscribed for shares resign or be dismissed from the company based on the individual terminating clause of the employment contract as set out in the contracts of employment act, regardless of whether the contracts of employment act is suited to the subscriber's service relation before the end of any restriction period, he or she must return, to the company without consideration one share for such two shares he or she has subscribed for and for which restriction period has not yet ended at that time, in accordance with an agreement concluded with the arranger and the company, if the board of directors does not decide otherwise. The agreement is a condition to the granting of the afore-mentioned 50 % discount to the subscription price. During the restriction period a key person is not entitled to transfer the shares he or she has subscribed for, nor may he or she enter into derivative or other corresponding agreements relating to the shares without a separate permission from the board of directors of the company. A person who has subscribed for shares is however entitled to dividends relating to the shares possibly paid during the restriction period. After the end of the restriction period I, on 1 December 2006, 25 % of the shares allocated to key personnel were released for trading together with other Larox Corporation B-series shares. After the end of the restriction period II, on 1 December 2007, 35 % of the shares allocated to key personnel will be released. After the end of the restriction period III, on 1 December 2008, 40 % of the shares allocated to key personnel will be released.

25. Interest-bearing liabilities

1000 EUR	Carrying amount 31 Dec, 2006	Fair value 31 Dec, 2006	Carrying amount 31 Dec, 2005	Fair value 31 Dec, 2005
Long-term				
Bank loans	14 923	14 648	19 305	19 253
Finance lease liabilities	144	167	180	177
Other loans	4 338	4 199	5 344	5 200
Total	**19 405**	**19 014**	**24 829**	**24 630**
Short-term				
Bank loans	9 541	9 537	15 089	14 568
Finance lease liabilities	78	78	98	98
Total	**9 619**	**9 615**	**15 187**	**14 666**

Repayment schedule of long-term liabilities:

2006 1000 EUR	2007	2008	2009	2010	2011	Later
Loans with fixed interest	4 015	3 203	2 024	1 688	1 418	1 086
Loans with floating interest	1 587	1 746	1 746	1 493	519	
Finance lease liabilities	78	60	52	15	17	
Other loans					4 338	
Total long-term liabilities	**5 680**	**5 009**	**3 822**	**3 196**	**6 292**	**1 086**

2005 1000 EUR	2006	2007	2008	2009	2010	Later
Loans with fixed interest	3 250	4 397	3 148	1 917	1 568	566
Loans with floating interest	975	1 928	1 834	1 834	1 568	545
Finance lease liabilities	98	75	54	45	4	2
Other loans	72	67	62	58	54	5 103
Total long-term liabilities	**4 395**	**6 467**	**5 098**	**3 854**	**3 194**	**6 216**

Long-term interest-bearing liabilities in different currencies:

1000 EUR	31 Dec, 2006	31 Dec, 2005
EUR	17 962	23 202
USD	1 443	1 627

Effective interest rates (weighted averages) of long-term interest-bearing loans on 31 Dec, 2006:

Loans	5.05
Finance lease liabilities	16.78
Other loans	6.89

Short-term interest-bearing liabilities in different currencies:

1000 EUR	31 Dec, 2006	31 Dec, 2005
EUR	7 312	12 639
USD	1 708	1 914
AUD	599	634

Effective interest rates (weighted averages) of short-term interest-bearing loans on 31 Dec, 2006:

Loans	5.46
Finance lease liabilities	16.78

Finance lease liabilities

1000 EUR	31 Dec, 2006	31 Dec, 2005
Long-term finance lease liabilities	144	180
Short-term finance lease liabilities	78	98
Total finance lease liabilities	**222**	**278**
Finance lease liabilities – minimum lease payments		
Less than 1 year	115	137
1-5 years	167	222
Total minimum lease payments	282	359
Future finance charges	-60	-81
Present value of finance lease liabilities	**222**	**278**
Present value of minimum lease payments		
Less than 1 year	107	127
1-5 years	115	151
Present value of minimum lease payments	**222**	**278**

26. Employee benefit obligations

The Group has established several pension plans in various countries. In Finland pension plan is the Finnish Statutory Employment Pension Scheme (TEL), which is mainly a defined contribution plan. When transition to IFRS was made 1 January 2004 TEL's disability pension component was accounted for as a defined benefit plan. At the end of 2004 it was decided that TEL's disability pension component will be accounted for as a defined contribution plan from 1 January 2006. Due to this change the Group released EUR 258 thousand in 2004 in the income statement by decreasing the defined pension liability. In 2005 the rest EUR 21 thousand of this obligation was recognized in the income statement as an effect of curtailment.

Pension liabilities

1000 EUR	31 Dec, 2006	31 Dec, 2005
Present value of unfunded obligations	494	473
Underfunding/Overfunding	**494**	**473**
Unrecognized actuarial losses	-96	-108
Pension liability	**398**	**365**

Pension expenses

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Pension costs based on current period's service	-7	-7
Benefit related interest expense	-20	-18
Gains on plan curtailment	-6	21
Pension expenses	**-33**	**-4**

Benefit plan reconciliation

1000 EUR	31 Dec, 2006	31 Dec, 2005
Pension liabilities from defined benefit plan at the beginning of period	365	361
Current service cost	21	4
Actuarial gains and losses	12	
Liabilities at the end of period	**398**	**365**

Defined benefit plans: Assumptions used in calculating benefit obligations on 31 Dec, 2006

	Germany 31 Dec, 2006	Germany 31 Dec, 2005
Discount rate (%)	4.25	4.25
Future salary increase (%)	2.50	2.00
Expected return on plan assets (%)	2.50	2.50

Other pension and employee benefit liabilities

1000 EUR	31 Dec, 2006	31 Dec, 2005
Pension provision	40	69
Other long-term employee benefit	41	66
Total	**81**	**135**

Pension provision covers the expenses of the pensions granted to Larox employees spouses. Other long-term employee benefit covers expenses of extra days off granted to certain group of employees based on their service years.

Total pension liabilities

1000 EUR	31 Dec, 2006	31 Dec, 2005
Defined benefit plan	398	365
Other pension and employee benefit liabilities	81	135
Total pension liabilities	**479**	**500**

27. Provisions

1000 EUR	2006	2005
Warranty provisions 1 Jan	1 254	833
Additions	426	727
Used provisions	-339	-306
Warranty provisions 31 Dec	**1 341**	**1 254**

Larox gives most of its products a one year warranty of the start-up or 18 months of the delivery. Warranty provision is based on project specific estimates and historical experience. Warranty provision covers the expenses related to warranty claims for goods sold with valid warranty in the earlier accounting period. Warranty provisions are expected to be used during the warranty period or in cases which require research or development within 12 months after the warranty period.

28. Trade payables and other payables

1000 EUR	31 Dec, 2006	31 Dec, 2005
Payables to associated companies	219	354
Advances received	4 721	851
Trade payables	8 789	6 366
Accrued payables	1 524	1 329
Accrued employee-related liabilities	2 220	2 362
Derivative liabilities	126	399
Other accruals	3 299	3 389
Tax liability, income tax	665	
Other payables	1 709	1 214
Total trade payables and other payables	**23 272**	**16 265**

29. Fair values of financial assets and liabilities

1000 EUR	Note	Carrying amount 31 Dec, 2006	Fair value 31 Dec, 2006	Carrying amount 31 Dec, 2005	Fair value 31 Dec, 2005
Financial assets:					
Available-for-sale investments	19)	208	208	273	273
Trade receivables and other receivables	22)	24 984	24 948	29 575	29 575
Cash and bank	23)	1 952	1 952	1 737	1 737
Financial liabilities:					
Finance lease liabilities	25)	222	245	278	275
Trade payables and other payables	28)	23 272	23 272	16 265	16 265

The fair values of derivatives are presented in note 31.

30. Commitments and contingencies

Loans secured by real estate and corporate mortgages

1000 EUR	31 Dec, 2006	31 Dec, 2005
Pension loans		1 004
Loans from financial institutions	24 464	33 390
Other loans	4 338	5 344
Total	**28 802**	**39 738**
Real estate mortgages	6 560	6 729
Corporate mortgages, general pledging	3 936	3 936
Corporate mortgages, specific pledging	9 062	9 062
Total	**19 558**	**19 727**

Guarantees for others

	31 Dec, 2006	31 Dec, 2005
Pledged securities *)	6 476	6 176
Others	146	190
Total	**6 622**	**6 366**

*) Book value of secured shares

Other liabilities

Operating lease liabilities 1000 EUR	31 Dec, 2006	31 Dec, 2005
Less than one year	568	563
1-5 years	411	485
Total	**979**	**1 048**

Non-cancellable lease liabilities 1000 EUR	31 Dec, 2006	31 Dec, 2005
Less than one year	21	174
1-5 years		10
Total	**21**	**184**

Cancellable lease liabilities 1000 EUR	31 Dec, 2006	31 Dec, 2005
Less than one year	608	587
Total	**608**	**587**

Rent expenses in the income statement were EUR 1.4 million in 2006 (EUR 1.3 million in 2005).

31. Financial risk management

The objective of the Group is to minimize the impacts of fluctuations in financial markets on the Group's cash reserves, profits and shareholders' equity. The main risks consist of currency risks and interest rate risks. The Group treasury function manages financial risks centrally according to the risk management policy approved by the board of directors.

Larox is sensitive to the price fluctuation of raw material and external suppliers and subcontractors. The price fluctuation is softened and the availability of raw material is ascertained by long-term contracts, timing of the acquisitions, and fixed contract prices.

Currency risk
In accordance with the approved foreign currency policy, the task of the Group's treasury function is to hedge against all major currency risks. The Group's foreign currency exposure consists primarily of accounts receivables, order backlog, liabilities in foreign currencies and some of the outstanding offers.

Hedge accounting as set out in IAS 39 is applied to significant projects which are worth one million euro or more. The exchange differences are recognised as an income in conformity with rules applied to construction contracts.

Exchange rate profits and losses from financial operations are booked under financial income and expenses. The most important invoicing currencies for Larox are EUR, USD, AUD and ZAR. The Group's main purchasing currency is EUR. To hedge currency positions, the company uses forward contracts, currency options and currency loans. The Group also protects the shareholders' capital of foreign subsidiaries with external currency loans.

Interest rate risk
Changes in interest rates on interest-bearing debts create interest rate risks. To control interest rate risks, the Group disperses its loans and short-term investments in fixed and floating rate instruments. At the end of the fiscal year, the Group had no open forward rate agreements or interest rate swaps.

Credit risk
Credit risk arises when agreement or financial instrument agreement partner is not able to fulfill their obligation and causes to the other party financial loss.

Group's customer base consists of a large number of customers in all market areas. Credit risk is reduced mainly with the selection of payment terms and method of payment. In general, Larox does not finance customers, but co-operates with banks and export credit institutions to support the financing of customers' investments.

Credit risks related to financial instruments are managed by the Group treasury. These are decreased by limiting contracting parties to major banks and financial institutions with good credit ratings.

Liquidity risk
The business of Larox includes regular and irregular cash flows. Larox aims at sufficient liquidity with efficient cash management. Company has limit arrangements with banks for current equity and daily cash. At the end of year 2006 unused limits and account credits totalled EUR 15.3 million.

Fair values of derivative instruments 1000 EUR	Positive fair value 31 Dec, 2006	Negative fair value 31 Dec, 2006	Net fair value 31 Dec, 2006	Net fair value 31 Dec, 2005
Currency derivatives:				
Forward contracts	104	-117	-13	-397
Total currency derivatives	**104**	**-117**	**-13**	**-397**

Nominal values of derivative instruments 1000 EUR	31 Dec, 2006	31 Dec, 2005
Currency derivatives:		
Forward contracts	12 870	15 410
Total currency derivatives	**12 870**	**15 410**

32. Related party transactions

Parent Company and Subsidiaries

Shares and shareholdings on Dec 31, 2006	Country	No. of shares	Share of ownership (%)	Share of voting rights (%)
Parent Company Larox Corporation	Finland			
Larox Company Oy	Finland	50	100,0	100,0
Larox Inc.	USA	50	100,0	100,0
Larox GmbH	Germany	500	100,0	100,0
Larox B.V.	The Netherlands	180	100,0	100,0
Larox Pty Ltd	Australia	400	100,0	100,0
Larox Chile SA	Chile	1 500	100,0	100,0
Larox Poland Ltd	Poland	335	100,0	100,0
Larox SA (Proprietary) Limited	South Africa	10 000	100,0	100,0
Filtros Larox Mexico SA de CV	Mexico	5	100,0	100,0
Larox Central Africa Limited	Zambia	25	100,0	100,0
Larox UK Limited	Great Britain	500	100,0	100,0
Larox Tecnologia de separacao de líquidos e sólidos LTDA	Brazil	600 000	100,0	100,0
Cia Minera Trinidad S.A.C.	Peru	57 398	99,7	99,7
Explotaciones Mineras Metalicas S.A.C.	Peru	197	99,0	99,0

In addition, the parent company has a branch in Peru, Larox Sucursal Peru.

Transactions with associated companies

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Sales of goods and services	2	1
Purchases of goods and services	2 135	2 213

Other transactions with related parties

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Purchases of services	22	22

Balances with associated companies

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Trade receivables	1	4
Trade payables	219	354

Employee benefits for key management

Key management of Larox consists of the board of directors, the president and the Group management team.

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Short-term employee benefits	1 314	1 213
Post-employment benefits	266	246
Share-based payments	57	100
Total employee benefits	**1 637**	**1 559**

Retirement age of parent company's president and chairman of the board in employment relationship has been agreed to be 60 years.

Parent Company Financial Statements, FAS

Parent Company: Income Statement, FAS

1000 EUR	Note	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Net sales	2)	**75 778**	**63 521**
Change in inventories of finished goods and work in progress		4 554	2 565
Other operating income	3)	668	591
Materials and services	4)	-40 980	-32 255
Personnel expenses	5)	-12 139	-12 251
Depreciation and amortization	6)	-1 868	-2 028
Other operating expenses	7)	-17 851	-16 101
OPERATING PROFIT		**8 160**	**4 044**
Financial income and expenses	8)	-875	67
PROFIT BEFORE EXTRAORDINARY ITEMS		**7 285**	**4 110**
Extraordinary items	9)		525
PROFIT AFTER EXTRAORDINARY ITEMS		**7 285**	**4 635**
Appropriations	10)	-199	-605
Income tax	11)	-1 899	-1 064
PROFIT FOR THE PERIOD		**5 187**	**2 967**

Parent Company: Balance sheet, FAS

1000 EUR	Note	31 Dec, 2006	31 Dec, 2005
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	12)	13 207	13 733
Tangible assets	13)	8 573	9 229
Investments			
Holdings in Group companies	14)	10 755	10 456
Other investments		358	357
TOTAL NON-CURRENT ASSETS		**32 893**	**33 775**
CURRENT ASSETS			
Inventories	15)	16 625	10 447
Long-term receivables	16)	5 460	6 779
Deferred tax asset		264	264
Short-term receivables	16)	22 676	26 776
Cash and bank		113	30
TOTAL CURRENT ASSETS		**45 137**	**44 296**
TOTAL ASSETS		**78 031**	**78 071**
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY	17)		
Share capital		5 629	5 565
Share issue			63
Share premium account		6 182	6 182
Revaluation reserve		75	75
Retained earnings		7 088	6 348
Profit for the period		5 187	2 967
TOTAL SHAREHOLDERS' EQUITY		**24 161**	**21 200**
Accelerated depreciation	18)	2 945	2 746
Total statutory provisions	19)	857	897
LIABILITIES			
Long-term liabilities, interest-bearing	20)	18 891	24 311
Short-term liabilities, interest-bearing	20)	9 517	15 032
Short-term liabilities, interest-free		21 660	13 884
TOTAL LIABILITIES		**50 068**	**53 227**
TOTAL EQUITY AND LIABILITIES		**78 031**	**78 071**

FAS=Finnish Accounting Standards

Parent Company: Statement of Cash Flow, FAS

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Cash flow from operating activities		
Profit for the period	5 187	2 967
Adjustments to the profit for the period	4 837	3 105
Change of the working capital	5 083	-1 620
Cash flow from operations before financial items and taxes	15 106	4 451
Interests paid in operating activities	-1 764	-1 801
Interests received in operating activities	1 013	1 051
Other financial items in operating activities	-33	427
Income taxes paid in operating activities	-898	-1 370
Net cash generated from operating activities	**13 424**	**2 758**
Cash flow from investing activities		
Investments in tangible and intangible assets	-837	-685
Income from disposals of tangible and intangible assets	5	
Group companies founded		-26
Loans granted	-3 649	-6 396
Repayments of loan receivables	3 864	2 536
Dividends received from investments	100	252
Net cash used in investing activities	**-518**	**-4 320**
Cash flow from financing activities		
Share issue		310
Short-term loans made	3 896	12 647
Repayments of short-term loans	-10 608	-6 177
Long-term loans made	2 000	
Repayments of long-term loans	-5 885	-3 643
Dividends paid	-2 226	-1 576
Net cash generated from financing activities	**-12 823**	**1 560**
Net change in cash and cash equivalents	**83**	**-2**
Cash and Cash Equivalents on 1 Jan	30	32
Cash and Cash Equivalents on 31 Dec	113	30

Net change in working capital:		
Change of inventories	-6 027	-3 285
Change of trade receivables and other short-term receivables	3 758	-4 379
Change of trade payables and other interest-free short term liabilities	7 392	5 860
Change of provisions	-40	184

Notes to the Parent Company Financial Statements

1. Accounting principles

Comparability with information from prior period
The presentation of inventories has been changed for the finished products and materials and supplies. Spare parts are included in finished products, whereas they were included in materials and supplies in prior financial statements.

Foreign currency transactions
Foreign currency transactions of the parent company are entered as euros using the exchange rate in effect at the transaction date. Assets and liabilities denominated in foreign currency are translated into euros in the financial statements using the European Central Bank's average exchange rate on the balance sheet date. All realized and unrealized exchange rate differences from sales receivables and accounts payable, current and non-current liabilities, and receivables are charged against the result. The exchange difference of the corresponding item to be hedged has been adjusted by the exchange difference of derivative instrument used for hedging purposes.

Net sales
Sales of products and services are recognised at the time of delivery. Sales are presented net of indirect taxes and adjustments to sales. Adjustments to sales include granted discounts and exchange rate differences.

Research and product development costs
Research and product development costs have been entered as annual costs in the year they were originated. Development costs are activated to the Balance Sheet, if there are expected probable future economic benefits. Activated development costs will be booked as costs during their estimated economical time of usage.

Taxes
Taxes have been recognized according to Finnish tax regulations.

Inventories
Inventories are stated at the lower of historical cost calculated on an "average cost" basis or net realizable value. Costs include raw materials, direct labor, other direct costs and related production overheads, but excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Fixed assets and depreciation
The book values of fixed assets are based on the original acquisition cost, with the exception of parent company's land areas and buildings that have been revalued. Revaluations, land areas EUR 563 000 were made and buildings EUR 2 787 000, are made in year 1990 and earlier based on external evaluation. The revaluations include EUR 871 000 tax liability, which is not booked because the realization of tax liability is not likely in near future.

Depreciation according to plan is made on a straight-line basis on depreciable fixed assets, based on the estimated useful economic life. The periods of depreciation are based on the useful economic life as follows: buildings and constructions 5-40 years, machinery and equipment 4-10 years, other capitalized expenditure 3-10 years, other tangible assets 10 years, intangible rights 4-10 years; goodwill 20 years.

The goodwill consists of among other things: technology, trademarks and customer and supplier relationships. Customer and supplier relationships are estimated to be long-term and typically to last 15 to 20 years. Subcontractors and suppliers turnover is low. Also the technology in use is long-term. The useful life of trademarks is considered to be indefinite.

2. Net sales by geographical division

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
North, Central and South America	26 526	25 632
Asia and Australasia	22 203	19 121
Europe, CIS, Middle East and Africa	27 049	18 768
Total	**75 778**	**63 521**

3. Other operating income

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Grants	169	211
Provisions	118	40
Other	381	341
Total other operating income	**668**	**591**

4. Materials and services

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Raw materials and consumables		
Purchases during the financial year	-40 446	-31 648
Change in inventories	1 304	609
External services	-1 838	-1 216
Total materials and services	**-40 980**	**-32 255**

5. Personnel expenses

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Salaries and fees	-9 704	-9 547
of which president's and board members' salaries	-428	-476
Pension expenses	-1 535	-1 649
Other employee benefits	-900	-1 055
Total personnel expenses	**-12 139**	**-12 251**

Salaries and fees 1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
President	241	311
Members of the board of directors		
Mr. Timo Vartiainen	84	88
Ms. Katariina Aaltonen	54	42
Mr. Teppo Taberman	19	11
Mr. Thomas Franck	15	11
Mr. Matti Ruotsala	15	11

Retirement age of parent company's president and chairman of the board in employment relationship has been agreed to be 60 years.

The average number of personnel	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Office personnel	139	138
Workers	74	74
Total	**213**	**212**

6. Planned depreciation and amortization

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Development costs	-49	-39
Intangible rights	-573	-606
Goodwill	-542	-542
Other capitalized expenditure	-52	-161
Land (asphalting)	-4	-3
Buildings	-147	-150
Machinery and equipment	-498	-524
Other tangible assets	-3	-3
Total depreciation and amortization	**-1 868**	**-2 028**

7. Other operating expenses

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Sales expenses	-5 602	-4 923
Consumables	-348	-617
Maintenance of premises	-558	-484
Rents	-276	-315
Personnel expenses	-664	-611
Travelling expenses	-1 894	-2 016
Marketing and public relations	-1 212	-1 087
External services	-6 147	-5 077
Other operating expenses	-1 150	-969
Total other operating expenses	**-17 851**	**-16 101**

8. Financial income and expenses

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Dividends received from Group companies		252
Share of profit from associated companies	100	
Interest and other financial income		
From Group companies	1 013	1 050
From others	669	794
Total financial income	**1 782**	**2 096**
Reversal of the impairment made to subsidiary shares		112
Interest and other financial expenses		
To others	2 657	-2 141
Total financial expenses	**2 657**	**-2 029**
Total financial income and expenses	**-875**	**67**
Exchange gains (+) and losses (-) included in financial income and expenses	-192	485

9. Extraordinary items

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Extraordinary income		525
Total extraordinary income		**525**

Reversal of the impairment made to receivables from group company.

10. Appropriations

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Difference between booked depreciation and depreciation according to plan		
Buildings	19	-70
Machinery	323	7
Goodwill	-541	-542
Total appropriations	**-199**	**-605**

11. Income tax

1000 EUR	1 Jan-31 Dec, 2006	1 Jan-31 Dec, 2005
Current taxes	-1 899	-911
Change in deferred tax receivable		-152
Total income taxes	**-1 899**	**-1 064**

12. Intangible assets

1 Jan-31 Dec, 2006 1000 EUR	Development costs	Intangible rights	Goodwill	Other long-term expenditure
Acquisition cost 1 Jan	**410**	**7 518**	**10 843**	**4 674**
Additions	22	668	10 843	
Acquisition cost 31 Dec	432	8 186	10 843	4 674
Cumulative depreciations 1 Jan	-39	-4 043	-1 084	-4 546
Depreciation for the period 1 Jan-31 Dec	-49	-573	-542	-52
Cumulative depreciations 31 Dec	-88	-4 616	-1 626	-4 598
Carrying value 31 Dec	**344**	**3 570**	**9 217**	**76**

13. Tangible assets

1 Jan-31 Dec, 2006 1000 EUR	Land areas	Buildings	Machinery	Other intangible assets
Acquisition cost 1 Jan	**1 147**	**8 634**	**11 617**	**104**
Additions			151	
Disposals			-155	
Acquisition cost 31 Dec			11 613	104
Cumulative depreciations 1 Jan	-11	-2 895	-9 266	-101
Depreciation for the period 1 Jan-31 Dec	-4	-147	-498	-3
Cumulative depreciations 31 Dec	-15	-3 042	-9 764	-104
Carrying value 31 Dec	**1 132**	**5 592**	**1 849**	**0**
Includes revaluations *)	563	2 787		

**) The revaluations include EUR 871 thousand deferred tax liability, which is not recognized because the realization of tax liability is not likely in near future.*

14. Investments

Shares and shareholdings on 31 Dec, 2006	Country	No. of shares	Share (%)	Book value. 1000 EUR
Larox Company Oy	Finland	50	100.0	8
Larox Inc.	USA	50	100.0	687
Larox GmbH	Germany	500	100.0	2 621
Larox B.V.	The Netherlands	180	100.0	6 476
Larox Pty Ltd	Australia	400	100.0	770
Larox Chile SA	Chile	1 500	100.0	34
Larox Poland Ltd	Poland	335	100.0	104
Larox SA (Proprietary) Limited	South Africa	10 000	100.0	1
Filtros Larox Mexico SA de CV	Mexico	5	100.0	5
Larox Central Africa Limited	Zambia	25	100.0	25
Larox UK Limited	Great Britain	500	100.0	1
Larox Tecnologia de separacao de líquidos e sólidos LTDA*)	Brazil	60 000	10.0	24
Cia Minera Trinidad S.A.C.	Peru	57 398	99.7	0
Total subsidiary shares				**10 756**

**)Larox Company Oy holds the rest 90% of the shares.*

In addition, the parent company has branch in Peru, Larox Sucursal Peru.

1000 EUR	31 Dec, 2006
Total subsidiary shares	10 756
Associated company shares, Larox Flowsys Oy	247
Receivables from Group companies	
Larox Poland Ltd	87
Other shares	23
Total investments	**11 113**

15. Inventories

1000 EUR	31 Dec, 2006	31 Dec, 2005
Materials and supplies	4 544	7 385
Work in progress	7 294	2 681
Finished products and goods	4 352	265
Advance payments for inventories	435	115
Total inventories	**16 625**	**10 447**

16. Receivables

1000 EUR	31 Dec, 2006	31 Dec, 2005
Long-term receivables		
Receivables from Group companies	5 460	6 779
Total long-term receivables	**5 460**	**6 779**
Short-term receivables		
Trade receivables	4 913	9 236
Other receivables	1 224	940
Accrued receivables	250	679
Receivables from Group companies	7 794	7 542
Loans to Group companies	8 492	8 377
Receivables from associated companies	1	1
Total short-term receivables	**22 674**	**26 775**

17. Shareholders' equity

Changes in shareholders' equity 2005 1000 EUR	Share capital	Share premium account	Revaluation reserve*)	Retained earnings	Total
SHAREHOLDERS' EQUITY 1 Jan	5 563	5 937	75	7 924	19 501
Rights issue	1	5			7
Dividend distribution				-1 576	-1 576
Non-registered share issue	64	239			303
Profit for the period				2 967	2 967
TOTAL SHAREHOLDERS' EQUITY 31 Dec, 2005	**5 629**	**6 182**	**75**	**9 314**	**21 200**

Changes in shareholders' equity 2006 1000 EUR	Share capital	Share premium account	Revaluation reserve*)	Retained earnings	Total
SHAREHOLDERS' EQUITY 1 Jan	5 629	6 182	75	9 314	21 200
Dividend distribution				-2 226	-2 226
Profit for the period				5 187	5 187
TOTAL SHAREHOLDERS' EQUITY 31 Dec, 2006	**5 629**	**6 182**	**75**	**12 275**	**24 161**

**) A total of EUR 3.2 million of the revaluation reserve has been used for capital issues in 1987, 1990 and 1994.*

Shareholders equity attributable to shareholders

1000 EUR	31 Dec, 2006
Retained earnings	7 088
Profit for the period	5 187
Total shareholders equity attributable to shareholders	**12 275**

18. Accelerated depreciation

1000 EUR	31 Dec, 2006	31 Dec, 2005
Difference between booked depreciation and depreciation according to plan		
Other long-term expenditure	17	17
Buildings	920	939
Machinery	383	706
Goodwill	1 625	1 084
Total accelerated depreciation	**2 945**	**2 746**

19. Provisions

1000 EUR	2006	2005
Warranty provision on 1 Jan	828	713
Change	-11	115
Warranty provision on 31 Dec	**817**	**828**
Pension provision on 1 Jan	69	
Change	-29	69
Pension provision on 31 Dec	**40**	**69**
Total provisions	**857**	**897**

20. Liabilities

1000 EUR	31 Dec, 2006	31 Dec, 2005
Long-term liabilities		
Loans from financial institutions	14 691	18 158
Pension loans		953
Other loans	4 200	5 200
Total long-term liabilities	**18 891**	**24 311**
Short-term liabilities		
Loans from financial institutions	9 517	14 960
Pension loans		72
Total interest-bearing short-term liabilities	**9 517**	**15 032**
Trade payables	5 171	4 697
Accrued payables	3 467	4 215
Other payables	334	293
Advances received	10 431	2 901
Loans to Group companies	2 177	1 560
Loans to associated companies	80	218
Total interest-free short-term liabilities	**21 660**	**13 884**

The most important items included in accrued payables are employee-related expenses.

21. Commitments and contingencies

1000 EUR	31 Dec, 2006	31 Dec, 2005
Loans from financial institutions	24 208	33 118
Pension loans		1 025
Other loans	4 200	5 200
Total	**28 408**	**39 343**
Real estate mortgages	6 560	6 729
Corporate mortgages, general pledging	3 936	3 936
Corporate mortgages, specific pledging	9 062	9 062
Total	**19 558**	**19 727**

Guarantees for others	31 Dec, 2006	31 Dec, 2005
Pledged securities*	6 476	6 176
Others	146	190
Total	**6 622**	**6 366**

**) book value of secured shares*

Leasing liabilities 1000 EUR	31 Dec, 2006	31 Dec, 2005
One year after the balance sheet date	349	364
Later than one year after the balance sheet date	264	314
Total	**613**	**678**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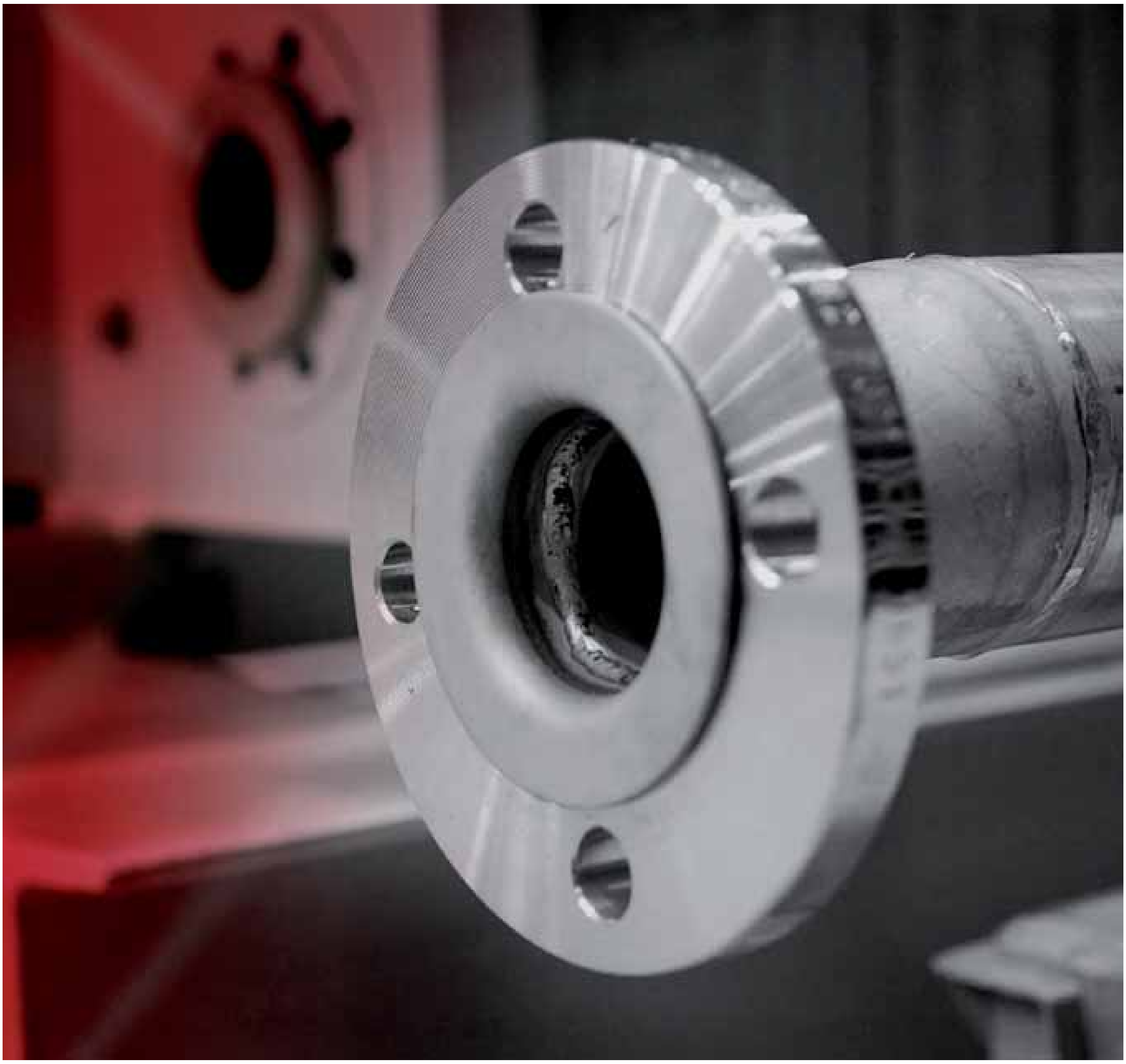
Group Key Figures 2002-2006

1000 EUR	2006 IFRS	2005 IFRS	2004 IFRS	2003 FAS	2002 FAS
Scope of activity					
New orders	137 971	121 470	93 204	56 539	51 721
Order backlog	44 911	29 845	12 425	13 818	13 236
Net sales	122 809	104 324	96 469	56 519	59 221
Change in net sales, %	17.7	8.1	70.7	-4.6	-11.6
Share of exports and foreign operations, %	96	97	97	92	93
Number of personnel	450	438	436	280	314
Net sales per person	273	238	221	202	189
Total liabilities	56 627	59 368	51 733	41 745	30 349
Current liabilities	32 891	31 452	20 906	14 177	19 558
Shareholders' equity	26 668	24 901	20 890	15 016	13 647
Balance sheet, total	83 295	84 269	72 523	56 761	43 996
Investments	2 285	1 832	32 580	1 456	3 916
Investments, %	1.9	1.8	34.3	2.6	6.6
Profit and profitability					
Depreciation	3 412	3 931	4 395	2 121	1 737
Operating profit (EBIT)	8 931	6 670	3 894	4 160	2 258
Financial income and expenses	-2 141	-1 091	-2 248	-1 097	-1 627
Profit before taxes	7 044	5 790	1 825	2 047	631
Profit for the period	5 004	4 502	1 507	1 646	127
Operating profit, %	7.3	6.4	4.0	7.4	3.8
Net financial expenses, %	1.5	0.8	2.3	1.9	2.7
Profit before taxes, %	5.7	5.6	1.9	5.4	1.1
Profit, %	4.1	4.3	1.6	2.9	0.2
Return on shareholders' equity, %	19.4	19.7	8.6	16.5	0.9
Return on invested capital, %	16.7	12.6	8.0	10.4	7.0
Financial					
Quick ratio	0.8	0.9	1.0	3.1	1.0
Current ratio	1.4	1.5	1.7	3.0	1.4
Equity ratio, %	33.9	29.9	28.9	28.3	32.7
Relative indebtedness, %	42.3	56.1	53.3	67.2	47.3



Key Figures by Quarters

1000 EUR	2006 IV quarter	2006 III quarter	2006 II quarter	2006 I quarter	2005 IV quarter
New orders	43 482	31 525	38 041	24 923	39 444
Group order backlog at the end of the period	44 911	41 780	37 706	29 526	29 845
Net sales	40 431	28 281	29 001	25 097	39 518
Operating profit (EBIT)	4 568	2 457	1 853	52	6 794
% of net sales	11.3	8.7	6.4	0.2	17.2
Net financial costs	218	259	724	686	338
% of net sales	0.5	0.9	2.5	2.7	0.9
Result before taxes	4 350	2 198	1 129	-634	6 455
Result for the quarter	*) 3 358	1 293	899	-546	**) 4 846

**) includes one-time cost of EUR 0.9 million for terminating component manufacturing functions in The Netherlands.*

***) includes EUR 0.7 million sales profit from selling mining rights.*

Shares and Shareholders

Share related data

	2006 IFRS	2005 IFRS	2004 IFRS	2003 FAS	2002 FAS
Earnings per share, Group, EUR	0.53	0.49	0.17	0.30	0.02
Shareholder equity per share, EUR	2.84	2.68	2.25	1.90	1.72
Dividend per share, proposal, EUR	**) 0.30	0.24	0.17	0.17	0.07
Dividend per earnings ratio, %	56.6	49.0	100.0	55.8	415.9
Dividend yield, %	3.3	3.9	3.6	4.2	2.2
Price per earnings ratio (P/E)	16.98	12.45	27.4	13.2	187.2
Development of share price					
Average trading price, EUR	7.76	5.40	5.24	3.21	3.01
Lowest trading price, EUR	6.12	4.50	3.85	2.00	2.17
Highest trading price, EUR	9.35	6.24	9.10	4.00	3.67
Trading price at end of period, EUR	9.00	6.10	4.66	3.93	3.00
Change in trading price, %	47.5	30.9	18.6	31.0	36.4
Shareholders' earnings, %	52.5	34.5	22.9	33.3	44.1
Market capitalization at end of period					
A shares, EUR million*)	19.1	13.0	9.9	8.4	6.8
B shares, EUR million	65.3	43.6	33.3	22.8	18.7
Total	84.4	56.6	43.2	31.2	25.5
Trading volume					
B shares, 1000 pcs	2 570.7	1 124.9	417.9	117.6	2 373.6
In relation to average number of B shares, %	27.4	12.1	6.3	2.0	40.9
Average number of shares at end of period, 1000 pcs	7 253.9	7 151.2	6 624.1	5 799.3	5 799.3
Number of shares at end of period					
A shares, 1000 pcs	2 124.0	2 124.0	2 124.0	2 124.0	2 124.0
B shares, 1000 pcs	7 257.6	7 151.7	7 149.3	5 799.3	5 799.3
Total, 1000 pcs	9 381.6	9 275.7	9 273.3	7 923.3	7 923.3

**) A-share data is based on the B share´s last trading rate of the financial year.*
***) Board of directors proposal to the annual general meeting of Larox Corporation shareholders.*

Company's shares comprise of series A and series B shares. Each series A share entitles the holder to twenty (20) votes per share and every series B share entitles the holder to one vote per share.
Distribution of the different series shares and their voting rights:

Series of shares	No. of shares (thousand)	% of share capital 31 Dec, 2006	No. of voting rights (thousand)	% of voting rights 31 Dec, 2006
A series	2 124	22.6	42 480	85.4
B series	7 258	77.4	7 258	14.6
	9 382	100.0	49 738	100.0

A and B series shares have equal rights to dividend and company assets. There are no approval or pre-emption clauses on the shares.

Distribution of share capital sectors on 29 December, 2006

	Number of shareholders	% of shareholders	Total shares, pcs	% of share capital
Private enterprises	70	9.4	1 483 838	15.8
Financial institutions and insurance companies	9	1.2	941 025	10.0
Public corporations	2	0.3	502 900	5.4
Non-profit institutions	7	0.9	41 230	0.4
Households	641	86.3	6 254 124	66.7
Foreign owners	14	1.9	141 200	1.5
Total	743	100.0	9 364 317	99.8
On joint account			17 283	0.2
Total issued			**9 381 600**	**100.0**

Distribution of share capital in order of magnitude on 29 December, 2006

	Number of shareholders	% of shareholders	Total shares, pcs	% of share capital
1-100	69	9.3	3 533	
101-500	276	37.1	74 065	0.8
501-1000	173	23.3	136 830	1.5
1001-10000	140	18.8	318 131	3.4
10001-100000	26	3.5	189 783	2.0
100001-500000	28	3.8	656 166	7.0
Over 500000	31	4.2	7 985 809	85.1
On joint account			17 283	0.2
Total issued	**743**	**100.0**	**9 381 600**	**100.0**
Of which administratively registered	4		343 812	3.6

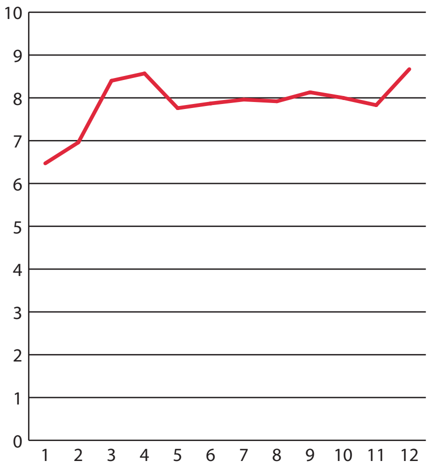
Principal shareholders on 29 December, 2006

	% of share capital 29 Dec, 2006	% of voting rights 29 Dec, 2006
Capillary Oy	10.3	2.0
Aaltonen Katariina	9.4	22.4
Kupias Karoliina	9.4	22.4
Laakkonen Mikko	9.4	1.8
Vartiainen Timo	9.2	22.4
Vartiainen Nuutti	3.9	14.8
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	3.5	0.7
Nordea Pankki Suomi Oyj	2.4	0.5
Sijoitusrahasto Mandatum Suomi	2.4	0.5
Evli Pankki Oyj	2.2	0.4
Keskinäinen Vakuutusyhtiö Eläke-Fennia	1.8	0.4

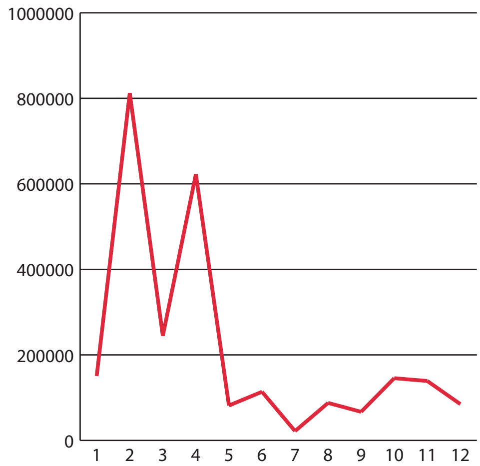
Board of directors and president hold a total of 1 991 934 of the Larox Corporation shares, which is 45.1 % of the voting rights.

Larox Corporation is not aware of any valid partner contracts.

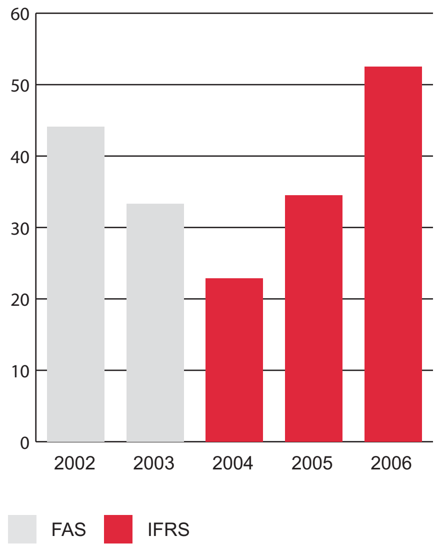
Price development of Larox B share, 2006 EUR



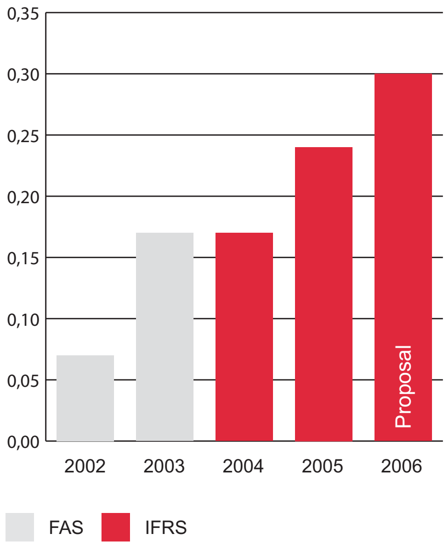
Trading of B share, pcs, 2006



Shareholders' earnings, %



Dividend/Share, EUR



Calculation of Key Figures

Return on shareholders' equity, %

Profit/loss for the period	x 100
Invested capital - average interest-bearing liabilities in the period	

Invested capital

Shareholders' equity + Interest-bearing liabilities

Return on invested capital, %

Profit before tax + financial costs	x 100
Average invested capital in the period	

Equity ratio, %

Shareholders' equity	x 100
Total assets – advances received	

Relative indebtedness, %

Total liabilities + obligatory provisions – advances received	x 100
Net sales	

Quick ratio

Cash and bank - receivables from long-term projects
Current liabilities - advances received

Current ratio

Inventories + cash and bank
Current liabilities

Earnings per share

Profit before taxes
Adjusted average number of shares during the period

Shareholders' equity per share

Shareholders' equity
Adjusted average number of shares at the end of the period

Dividend per share

Dividend distributed for the financial period
Adjusted average number of shares at the end of the period

Dividend per earnings ratio, %

Dividend per share	x 100
Earnings per share	

Dividend yield, %

Dividend per share	x 100
Adjusted trading price at the end of the period	

Price per earnings ratio (P/E)

Adjusted trading price at the end of the period
Earnings per share

Average trading price

EUR amount traded during the period
Number of shares traded during the period

Market capitalization at the end of the period

Number of shares at the end of period x trading price at the end of period weighted by the number of the shares traded

Trading volume

Number of shares traded during the period in relation to the weighted average number of the shares during the period

Shareholders' earnings, %

Trading price at the end of the period - trading price in the beginning of the period + dividends paid in the period	x 100
Trading price in the beginning of the period	

Debt-equity ratio

Interest-bearing liabilities
Shareholders' equity

Signatures to Board of Directors' Report and Financial Statements

Lappeenranta 15 February 2007

Timo Vartiainen
Chairman of the board

Katariina Aaltonen

Teppo Taberman

Thomas Franck

Matti Ruotsala

Toivo Matti Karppanen
President

Auditors´ Report

To the shareholders of Larox Corporation

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Larox Corporation for the period 1.1. – 31.12.2006. The Board of Directors and the Managing Director have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the report of the Board of Directors and the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the report of the Board of Directors and in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration is to examine whether the members of the Board of Directors and the Managing Director of the parent company have complied with the rules of the Companies' Act.

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Consolidated financial statements

In our opinion the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent company's financial statements, report of the Board of Directors and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

In our opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the Companies' Act.

Lappeenranta, 15 February 2007

PricewaterhouseCoopers Oy
Authorised Public Accountants

Kaija Leppinen
Authorised Public Accountant

Kim Karhu
Authorised Public Accountant


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Corporate Governance

Applicable regulations

Larox Corporation is a Finnish public limited company which follows the Finnish Companies' Act in decision-making and administration, other compulsory legislation and regulations that are applicable to publicly-quoted companies and the articles of association of Larox Corporation.

In addition, Larox Corporation follows the corporate governance recommendations given to listed companies in December 2003.

Annual general meeting of shareholders

The highest decision-making power in Larox Corporation belongs to shareholders at the annual general meeting of shareholders as convened by the board of directors. In general, the annual general meeting of shareholders handles matters that the board has proposed to the meeting. The Finnish Companies' Act allows shareholders to present the board with written requests to handle particular matters at the next annual general meeting of shareholders. An invitation to the annual general meeting of shareholders is published in Finnish national newspapers. The invitation provides shareholders with sufficient information about matters to be handled at the meeting.

The most important matters that can be decided on by the annual general meeting of shareholders are:

- amendments to the company's articles of association
- an increase or decrease in share capital
- decisions on discharging the liability of board members and the company president
- decisions on the number of board members, their election, and fees payable
- approval of the closing of the accounts
- distribution of profits
- the election and remuneration of auditors

Minutes of the annual general meeting are made available to shareholders two weeks after the meeting. Resolutions passed by the annual general meeting of shareholders are published in a stock exchange release on the day that the meeting takes place.

A majority of the board members and the company president shall participate in the meeting. Individuals who are candidates for board membership for the first time shall also participate in the annual general meeting of shareholders.

Board of directors

The Larox Corporation board of directors is responsible for supervising the company's administration, operations, bookkeeping and financing. The board always handles and makes decisions on the most important matters related to Group financing and business operations.

The board of directors has an annual schedule of meetings; the agenda for each meeting varies in accordance with need.

Matters handled by the board of directors include:

- decisions on Group strategy and confirmation of the strategies for each business
- decisions on Group structure and organization
- the handling and approval of interim reports, closing of accounts and the annual report
- approval of the Group's operational plan, budget plan, and investment plan
- decisions on strategically- or financially-important individual investments, acquisitions or sales of companies or similar arrangements and their contingent liabilities
- approval of the Group's risk-management and reporting system
- approval of the Group's insurance policy
- approval of the Group's financial policy
- decisions on compensation and incentive systems for Group management
- defining dividend policy and responsibility for shareholder value
- appointment of the company president and decision on the compensation he receives
- appointment of a deputy to the company president
- confirmation of the Larox values
- responsibility for other duties assigned to the board of directors in the Finnish Companies' Act or elsewhere

Board meetings and members

The chairman of the board of directors is responsible for convening and handling each board meeting. Meeting dates are agreed in advance and the meeting charter consists of at least the following: closing of the accounts, 3-month interim reports, company strategy and annual budgets. One of the board members acts as meeting secretary.

Minutes are prepared, commented and then approved at the next meeting of the board of directors. In a voting situation, the decision of the board of directors is the proposal favoured by a majority of board members, or, if the vote on a proposal results in a tie, the proposal favoured by the chairman. When electing individuals, tied votes are decided by the casting of lots. The board of directors carries out an internal audit of its operations once a year.

The Larox Corporation articles of association specify that the board of directors must have between three and six members. The term of office served by each board member is one year, with the period of service starting following the meeting of shareholders at which their election took place, and terminating after the subsequent annual general meeting of shareholders. The annual general meeting of shareholders elects all members of the board of directors. The articles of association set no upper age limit for board members, and do not limit either the number of terms of office that may be served or the decision power of the annual general meeting of shareholders in connection with the election of board members. The board elects a Chairman from among the board members.

The names of candidates for membership of the board are published in the invitation to the annual general meeting of shareholders or, if they become candidates after the invitation has been sent, by other means prior to the annual general meeting of shareholders, provided that the candidate has given his/her written consent and that shareholders who own a minimum of ten per cent (10%) of the total number of votes entitled by the company's shares are in favour of his/her election. Board members shall have the required qualifications and the ability to devote adequate time to their duties.

The annual general meeting of shareholders held on 30 March 2006 elected five (5) members to the board of directors. These members' term of office began on 30 March 2006 and will terminate after the 2007 annual general meeting of shareholders. The following persons were re-elected to the board: Mr. Timo Vartiainen, Ms. Katariina Aaltonen, Mr. Teppo Taberman, Mr. Thomas Franck and Mr. Matti Ruotsala. Mr. Timo Vartiainen was elected to the position of Chairman of the board and Mr. Teppo Taberman to the position of Vice Chairman of the board at the organizational meeting.

In 2006, the board of directors held eight (8) meetings. The participating per cent in the meetings by the board members was 98. The company president participated in all board meetings.

The right of board members to receive information and their obligation to provide information

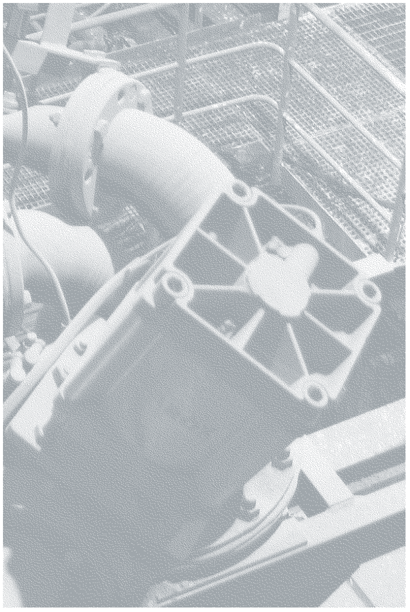
The company president, or someone from Group management or other Larox function so authorized by the company president, presents matters to the board of directors. According to the board's directives, the company president is responsible for providing the board with information sufficient to allow them to evaluate Group operations and the Group's financial situation, implements the board's decisions and reports to the board any defects or shortcomings in such implementation.

Group management monitors the realization of financial targets through a reporting system that covers the entire Larox Group. Reports include results achieved, plans and current forecasts for the year in question. These reports are also at the board's disposal. The board has not assigned any key business areas to board members for specific follow-up. Board members are obliged to provide the board with adequate information on their individual qualifications and their independence.

Independence of board members and information to be published concerning board members

The board's duty is to promote the interests of the company and its shareholders. Board members do not represent the parties who proposed their election. To avoid conflicts of interest, board members cannot participate in the handling of matters that concern a board member and the company.

Board members Ms. Katariina Aaltonen and Mr. Timo Vartiainen are the Larox Group's main shareholders. Mr. Teppo Taberman, Mr. Matti Ruotsala and Mr. Thomas Franck have no interdependency with the company. More information



on the board and their Larox holdings can be found in the Annual report, page 72, and Larox Group website www.larox.com/investors.

The board has no specific committees.

Board fees and other benefits

The annual general meeting of shareholders decides on compensation payable to the board and other basic rules as regards compensation for costs incurred. Board members have not received options or shares in the Larox Group as a form of compensation. The annual general meeting of shareholders has not approved an incentive system with share-related rights for board members.

Compensation paid in 2006 to the members of the Larox board of directors totalled EUR 147 750. The annual general meeting of shareholders on 30 March 2006 decided on the following monthly and meeting fees for the board members for 2006: chairman: EUR 7 000 per month, board members: EUR 1 250 per month. No separate meeting fees are paid.

Board members are also entitled to daily allowances and compensation for incurred travel costs in accordance with the Larox Group travel policy. The company president is not paid monthly or meeting fees for his work as a board member in Larox Group subsidiaries.

Company president

Larox Corporation has a company president. His duties are to manage the company's operations in accordance with the board's instructions and advice; and to inform the board about development of the company's business and its financial situation. He is also responsible for arranging the everyday administration of the company's affairs and for monitoring to ensure that financing for the company has been arranged in a reliable manner.

In the majority of cases the company president presents matters to the board. In some situations, a member of the Group management team, with the company president's authorization, may present a particular or draft resolution to the board.

The board appoints the company president and his deputy. The terms of the company president's employment contract have been specified in writing and have been approved by the board. Terms of employment of the deputy to the company president have also been approved in writing. The terms of office of the company president and his deputy are not fixed, they are appointed to the positions until further notice. The company president is not a member of the Larox board.

Group management team, management

The Larox Corporation management team is also the Larox Group management team. The company president is the chairman of this team and members of the team are vice presidents responsible for global functions.

The Group management team does not have operational power based on law or on the company's articles of association. The Group management team is a support function whose purpose is to assist the company president in management of the Larox business. The Group management team participates in preparation of matters to be handled at board meetings. The Group management team meets as and when necessary, but at least once a month (excluding the month of July). The Group management team has an annual schedule and agenda, which is modified as required. Each group managemnt team member in turn is the meeting secretary. The minutes of each monthly meeting are prepared, commented and approved at the subsequent meeting.

Board members of the Larox Group's most important subsidiary companies are elected from among Larox Group executives. In most cases, the company president is chairman of the most important Larox subsidiaries.

The Group management team and their Larox holdings can be found on the Larox Group website www.larox.com/investors.

Compensation paid to the company president and other members of the company management team

In 2006, Mr. Toivo Matti Karppanen, company president, received a total of EUR 240 511 in wages, bonuses and benefits in kind.

The retirement age and retirement pension age for the company president is 60 years and full pension amounts to 60% of salary. (Finnish pension is defined on the basis of a so-called retirement salary, which is affected by an employee's salary, bonuses, and benefits in kind during the entire period of employment, excluding income realised from options enjoyed by virtue of employment). The term of notice for the company president is 12 months. In addition to the salary paid during the period of notice, compensation amounting to six months salary is also paid.

The company president and chairman of the Larox board decide on the salary benefits paid to members of the Larox Group management team. The board approves all incentive systems for Larox Group personnel, key persons and top management. The retirement age for management team members is between 60 and 65 years.

Larox incentive systems

The annual level incentive system to the Group management team is based on operating profit, free cash flow and personal targets. The maximum bonus for the company president is 6 months' salary and to the other Group management team members it is 4 months salary.

The incentive system covers the entire personnel and is based on operating profit; a salary of approx. 1.8 months at the maximum can be paid to an employee.

Directed share issue to Larox Group top management: The annual general meeting of shareholders on 17 March 2004 made a decision concerning a directed share issue for the company's top management. The directed share issue, regarding transfer of shares, includes limit periods that vary between 1 December 2006 and 1 December 2008. A total of 210 000 Larox Corporation B shares are directed to the company's top management. More detailed information on the directed share issue can be found in a stock exchange release dated 17 March 2004 and on the subscribed shares in stock exchange releases dated 18 Febuary 2005 and 21 December 2005.

Controlling of risks

The Group's risks can be classified as risks related to business operations and finances. The business operational risks related to sales, quotations activities, testing, deliveries, production as well as after sales operations are controlled by internal instructions and the quality system valid in the entire Group.

The Group has insured its operations sufficiently e.g. liability insurance covers the whole Group. Furthermore, the Group has property and consequential loss insurances.

The controlling of risks has been made more efficient by improving the internal control. The company outsourced internal auditing at the beginning of 2005.

The risks related to financing are mainly those resulting from foreign currency cash flows. The Group covers these risks through forward contracts and other foreign currency protection mechanisms, carried out following the foreign currency policy confirmed by the board of directors.

Internal audit

Internal audit is responsible for controlling the company's operation and producing additional value to the board and management. Internal audit is an independent function and concentrates on the following areas:

Guaranteeing the company's efficiency and result making capability as well as the reliability and sufficiency of reporting.

Controlling the observance of the Group's operational instructions. Guaranteeing the functionality of the risk management.

Internal audit reports to Larox Corporation board. The company president and chief financial officer coordinate the implementation of the internal audit. The company outsourced internal auditing in 2005.

Insider administration and insiders

Based on the Finnish Companies' Act, insiders subject to the disclosure requirement are members of the board of directors of Larox, President of Larox and his deputy as well as Larox's auditors, deputy auditors and employee of an audit organization, who has main responsibility for auditing Larox; as well as a person included in the other senior management of Larox who obtains inside information regularly and who has a right to make decisions concerning Larox's future development and business arrangements.

A permanent company-specific insider is a person employed by Larox or a person working for Larox based on a contract who, by virtue of his/her position or duties, obtains inside information regularly and whom Larox has defined separately to be a permanent company-specific insider.

A project-specific insider is a person who, by virtue of an employment contract or other contract, works for Larox and obtains inside information, or a person whom the company has temporarily registered in a project-specific register.

An insider subject to the disclosure requirement and a company-specific insider are both permanent insiders.

The latest updated information on insiders subject to the disclosure requirement and their holdings can be found in the The Finnish Central Securities Depository (street address Urho Kekkosen katu 5 C, 00101 HELSINKI) . The same information can be found in The Finnish Central Securities Depository's NeTSire system, which has a link to the Larox website www.larox.com/investors.

All insiders have received an insider's guide and have been requested to study the regulations regarding insiders published on the Helsinki Stock Exchange website (www.omxgroup.com). Once a year, the assistant to the company president sends permanent insiders a letter to remind them of their duty to notify possible changes in insider information. A list of insiders' holdings and a form with instructions from the Finnish Securities Register is attached. Company permanent insiders are not permitted to trade in Larox Group shares for 21 days prior to the publication of either the Larox Group's end-of-year result or interim reports. Insider holdings can be found on the Larox website www.larox.com/investors.

Audit

The Larox Corporation's auditors have an important role as a controlling body appointed by shareholders. The main duty of the audit, based on law, is to verify that the consolidated financial statements are correct and provide sufficient information on result and financial position for the past fiscal year. (The Larox Corporation fiscal year is a calendar year.)

The auditor's duty is to make sure that the company's accounting and financial statements for the fiscal year have been prepared correctly, and to provide an auditors' report to the annual general meeting of shareholders. In addition, based on Finnish law, the auditor also verifies that administration of the company complies with the law and applicable regulations. The auditor reports to the company's board at least once in each 12-month period.

Based on the Larox Corporation articles of association, the company employs the services of a minimum of two auditors and their deputies. The annual meeting of shareholders elects these officers until further notice and until a new auditor or deputy has been elected to replace them. Auditors must be persons or an audit society approved by Finland's Central Chamber of Commerce.

Invitations to the annual general meeting of shareholders in Larox Corporation include information on auditor candidates.

The Larox Corporation annual general meeting of shareholders on 30 March 2006 elected the following main auditors: APA Kim Karhu and auditing society PricewaterhouseCoopers Oy resting with APA Kaija Leppinen. APA Henrik Sormunen and Jarmo Alén were elected deputy auditors.

Fees paid to auditors

Auditing society	2006	2005
PricewaterhouseCoopers Oy:		
Auditing fees	198 911	149 226
Other fees	75 245	44 456
	274 157	193 682
Other auditing societies		
Auditing fees	26 500	24 393
Other fees	19 292	31 249
	45 793	55 642

Partner Contracts

The company has no information on any valid partner contract.

Communications and disclosure

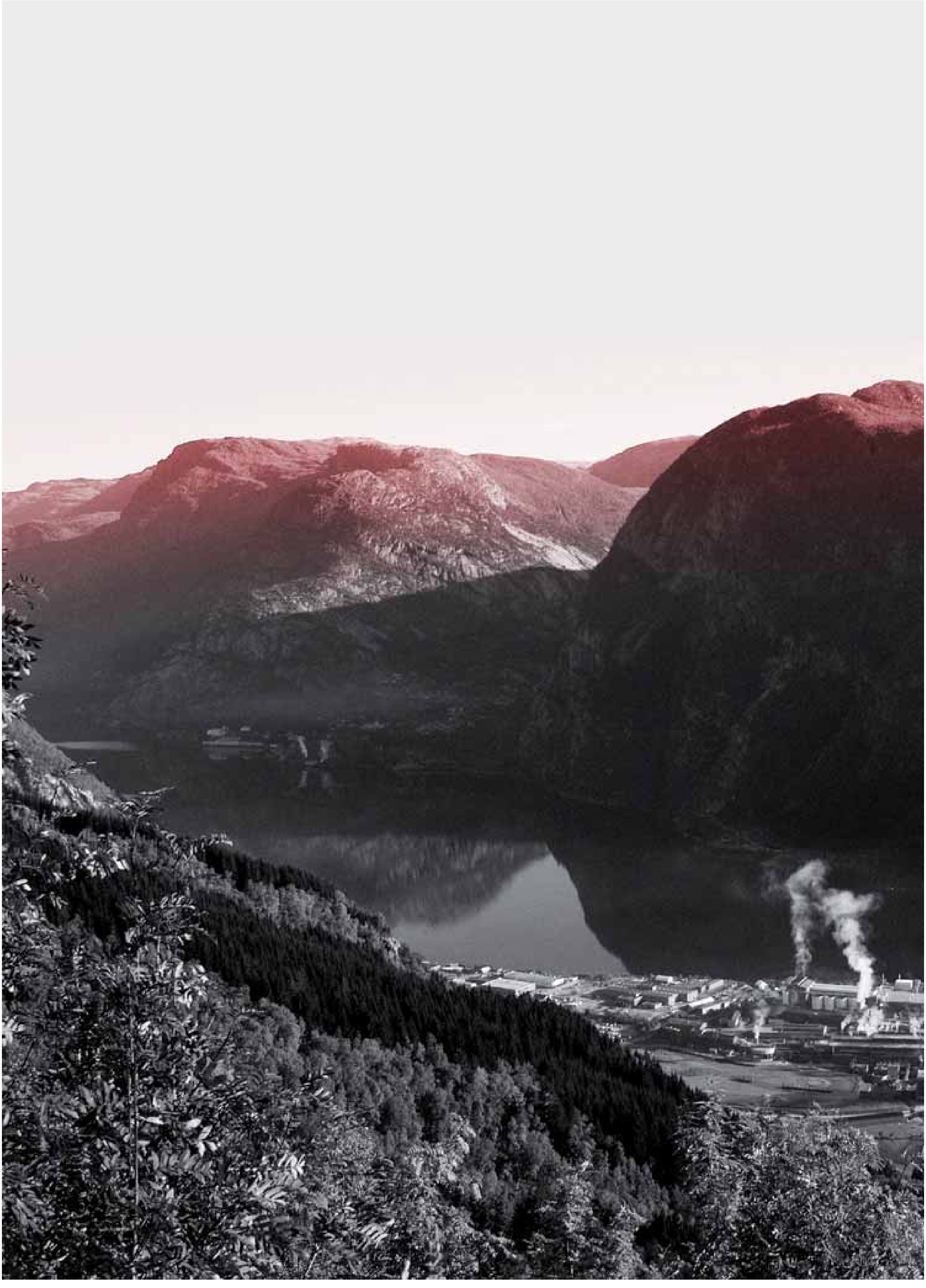
The board of Larox Corporation is responsible for updating the terms of corporate governance. Details of corporate governance can be found at www.larox.com/investors. The purpose of Larox stakeholder communications is to provide the market with correct and up-to-date information as a basis for share price formation.

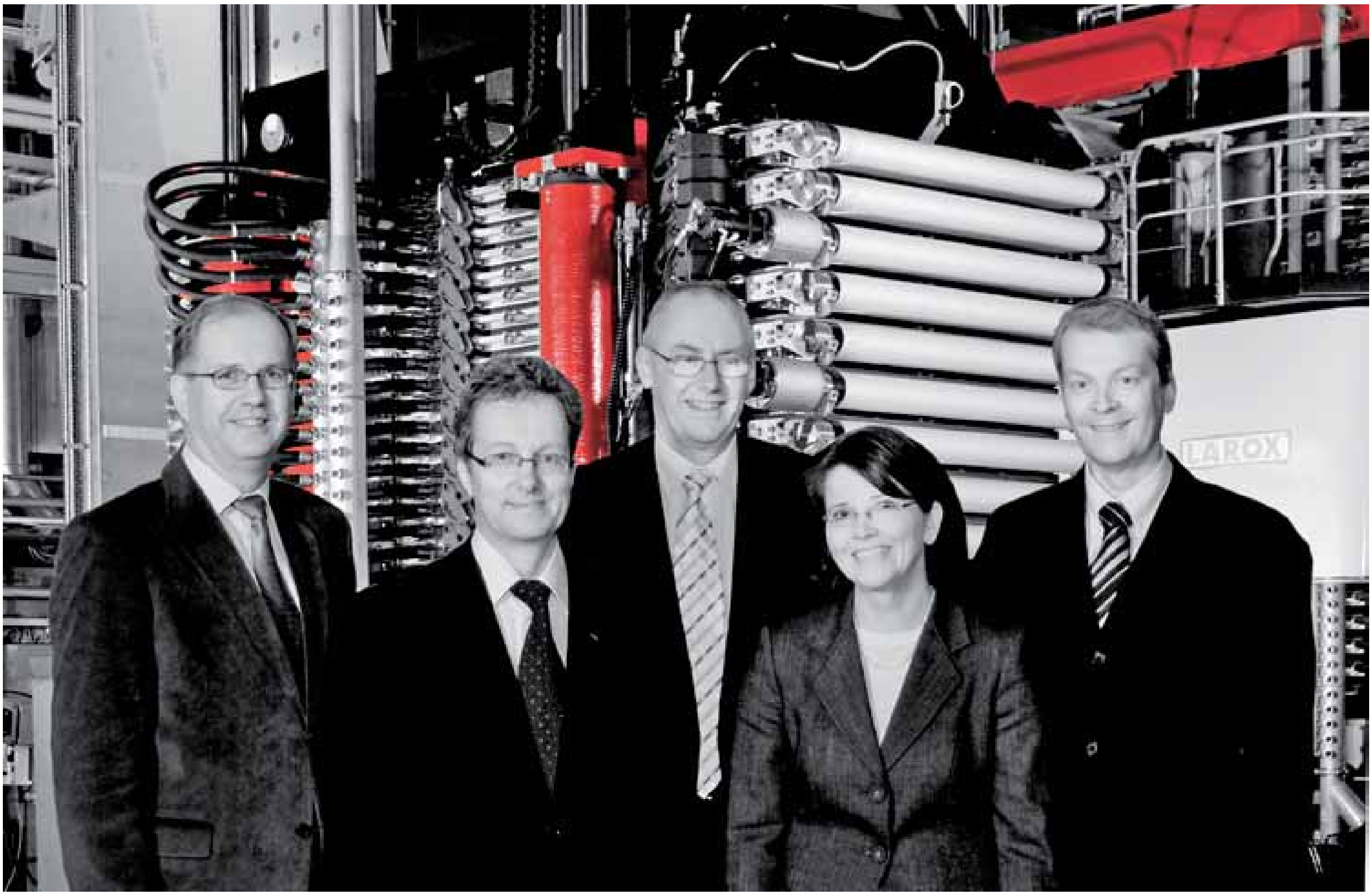
In its stakeholder communications policy, Larox Corporation follows the principle of impartiality and publishes all stakeholder information in Finnish and English on the Larox Corporation website www.larox.com/investors. Larox also publishes a printed annual report in Finnish and English.

Stock exchange releases concerning closing of the Larox Corporation's accounts and three interim reports are published each year. The company also maintains a mailing list for the sending of annual reports to persons or organisations who are not shareholders.

Larox arranges press conferences for analysts and the media in connection with important events at which financial results and other news items are made public. Requests submitted by analysts or investors are answered either by phone or email, or by arranging investor road shows.

Contact information of the persons responsible for investor relations at Larox Corporation can be found on the website www.larox.com/investors.





From left

Board of Directors and Group Management Team 31 Dec, 2006

Mr. Thomas Franck (1950)
- Independent Member of the Larox Corporation Board of Directors since 2005.
- M.Sc. (Eng.)
- Vice President, Group Business Development Oy Rettig Ab, and Deputy Chief Executive Officer, Rettig ICC bv
- Work history: International experience in production and marketing through Neste-Borealis-Fortum-Rettig
- Special know-how: acquisitions of companies, integration processes, realization of synergy benefits

Mr. Timo Vartiainen (1955)
- Not independent Member of the Larox Corporation Board of Directors since 1977
- B.Sc. (Mech)
- Chairman of the Board since 2000
- Work history: Employed by Larox since 1983
- President of Larox Corporation from 1990 to 2000

Mr. Teppo Taberman (1944)
- Independent Member of the Larox Corporation Board of Directors since 1995
- M.Sc. (Econ)
- Economical Adviser
- Work history: 20 years in banking business, including Deputy Chief Executive Officer in two different banks.

Ms. Katariina Aaltonen (1959)
- Not independent Member of the Larox Corporation Board of Directors since 1988
- M.Sc. (Econ), CEFA
- Member of the Larox Corporation Board of Directors, Managing Director of Capillary Oy
- Work history: Employed by Larox since 1984 with various areas of responsibility, Chief Financial Officer at Larox 1990 –1998

Mr. Matti Ruotsala (1956)
- Independent Member of the Larox Corporation Board of Directors since 2005.
- M.Sc. (Eng.)
- Vice President AGCO Corporation and Managing Director Valtra Oy Ab.
- Work history: 2001-2004 Chief Operating Officer and Deputy to CEO, before that Technical Director and Commercial Director, KCI Konecranes Plc. From 1991 to 1994 Area Director Asia Pacific of Kone OY's Crane Business.
- Experience in international business for over 20 years.

** Board memberships in other companies and Larox holdings of the members of the board of directors can be found in the Finnish Central Securities Depository's NetSire system, which has a direct link from the Larox website www.larox.com/investors.*

From left

Mr. Matti Julku (1957)
- M.Sc. (Econ)
- Vice President, Mining & Metallurgy Deputy of president
- Member of the Management Team since 1998
- Employed by Larox since 1998

Mr. Kari Suninen (1963)
- M.Sc. (Industrial Engineering & Management)
- Vice President, Engineering & Production
- Member of the Management Team since 1999
- Employed by Larox since 1996

Mr. Jori Halkola (1965)
- M.Sc. (Econ)
- CFO & Vice President, Corporate Service
- Member of the Management Team since 2002
- Employed by Larox since 1998

Mr. Toivo Matti Karppanen (1956)
- M.Sc. (Tech)
- President & CEO
- Member of the Board from 1995 to 1997
- Employed by Larox since 1991

Mr. Louis Manie (1958)
- M.Sc. (Chem. Eng.)
- Vice President, Sales
- Member of the Management Team since 2005
- Employed by Larox since 2004

Mr. Juhana Ylikojola (1961)
- M.Sc. (Engineering)
- Vice President, Service
- Member of the Management Team since 1999
- Employed by Larox since 1997

Mr. Reiner Weidner (1965)
- M.Sc. (Process Eng.) / MBA
- Vice President, Chemical Process industries
- Member of the Management Team since 2006
- Employed by Larox since 1990

** Larox holdings of the members of the group management team can be found in the Finnish Central Securities Depository's NetSire system, which has a direct link from the Larox website www.larox.com/investors.*

Larox network

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