LAROX®

2008

ANNUAL REPORT

Contents

The World of Larox

Larox develops, designs, manufactures and supplies industrial filters and is a leading technology company in its field. Larox is a full service filtration solution provider in solid and liquid separation. 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 over-pressure 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. Our trade marks include Larox, 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. Additional locations for product engineering are Espoo, Finland, Alsdorf, Germany and Utrecht, The Netherlands. In addition to self-manufactured products Larox leans on sub-contractor workshops specialized in manufacturing and assembly.

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 Nasdaq OMX Helsinki Ltd.

The Larox Group also consists of thirteen operative subsidiaries in Australia, Brazil, Chile, China, Germany, Great Britain, Mexico, The Netherlands, Poland, Russia, South Africa, United States and Zambia. The average number of employees in the Group in 2008 was 562.

Larox in Brief

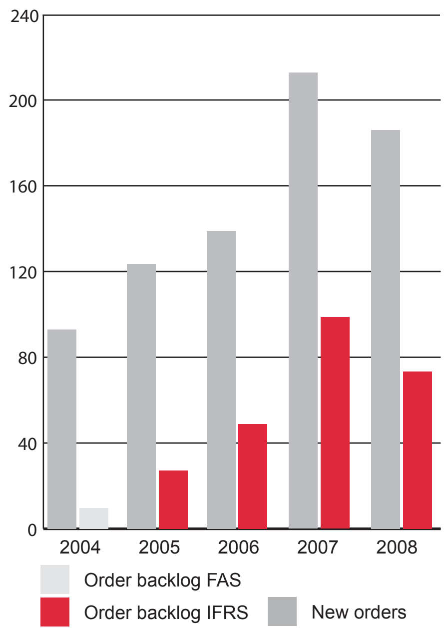
KEY FIGURES OF LAROX GROUP

1000 EUR	1 Jan–31 Dec, 2008	1 Jan–31 Dec, 2007
New orders	184 799	208 421
Group order backlog at end of period	72 006	97 330
Net sales	207 995	158 270
Operating profit (EBIT)	16 618	13 070
% of net sales	8.0	8.3
Net financial costs	2 661	1 315
% of net sales	1.3	0.8
Result before taxes	13 957	11 755
Result for the period	10 022	9 496
Investments	7 402	3 285
Shareholders' equity per share at end of period, EUR	3.81	3.50
Equity ratio %	32.3	34.2
Return on equity, %	29.2	31.9
Return on invested capital, %	24.2	22.9
Liabilities and shareholders' equity	118 139	102 853
% of net sales	56.8	65.0
Contingent liabilities	44.2	30.3
Earnings per share, EUR	1.07	1.01
Dividend per share, EUR	*) 0.50	0.60
Trading price at end of period, EUR	4.60	12.00
Market capitalization at end of period, EUR million **)	43.2	112.6
Average number of personnel	562	458
Number of personnel at end of period	593	469
Net sales per person	370	346

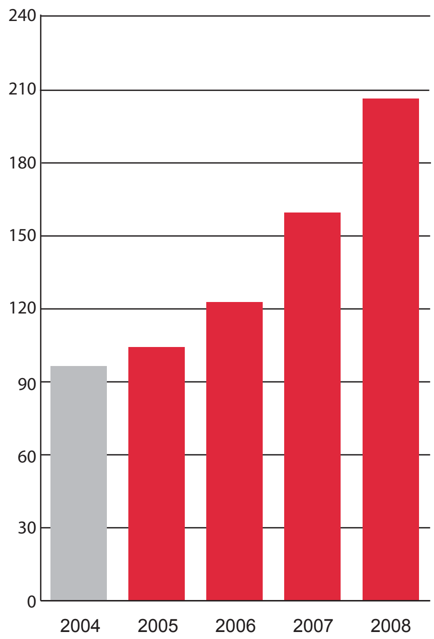
**) Board of Directors proposal to the annual general meeting of Larox Corporation shareholders.*

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

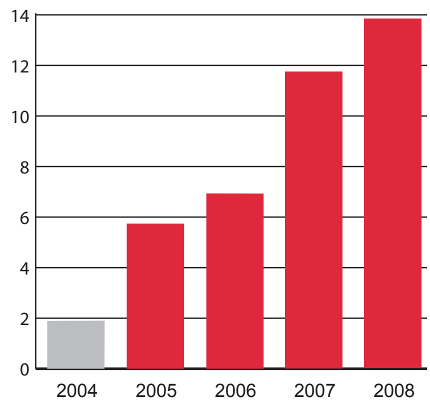
New orders and order backlog, EUR million



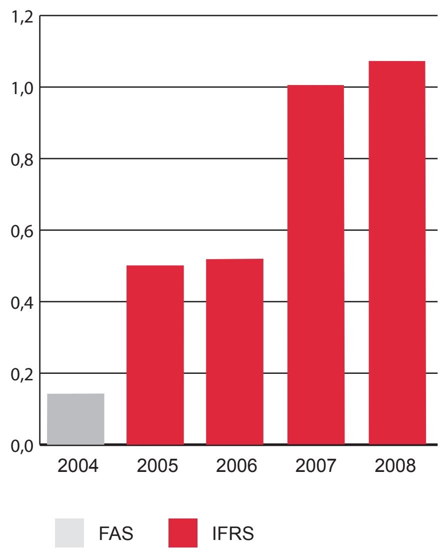
Net sales, EUR million



Profit/loss before taxes, 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 Thursday, 26 March 2009 at 12 p.m. at Larox Corporation headquarters, Tukkikatu 1, 53900 Lappeenranta, Finland.

Shareholders who are registered as shareholders in the shareholders' register maintained by Euroclear Finland Ltd. on 16 March 2009 have the right to participate in the annual general meeting of shareholders. The shareholder whose shares have been registered on his/her personal book-entry account, has been registered in the company's shareholders' register.

Shareholders who wish to participate in the annual general meeting of shareholders must notify the company no later than 18 March 2009 at 2 p.m. Notification can be made in writing to Larox Corporation, P.O. Box 29, 53101 Lappeenranta, by phone +358 (0)20 7687 200, fax +358 (0)20 7687 277 or email to tuula.poutanen@larox.com. The shareholder has the right to participate in the annual general meeting of shareholders or use his/her rights through a representative. The representative must present a dated power of attorney or otherwise prove his authorization by reliable means. Original powers of attorney are requested to be sent by the notification time to Larox Corporation, P.O. Box 29, 53101 Lappeenranta.

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 and 21 days before the meeting at the minimum on the company's web pages www.larox.com. Copies of these documents are available to the shareholders upon request. The minutes of the annual general meeting will be at the company's web pages in two weeks' time at the latest from the annual general meeting of shareholders.

Payment of dividends

Based on the proposal by the board of directors the dividend for the past fiscal year, which ended on 31 December 2008, is EUR 0.50 per share. Shareholders who are registered in the shareholders' registry maintained by Euroclear Finland Ltd. on 31 March 2009, the matching day of dividend payment, are entitled to the dividend. The dividends will be paid on 7 April 2009.

Financial reports in 2009

In addition to the Annual Report, Larox will publish three Interim Reports in 2009;

- January – March 23 April 2009
- January – June 6 August 2009
- January – September 23 October 2009

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 must inform the bank or banking house which takes care of their book-entry security accounts on any address change. Euroclear Finland Ltd. updates information for book-entry security account holders only. 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 (0)20 768 7200, fax +358 (0)20 768 7277 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 Bank Ltd, Evli Bank Plc and Pohjola Bank Plc.

Larox is not responsible for the opinions 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.

Quality Policy

Larox's main objective is that Larox services and products must meet or exceed customers' expectations. The benefit to the customer must be greater than our competitors can offer.

Quality must be taken into account in all core and support processes of our business. We follow the principle of internal customer relationships: "The previous step in the process chain is your supplier, the next step is your customer. If you do not serve the external customer, you serve someone else who does".

A precondition to realizing the Larox objectives is a motivated and trained personnel empowered to plan, implement, inspect and correct their own work.
Our aim is to carry out our duties on time and correctly from the very beginning in an atmosphere where each and every one is responsible for his or her own work performance.

Larox management will ensure all personnel have the necessary knowledge and skills to implement the Quality Policy.

Larox Strategy and Financial Targets

Target-oriented focus on concentrated field of expertise

We are in the business of providing value added 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 focus on concentrated field of expertise in solid-liquid separation, filtration, niche-technologies and customer segments in global markets. We develop our unique concept of customer service by operating the Larox way, building and maintaining strong customer relationships, and focusing our wide network of sales and after sales services 100 % on solid-liquid separation.

Motivated personnel with expert knowledge and skills combined with broad product and service portfolio is the foundation of our growth, which enables Larox to satisfy wider range of customer needs by providing continuous product and application development and increasing market share in after sales services.

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

Financial targets

- Profitable growth
- Good profitability, target operating profit (EBIT) of > 12 %
- Return on invested capital (ROI) > 25 %
- Equity ratio of 40 – 60 %
- Dividend pay-out 30 – 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. In addition to self-manufactured products Larox leans on sub-contractor workshops specialized in manufacturing and assembly.

Larox is a leading innovator for the separation of solid and liquid substances, which is often from production cost point of view a critical process step particularly for companies in Mining and Metallurgy and 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 balanced by comprehensive Performance for Life – aftermarket services during the lifespan of the Larox equipment ranging typically from 15 years to 25 years or more.

Our business consists of selling new process solutions (equipment) and after sales services. Sales of equipment relies, without exception, on the customer’s investment decision making process, which based on our experience often takes up to two years from first contact to contract. Our after sales services include consumables and spare parts, modernizations, upgrades, technical, and maintenance services. Purchase decisions for the after sales services are normally made without delays.

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 duty capital goods with a typical weight from 2 up to 129 tons, height from 2.0 up to 7.6 meters and throughputs from 0.1 up to 230 tons/hour dry solids. Filter unit prices typically range from EUR 0.1 up to 2.0 million. Average contract sizes are from EUR 1.0 to 3.0 million in Mining and Metallurgy Industries and from EUR 0.3 to 1.5 million in the Chemical Process Industries. Biggest contracts can be EUR 19.5 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 Metallurgy 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 Industries are less transparent and triggers for investments 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 2 400 million offering an approximately EUR 1 030 million market for Larox. Average annual demand growth rate in Mining and Metallurgy is approximately 3 % and between 3 % to 10 % in Chemical Process Industries 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.

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 pressures processing plants to find ways to decrease energy costs 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:

- 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)
- FLSmidth & Co. A/S acquired GL&V Process Group (2007)
- FLSmidth & Co. A/S acquired Pneumapress Inc (2008)
- Bateman Engineering acquired Delkor Group (2008)
- Larox acquired Turku Ceramics Oy (2008)

There are only a handful of global full service players: Larox, FLSmidth Minerals, Metso Minerals and Andritz. These control roughly 25 – 30 % of the EUR 1 030 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, filtrations in lateritic nickel ore processing and copper electrolyte purification in electrorefining process
- In Chemical Process Industries: pressure filtration of starches, precipitated calcium carbonate (PCC) and penicillin G as well as 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 that are primarily 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 steps e.g. thermal drying with fossile fuel.

To achieve our strategic targets we have a high focus on Research and Development. Larox invests 3 % to 5 % 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 Metallurgy Industries

The industry is further consolidating and is usually dominated by global players. Mining & Metallurgy companies are expanding production and de-bottlenecking plants to increase capacity. 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. During the last few years, junior mining companies have been growing fast. These companies often have limited financial resources, which results in projects with small budgets. Larox can also offer solutions 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 often has 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 located closer to the markets with high demand. There is also a trend for direct leaching of metals from ore and for movement into production processes which replaces the traditional flotation process. Larox also has solutions for these processes.

Larox is the global market leader in pressure filtration of metal concentrates, filtrations in lateritic nickel ore processing and in supplying polishing filters to copper electrorefining process for electrolyte purification. During recent years, Larox has also increased its share in the iron ore and pellet filtration.

Chemical Process Industries

The Chemical Process Industries face ever-increasing demands such as saving energy, conserving valuable resources, and improving productivity and environmental performance. At the same time industries are consolidating and the markets are being dominated by global players. Private and privatized companies are emerging in China and other Asian countries.

Today's industrial minerals, food and pharmaceutical and chemical products require increasingly cost-efficient and environmentally friendly processing. Larox addresses this need with 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, precipitated calcium carbonate (PCC) and penicillin G 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 demands for the reliability and availability of Larox equipment and associated services. Larox offers the most comprehensive After Sales Service portfolio to our customers.

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 services, emergency services, actual procedural services, spare parts logistic planning, and optimized spare parts 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 customers to understand their specific needs and deliver an increasing amount of value. Our actions are driven by customer satisfaction.

Larox's spare parts service achieves the availability and performance of the Larox process solution by ensuring optimal and on-time availability of spare parts.

Maximizing 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 customer is provided with an efficient single point of contact, a designated Larox support engineer based in the nearest Larox office. Installed equipment base of over 3 500 filters in over 1 000 customer plant locations with typical life-cycle between 15 to 25 years and more keeps our service personnel busy.

Important Events 2008

February

■ ***Larox to Supply Filters to Japan, Russia, Chile and Democratic Republic of Congo:*** Larox has been awarded contracts to supply different types of filters and ancillary equipment to mining and metallurgical companies in Japan (metallurgical pilot plant), Russia (copper concentrate filtration), Chile (copper concentrate filtration) and Democratic Republic of Congo (tailings re-treatment facility to produce copper cathode and cobalt hydroxide). Total value of the orders is approximately 13.5 million euros. *(Company announcement 6.2.2008)*

■ ***Release Concerning the Financial Statements for 2007:*** The Larox Group result before taxes for the fiscal year totaled EUR 11.8 million. Operating profit totaled EUR 13.1 million. Net sales totaled EUR 158.3 million. Order backlog at the end of the fiscal year totaled EUR 97.3 million. New orders received during the fiscal year totaled EUR 208.4 million. The return of shareholders' equity was 31.9 %. Return on invested capital was 22.9 %. Equity ratio was 34.2 %. Earnings per share totaled EUR 1.01. *(Company announcement 13.2.2008)*

March

■ ***Larox Establishes a Subsidiary in China:*** Larox establishes a subsidiary in China. The new subsidiary will be responsible for filter sales, after market services, local assembly and purchasing components from local suppliers. The aim is to improve Larox's ability to serve current and new customers in the growing Chinese and Asian markets. The subsidiary should be fully operational during the first half of 2009. *(Company announcement 26.3.2008)*

April

■ ***Larox to Supply Filters to Germany and Mexico:*** Larox has received approximately EUR 7.5 million worth of orders to supply filters and auxiliaries to a chemical company in Germany and to two mining companies in Mexico. To Germany, Larox supplies two units of Larox DS vertical pressure filters for an expansion project. Delivery to Mexico consists of Larox PF filters for zinc and copper concentrate filtration and of horizontal chamber filter presses for tailings in a gold mine utilizing Merril-Crowe process. *(Company announcement 17.4.2008)*

■ ***Interim Financial Report January-March:*** Larox Group's result before tax for the three months totaled EUR 2.2 million. Net sales totaled EUR 37.6 million. Operating profit was EUR 2.7 million. Order backlog at the end of the review period totaled EUR 109.2 million. The amount of new orders received during the review period totaled EUR 53.3 million. Earnings per share was EUR 0.14. The Annual General Meeting of the shareholders of Larox Corporation on 26 March 2008 confirmed the annual financial statements of the company and the Group. A dividend of 0.60 euro per share, in total EUR 5.6

million, was distributed in accordance with the proposal of the Board of Directors. *(Company announcement 24.4.2008)*

■ **Larox establishes a subsidiary in Russia:** Larox establishes a subsidiary in Russia. In the subsidiary, situated south of Moscow, will be customer support engineers and spare parts stock. The aim is to improve Larox's ability to serve current and new customers in the growing Russian markets. The subsidiary should be operational at the beginning of 2009. *(Company announcement 25.4.2008)*

May

■ ***Larox plans to buy Turku Ceramics Oy:*** Larox Corporation and the owners of Turku Ceramics Oy have signed a letter of intent by which the entire capital stock of Turku Ceramics Oy will be transferred to the ownership of Larox Corporation. The parties concerned aim at realizing the transaction by 30 June 2008. The aim of the acquisition is to enable Larox to supply filters using ceramic plates to the growing needs of the mining industry. *(Company announcement 9.5.2008)*

June

■ ***Larox to Supply Filters to Southern Africa:*** Larox has received three orders to supply filters to PGM and copper mines in Zimbabwe, South Africa and Zambia. Total value of the deals is approximately 6.0 million euros. The deliveries to Zimbabwe and South Africa consist of Larox PF vertical pressure filters for the production of platinum and palladium, and to Zambia of a Ceramec Capillary Action Disc Filter for the copper concentrate filtration. *(Company announcement 24.6.2008)*

August

■ ***Interim Financial Report January-June:*** During the first half of 2008 the result before tax totaled EUR 5.4 million. Net sales totalled EUR 85.1 million. Operating profit was EUR 6.2 million. The amount of new orders received during the first half of 2008 totaled EUR 105.2 million. Earnings per share was EUR 0.41. *(Company announcement 8.8.2008)*

■ ***Larox to Supply Filters to Australasian Region:*** Larox has received an order to supply filters to a nickel processing plant in Australasian region. The delivery consists of large size Larox's automatic vertical pressure filters for nickel cobalt hydroxide and iron/aluminium removal applications. The total value of the delivery is approximately 8.5 million euros and it further strengthens Larox's position as recognized and approved filtration technology provider for nickel processing. *(Company announcement 29.8.2008)*

September

■ ***The transfer of Turku Ceramics Oy to the ownership of Larox Corporation will be realized:*** The transaction, based on a letter of intent between the owners of Turku Ceramics Oy and Larox Corporation, of which a company announcement was published on 9 May 2008 and according to which the entire capital stock of Turku Ceramics Oy will be transferred to the ownership of Larox Corporation, will be realized and the ownership moved over to Larox Corporation on 1 October 2008. *(Company announcement 12.9.2008)*

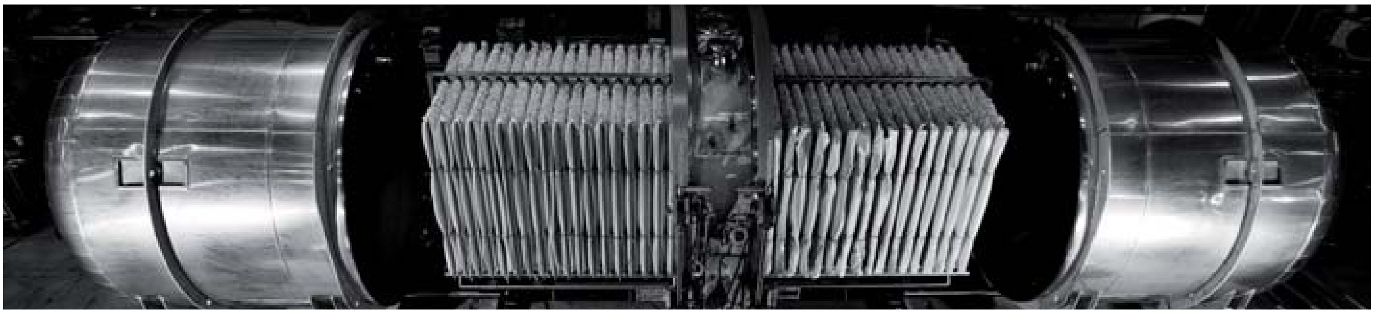
■ ***Larox to Deliver Filters to an Iron Pelletizing Plant in India:*** Larox has received an order from Essar Steel Ltd. to supply filters for a new iron pelletizing plant to Essar Steel Orissa Ltd in India. The total value of the delivery is approximately 13.5 million euros and the deliveries will take place during the second half of 2009 and first half of 2010. The delivery consists of several large size horizontal fast opening filter presses that will be used in separating the fine iron concentrate from the water before the actual pelletizing process. *(Company announcement 15.9.2008)*

October

■ ***Interim Financial Report January-September:*** During the first three quarters of 2008 the result before tax totaled EUR 10.2 million. Net sales totaled EUR 143.9 million. Operating profit was EUR 11.7 million. The amount of new orders received totaled EUR 159.0 million Earnings per share was EUR 0.77. *(Company announcement 23.10.2008)*

December

■ ***Larox's Subsidiary in China receives its Business License:*** Larox's subsidiary in China received its Business License from Suzhou Industrial Park Industrial and Commercial Bureau on December 8, 2008. The business license will now permit Larox to progress with the start-up of the operations. The construction of the production and office premises has progressed well and the subsidiary should be fully operational by May 2009. *(Company announcement 10.12.2008)*



President's Review

The 2008 fiscal year was both good and bad for Larox: we achieved our targeted growth in net sales, but not in relative profitability. Our order backlog decreased in the second half of the year. Larox's net sales increased by 31.4 percent over the previous year to EUR 208 million. Our operating profit was 8 percent of net sales. Return on shareholders' equity was 29.2 percent, and earnings per share amounted to EUR 1.07.

The growth in net sales was achieved by aftermarket sales and equipment sales to the Mining and Metallurgy Industry. The investment climate in the Mining and Metallurgy Industry has been extremely strong for the past three years. The existing plants have also been utilised to their full capacity, which has increased demand for our aftermarket products and services.

Sales volumes for the Chemical Process Industry have remained stable for several years, and 2008 was no exception. Sales to the Chemical Process Industry increased only slightly over the previous year.

At the start of 2008 our order backlog was at an excellent level due to the strong prevailing economic trend. We continued to receive a healthy number of orders in the first half of the year, but after August demand weakened considerably. On 31 December 2008 our order backlog was EUR 25 million lower than at the corresponding time in 2007.

Our largest single order in 2008 was for horizontal pressure filters and came from India. The estimated total value of this order was approximately EUR 13.5 million. Other major orders came from Japan, Chile, Russia, the Democratic Republic of Congo, Mexico and Germany.

The geographic distribution of net sales was as follows: North, Central and South America 33.1 %, Asia and Australasia 22 %, and Europe, CIS, Middle East and Africa 44.9 %

Environmental issues accelerated demand

The market for filters continues to expand in terms of both services and equipment. Solid-liquid separation is a vital part of the manufacturing process for thousands of different products. Our customers also have a need to switch to more efficient separation technologies. Even though new process technologies are being developed all the time, the need to separate solids and liquids will not diminish – quite the contrary.

Our competitive advantage is our extremely comprehensive portfolio of products and services. It is to our advantage that we can offer customers all filters and aftermarket products for their processes.

Increased environmental awareness and stricter environmental requirements are further increasing the adoption of more efficient processes, and thus also demand for our products. With our products customers can decrease their energy consumption, emissions and water usage while at the same time increasing the cost efficiency of their operations. More efficient water usage is particularly critical in the Mining and Metallurgy Industry, as these plants are often situated in areas that suffer from a shortage of water.

The focus of our R&D activities in 2008 was on fine-tuning the delivery and supply chains of the products we launched in 2007. The demand for products developed according to specific customer needs has been good. In our aftermarket activities we packaged our services in response to the situation whereby more and more customers are interested in full-service maintenance and plant utilisation.

A year of expansion

We established two new subsidiaries in 2008. The purpose of our Chinese subsidiary is primarily to serve our customers and sell products in China. The subsidiary also plays a key role in improving our profitability, as we can procure our steel structures and components through this company. We will also introduce local assembly of some of our product groups in China. These products are intended primarily for the Chinese and other Asian markets.

Our Russian subsidiary was established to enhance our credibility among customers in Russia by introducing local sales and aftermarket operations. We firmly believe that actors in the Russian Mining and Chemical Industries will invest heavily in Russia in the future, and we want to be present in the Russian market as a credible alternative.

In 2008 Larox also made a strategically important acquisition by purchasing Turku Ceramics Oy. This company manufacturers the ceramic discs that are an important element in the competitiveness of our Ceramec disc filters. Through this acquisition we obtained more decisive expertise for Larox.

Actions to improve profitability

Our relative profitability did not develop fully according to our goals in 2008. The growth in net sales was based primarily on new products that were brought to market in 2007 and whose profitability is not yet at the optimal level. In 2008 we fine-tuned the design of these products, as well as their delivery and supply chains. Raw material prices and components have also been a challenge.

In order to improve profitability we have transferred our procurement and manufacturing operations, as well as our product design, to eastern Central Europe and China. We have also made changes to our business models. We utilise a broad network of partners in our product design and aftermarket operations, which enhances flexibility in our business operations. When procurement activities are carried out globally, we can purchase components from lower cost countries.

Larox will continue to be strong – also in the future

The outlook at the moment is extremely short and uncertain. Nevertheless, we will not abandon our strategy of growth and improving profitability. We have a solid belief and ambition that Larox will continue to be a strong actor even in this uncertain situation. Our competitive product portfolio and knowledgeable customer service will retain our position also in the future. Especially when the market situation begins to improve, Larox will be in a strong position.

Net sales will probably decrease in 2009 compared with 2008. The biggest challenges will be related to maintaining profitability, as there are great uncertainties concerning the future.

Thank you

Larox enjoyed its third straight year of strong growth in 2008. We delivered twice the amount of equipment as in the previous year. In these years of growth the desire and ability of our staff to stretch has been essential. We have also developed our operations and introduced a new enterprise resource planning system, both of which have demanded a lot from our staff. I want to thank the whole personnel. We shall amend any delivery and quality problems that may have arisen due to this overload.

We have retained the trust of our customers in our products and in our expertise in 2008. I thank our customers for the co-operation and for choosing our high-quality products and expertise.

Over the years we have expanded our network of partners while developing our own business models, and partners are an increasingly important part of Larox's business. I thank our partners for their co-operation in 2008.

Our shareholders and other stakeholders also deserve great thanks. ■

Toivo Matti Karppanen

Board of Directors' Report

Business operations
In the beginning of the year 2008 the demand for our products and aftermarket services was at an excellent level due to the strong prevailing economic trend and investment activity in Mining and Metallurgy Industry. However, during the fourth quarter the accumulation of new orders decreased essentially since the uncertainties in world economy started to affect Larox's customer industries.

The order backlog of the company did not develop as estimated. Group order backlog at the end of December 2008 totaled EUR 72.0 million (EUR 97.3 million), which is 26.0 % less than at the same moment in the previous year. The amount of new orders received during the review period was EUR 184.8 million (EUR 208.4 million). Expected deliveries during 2009 are EUR 58.5 million.

Approximately 93 % of Group net sales were generated by exports and foreign operations.

Changes in Group structure during the year of 2008
The transaction of Turku Ceramics Oy to the ownership of Larox Corporation was realized on 1 October 2008 based on the letter of intent. Turku Ceramics, which concentrates in subcontracting, is the only manufacturer of technical ceramics in Finland. In 2007 the net sales of the company totaled EUR 3.4 million and it employed 26 persons. Larox uses the ceramic plates supplied by Turku Ceramics as filter elements in disc filters.

Larox established a holding company, Larox AB, to Sweden for the subsidiary in China. On 8 December Larox's subsidiary in China received its Business License. Larox Filtration Technology (Suzhou) Co. Ltd. is located in the Suzhou Industrial Park (SIP) near Shanghai and it is responsible for filter sales, local assembly and after market services in China. The subsidiary should be fully operational during the spring in 2009.

Larox's subsidiary in Russia, OOO Larox, will start its operations after receiving a business license from Russian authorities on 22 December 2008. The unit, located south of Moscow, will be in charge of after-market services in Russia. With the help of its local spare-parts stock and customer service Larox's ability to serve its present and future customers will be improved, which is expected to have a positive effect on delivery times and development of sales volume in Russia.

Larox's new subsidiaries are supporting the growth strategy of the company as well as contributing to the global competitiveness in the growing markets of Russia and Asia.

Profits and profitability

Larox Group's result before tax for the review period totaled EUR 14.0 million (EUR 11.8 million). i.e. 6.7 % (7.4 %) of net sales. The group showed an operating profit of EUR 16.6 million (EUR 13.1 million). i.e. 8.0 % (8.3 %) of net sales. The total net sales were EUR 208.0 million (EUR 158.3 million). Depreciations totaled EUR 3.8 million (EUR 3.5 million). which is 1.8 % (2.2 %) of net sales. Profit of the period was EUR 10.0 million (EUR 9.5 million).

Return on shareholders' equity was 29.2 percent (31.9 %). Return on invested capital was 24.2 % (22.9 %). Earnings per share was EUR 1.07 (EUR 1.01).

Balance sheet and financing

At the turn of the year 2008 the Group balance sheet totaled EUR 118.1 million (EUR 102.9 million). Net financing costs totaled EUR 2.7 million (EUR 1.3 million), i.e. 1.3 % (0.8 %) of net sales. Net cash flow from operating activities was EUR 10.8 million (EUR -2.4 million). The equity ratio was 32.3 % (34.2 %) and debt-equity ratio 1.07 (1.12). Reserve of financing limits of the Group has been increased at the end of the preview period. Furthermore, pension loan has been taken as a long term financing method.

Investments

Larox Group's investments totaled EUR 7.4 million (EUR 3.3 million). The investments include the acquisition of Turku Ceramics Oy, IT applications and replacement investments.

Research and development

Larox invested in research, equipment and process development, automation products and test filtering as follows:

	2008	2007	2006
EUR million	7.3	7.6	6.8
% of net sales	3.5	4.8	5.5

Last year Larox concentrated on improving the delivery and supply chain of the new products it had introduced to market in 2007. The focus in research was also on improving the applicability of filter solutions as a part of process plant systems. In the aftermarket operations Larox developed its service products and started commercializing them systematically.

With the help of product development Larox is pursuing to meet customer needs better with its products. In practice, this has meant the development and launching of increasingly bigger machines with high capacity.

Larox has made a contract with Lappeenranta University of Technology to secure the education in liquid and solid separation technology by funding a professorship. The size of the fund is EUR 95 thousand annually during a five-year period starting in 2008.

Personnel

The average number of personnel employed by the Group during the review period was 562 (458*, 450**). At the end of the review period it was 593 (469*, 446**) of which 279 (220*, 210**) worked for the parent company. The growth can mainly be seen in the after sales business in Finland, Australia, South Africa, Chile and Peru, and due to the acquisition of Turku Ceramics Oy (26).

The development of management and leadership was emphasized at every organizational level as well as the implementation of new comers to the global organization.

Under the conditions of rapid growth also methods of performance management and P&D discussion practices were developed in order to support new comers in getting at their tasks quickly and to implement the strategy throughout the organization. Furthermore new competence management tools were piloted.

** 2007, **2006*

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

AREA	2008	2007	2006
Finland	303	220	210
Other European countries	130	127	139
North America	35	32	27
South and Central America	49	36	33
Asia and Australasia	39	28	17
Middle East and Africa	37	26	20
Personnel total	593	469	446

Employee benefits expenses are divided as follows:

1000 EUR	1 Jan–31 Dec 2008	1 Jan–31 Dec 2007	1 Jan–31 Dec 2006
Salaries and fees	28 245	24 711	23 219
Pension expenses, defined contribution plans	3 064	2 302	2 228
Pension expenses, defined benefit plans	23	57	33
Share-based payments, payment in cash	28	63	57
Share-based payments, payment in shares	9	101	
Other employee benefits	4 991	4 292	3 829
Employee benefits expenses, total	36 360	31 526	29 366

The Board of Directors and auditors

In Larox Corporation annual general meeting of shareholders on 26 March 2008 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 in the organizational meeting 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: auditing society PricewaterhouseCoopers Oy with primary responsibility APA Kim Karhu.

Administration

In 2008 the main principles of corporate governance, recommended by the NASDAQ OMX Helsinki Ltd., 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

Risk management is part of Larox Group's management and control system. It aims to prevent negative phenomena, support the Group strategy and ensure continuity of its operations and the wellbeing of its personnel. According to Larox risks management system risks are divided into the following four risk categories: commercial, operational, financial risks and risk of damage.

Larox operates on a global market where global economic trends affect its business development, even though it is not at the mercy of changes in some particular market area. The recent political unrest in sub-equatorial Africa has caused the most uncertainty in Larox's business. Larox established subsidiaries in both China and Russia, and the global economic crisis adds challenges the new subsidiaries are facing.

The demand risk of Larox products has increased essentially because of the global economic challenges. The uncertainty in demand, which appeared at the end of 2008, is expected to continue during the year of 2009.

The international crisis has decreased Larox's customers' interest in investments and their operational volumes when at the same time some customers are starting cost saving actions, this all causing the increase in competition to continue. There are certain branches of industry in Larox's clientele where no effects of the economic crisis have been noticed, such as the food and pharmaceutical industries.

Larox manages risks related to purchasing and manufacturing already at contract level by tying raw material costs to materials cost index. Furthermore Larox will inspect and control its subcontractors even more than before in accordance with quality systems and by developing logistics. In addition, Larox aims to expand its cooperation networks. Along with the economic crisis the availability of supplier resources has increased.

The constant uncertainty about the financial situation of companies has increased Larox's credit loss risk, too. Larox attempts to control these risks by applying more suitable payment terms, by monitoring operations actively and by reacting to payment delays more efficiently. The euro, U.S. dollar, Australian dollar and South African rand are Larox's main invoicing currencies. Larox's principal buying currency is the euro. Larox fights off currency risks by means of various protective measures. The fluctuation of exchange rates of Larox's main currencies makes the management of currency risks more difficult.

Larox fights off the risk of damage by following various occupational health and safety schemes and by preparing other strategies and plans for business premises, and by supervising the implementation of these strategies and plans. According to Larox, traffic and other accidents and illnesses during business trips pose the greatest risk of damage. Larox attempts to prevent these risks by detailed codes of practice as well as vaccinations and other health care measures. During the review period there has not been savage personnel damages or other accidents, which could seriously risk Larox ability to do business.

Further information about risks and risk management is presented in the Group's internet pages (www.larox.com) in the section of Corporate Governance.

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 environmental impact of Larox filters is positive during their life cycle: customers are able to decrease the environmental impact of their manufacturing processes with the help of efficient separation technology. Larox filters reduce the energy and water consumption and emissions in the manufacturing processes of both Mining and Metallurgy as well as Chemical Process Industry.

Authorization given to the Board of Directors

The annual general meeting of shareholders had authorized the Board of Directors to decide on the repurchase of shares by using the company's unrestricted shareholders' equity but this authorization was not used during the fiscal year. The authorization regarded 500 000 Larox Corporation B-series shares at the maximum and expired on 30 September 2008 from the resolution of the annual general meeting of shareholders.

The annual general meeting of shareholders authorized the Board of Directors to decide on shares, stock option rights or special rights referred to in the Finnish Companies Act chapter 10. paragraph 1 in one or more lots in such a way that based on the authorization the total maximum number of Larox Corporation B-series shares is 500 000 but this authorization was not used during the fiscal year. The authorization is valid until 30 March 2012 from the resolution by the annual general meeting of shareholders.

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 43 320 of the subscribed B-series shares, the restriction period of which ended on 1 December 2008, were released for trading together with other Larox Corporation B-series shares. Shares released in 2008 were the last to be released according to the share issue of 2004.

Larox Corporation has 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-based incentive plan f or key personnel

Larox Corporation Board of Directors decided on 29 May 2007 on a share-based incentive plan for Larox Group key personnel. The maximum number of shares to be granted under the share-based award program is in total 150 000 and in cash such an amount that is needed to cover the taxes and tax-related payments at the grant date, however the amount can not exceed the value of shares at the grant date. The vesting period started on 1 January 2007 and ends on 31 December 2010. This was informed in a company announcement on 30 May 2007 and on 10 August 2007.

Shares and shareholders

The trading with Larox shares 1 January–31 December 2008 totaled 2 228 321, which is 23.8 % of the total number of shares. The value of the trading totaled EUR 20.7 million. The lowest price of the period was EUR 4.60 and the highest EUR 12.40 per share. The closing trading price of the share was EUR 4.60 per share and the market value of the total capital stock EUR 43.2 million. At the end of 2008 the number of share-holders was 1 913.

More detailed info on the holdings of the management and Board of Directors can be found in notes to financial statements, section Shares and shareholders. Share classes and principal regulations of the Articles of Association have been defined in more detailed in section Shares and shareholders.

Shareholders´equity

Information on Larox Corporation shares has been presented in notes to financial statements point 22, Notes to shareholders' equity.

Events after the balance sheet date

The board of directors is not aware of any material uncertainties after the balance sheet date, that might require changes to the financial statements.

Future prospects

During the last quarter the accumulation of new orders decreased essentially. The order backlog at the end of the year was EUR 72.0 million (EUR 97.3 million) and expected deliveries during 2009 are EUR 58.5 million.

Unstable global economic situation increases uncertainty in demand. Due to this future prospects are difficult to predict and estimations include more uncertainty than usually. Net sales of the Group for 2009 are expected to clearly decrease in comparison to the previous year. It is Larox's objective to reconcile the cost structure so that profitability will remain on a satis-factory level at the minimum.

Distribution of profit

Parent company's dividends available for the distribution totaled EUR 15.6 million (EUR 18.7 million), of which the profit for the fiscal year is EUR 2.5 million (EUR 9.3 million). The Board proposes to the annual general meeting of shareholders a dividend of EUR 0.50 per share (EUR 0.60 per share) to be distributed, i.e. a total of EUR 4.7 million (EUR 5.6 million). No essential 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 Jan – 31 Dec, 2008	1 Jan – 31 Dec, 2007	1 Jan – 31 Dec, 2006
New orders	184 799	208 421	137 971
Group order backlog end of the period	72 006	97 330	44 911
Net sales	207 995	158 270	122 809
Operating profit (EBIT)	16 618	13 070	8 931
% of net sales	8.0	8.3	7.3
Net financing costs	2 661	1 315	1 887
% of net sales	1.3	0.8	1.5
Result before taxes	13 957	11 755	7 044
Result for the period	10 022	9 496	5 004
Investments	7 402	3 285	2 285
Shareholders' equity per share at end of period, EUR	3.81	3.50	2.84
Equity ratio %	32.3	34.2	33.9
Return on equity, %	29.2	31.9	19.4
Return on invested capital, %	24.2	22.9	16.7
Total assets	118 139	102 853	83 295
% of net sales	56.8	65.0	67.8
Contingent liabilities (EUR million)	44.2	30.3	27.8
EPS basic and diluted (EUR)	1.07	1.01	0.53
Dividend per share (EUR)	*) 0.50	0.60	0.30
Trading price at the end of period, (EUR)	4.60	12.00	9.00
Dividend per earnigs ratio, %	46.7	59.4	56.6
Dividend yield, %	10.9	5.0	3.3
Price per earnings ratio (P/E)	4.30	11.88	16.98
Market capitalization at the end of period, EUR million **)	43.2	112.6	84.4
Trading volume			
B-shares, 1000 pcs	2 228.3	4 173.6	2 570.7
In relation to average number of B shares, %	23.8	44.5	27.4
Average number of shares at the end of period, 1000 pcs	7 257.6	7 257.6	7 253.9
Personnel, average	562	458	450
Personnel at the end of the period	593	469	446
Net sales/employer	370	346	273

**) 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)*

Consolidated Financial Statements, IFRS

Consolidated Income Statement, IFRS

1000 EUR	Note	1 Jan–31 Dec, 2008	1 Jan–31 Dec, 2007
Net sales	3)	**207 995**	**158 270**
Other operating income	5)	4 230	2 240
Materials and services	6)	-119 117	-86 859
Employee benefits expense	7)	-36 360	-31 526
Depreciation and amortization	13, 15)	-3 808	-3 504
Other operating expenses	8)	-36 322	-25 551
OPERATING PROFIT		**16 618**	**13 070**
Financial income	10)	655	946
Financial expenses	10)	-3 778	-2 622
Share of profit in associates	16)	462	361
PROFIT BEFORE TAX		**13 957**	**11 755**
Income tax expense	11)	-3 935	-2 259
PROFIT FOR THE PERIOD		**10 022**	**9 496**
Attributable to			
Equity holders of the company		**10 022**	**9 496**
Earnings per share for profit attributable to the equity holders of the company during the year			
EPS basic and diluted (EUR)	12)	1.07	1.01

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

Consolidated Balance Sheet, IFRS

1000 EUR	Note	31 Dec, 2008	31 Dec, 2007
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	13)	18 998	18 795
Goodwill	14)	2 843	2 926
Property, plant and equipment	15)	11 382	9 257
Investments in associates	16)	1 723	1 393
Available-for-sale investments	17)	23	23
Deferred tax asset	18)	5 063	5 238
TOTAL NON-CURRENT ASSETS		**40 031**	**37 633**
CURRENT ASSETS			
Inventories	19)	28 191	26 592
Trade receivables and other receivables	20)	46 555	36 651
Current tax assets		1 701	165
Cash and bank	21)	1 661	1 812
TOTAL CURRENT ASSET		**78 108**	**65 220**
TOTAL ASSETS		**118 139**	**102 853**
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES ATTRIBUTABLE A EQUITY HOLDERS OF THE COMPANY			
Share capital	22)	5 629	5 629
Share premium account		5 777	5 777
Other reserves		-208	
Translation differences		-205	-127
Retained earnings		24 777	21 566
SHAREHOLDERS' EQUITY		**35 770**	**32 845**
NON-CURRENT LIABILITIES			
Deferred tax liability	18)	4 111	1 804
Long-term financial liabilities	23)	13 124	12 751
Employee benefit obligations	24)	594	554
Non-current provisions	25)	1 843	826
TOTAL NON-CURRENT LIABILITIES		**19 672**	**15 936**
CURRENT LIABILITIES			
Short-term financial liabilities	23)	25 144	24 133
Trade payables and other payables	26)	35 893	26 683
Current tax liabilities	26)	550	1 935
Current provisions	25)	1 110	1 321
TOTAL CURRENT LIABILITIES		**62 697**	**54 072**
TOTAL EQUITY AND LIABILITIES		**118 139**	**102 853**

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

Consolidated Statement of Cash Flow, IFRS

1000 EUR	Note	1 Jan–31 Dec, 2008	1 Jan–31 Dec, 2007
Cash flow from operating activities			
Profit for the period		10 022	9 496
Adjustments for profit andd loss:			
Depreciation and amortization	13, 15)	3 808	3 504
Gains on disposals of fixed assets		-4	-92
Share of profit of associated companies	16)	-462	-361
Unrealized exchange gains and losses		53	-234
Financial income and expenses	10)	3 070	1 910
Income taxes	11)	3 935	2 259
Change of the working capital:			
Change in inventories		-3 411	-6 751
Change in trade and other receivables		-11 996	-12 063
Change in trade and other payables		11 552	4 115
Change in provisions		856	882
Interest paid in operating activities		-1 848	-1 819
Interests received in operating activities		78	53
Other financial items in operating activities		253	-50
Income taxes paid in operating activities		-5 058	-3 217
Net cash generated from operating activities		**10 848**	**-2 368**
Cash flow from investing activities			
Investments in property, plant and equipment and intangible assets		-2 969	-3 285
Investments on company acquisition		-3 384	
Income from disposal of property, plant and equipment and intangible assets			92
Proceeds from available-for-sale financial assets			43
Dividends received from investments		125	112
Net cash used in investing activities		**-6 228**	**-3 038**
Cash flow from financing activities			
Short-term loans made		17 956	20 509
Repayments of short-term loans		-19 849	-5 204
Long-term loans made		9 400	2 687
Repayments of long-term loans		-6 280	-9 820
Repayments of finance leases		-88	-93
Dividends paid		-5 629	-2 814
Net cash generated from financing activities		**-4 490**	**5 265**
Net change in cash and cash equivalents		**131**	**-141**
Cash and cash equivalents 1 Jan		1 812	1 952
Effect of the foreign exchange rates		-282	1
Cash and cash equivalents 31 Dec	21)	1 661	1 812

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

Consolidated Statement of Changes in Equity, IFRS

1000 EUR	Note	Share capital	Share issue premium	Fair value res.	Hedging res.	Translation diff.	Retained earnings	Total
		Equity belonging to parent company's shareholders						
SHAREHOLDERS' EQUITY 1 Jan, 2007		**5 629**	**5 777**	**105**	**-44**	**-70**	**15 271**	**26 668**
Cash flow hedging recognized in equity, net of tax	22)				44			44
Investment available to sale, at fair value, net of tax				-105				-105
Change in translation						-58	-487	-545
Net profits and losses recognized directly in shareholders equity				**-105**	**44**	**-58**	**-487**	**-606**
Profit for the period							**9 496**	**9 496**
Total profit and losses				**-105**	**44**	**-58**	**9 009**	**-8 890**
Dividend distribution	22)						-2 814	-2 814
Share-based payments	7, 22)						101	101
SHAREHOLDERS' EQUITY 31 Dec, 2007		**5 629**	**5 777**	**0**	**0**	**-127**	**21 566**	**32 845**

1000 EUR	Note	Share capital	Share issue premium	Fair value res.	Hedging res.	Translation diff.	Retained earnings	Total
		Equity belonging to parent company's shareholders						
SHAREHOLDERS' EQUITY 1 Jan, 2008		**5 629**	**5 777**	**0**	**0**	**-127**	**21 566**	**32 845**
Cash flow hedging recognized in equity, net of tax	22)							
Investment available to sale, at fair value, net of tax				-208				-208
Change in translation						-78	-1 191	-1 269
Net profits and losses recognized directly in shareholders equity				**-208**		**-78**	**-1 191**	**-1 477**
Profit for the period							**10 022**	**10 022**
Total profit and losses				**-208**		**-78**	**8 831**	**8 545**
Dividend distribution	22)						-5 629	-5 629
Share-based payments	7, 22)						9	9
SHAREHOLDERS' EQUITY 31 Dec, 2008		**5 629**	**5 777**	**-208**	**0**	**-205**	**24 777**	**35 770**

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 NASDAQ OMX Helsinki Stock Exchange since 1988. Larox is a full-service solution provider in solids and liquid separation. 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. Most of the Larox Group net sales were generated outside Finland.

These financial statements were authorized for issue by the Board of Directors on 12 February 2008. Copy of the Consolidated Financial Statement is available at www.larox.com or from the head office of the Group at address: Tukkikatu 1, 53900 Lappeenranta.

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 as of 31 December 2008 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.

Application of new and amended IFRS standards and IFRIC interpretations

IASB has issued the following new and amended standards and interpretation that were effective in 2008

– IAS 39 (Amendment) and IFRS 7 (Amendment), 'Reclassification of financial assets'. The amendment permits an entity to reclassify non-derivative financial assets out of the held for trading category and from the available-for-sale category in particular circumstances and with certain criteria. In case of reclassification additional disclosures are required. The amendment is effective from 1 July 2008. The amendment does not have an impact on the Group's financial statements.

The IASB has published the following standards and interpretations whose application will be mandatory in 2009 or later. The Group has not early adopted these standards, but will adopt them in later periods.

The following standards and interpretations will be adopted by the group in 2009:

– IAS 1 (Revised), ‘Presentation of Financial Statements’. The revised standard is aimed at improving users’ ability to analyse and compare the information given in financial statements by separating changes in equity of an entity arising from transactions with owners from other changes in equity. Non-owner changed in equity will be presented in the statement of comprehensive income. Management is assessing the impact of this revision on the financial statements of the Group.
– Amendment to IAS 23, ‘Borrowing Costs’. The amended standard requires an entity to capitalize borrowing costs directly attributable to a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The amendment does not change the accounting policy applied by the Group and therefore, does not have any impact on the group’s financial statements.
– Amendments to IAS 32, ‘Financial Instruments: Presentation’ and IAS 1, ‘Presentation of Financial Statements’—Puttable Financial Instruments and Obligations Arising on Liquidation. The amendments require some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. Management is assessing the impact of this revision on the financial statements of the Group. *
– Amendment to IFRS 2, ’Share-based payment’, clarifies that only service conditions and performance conditions are vesting conditions. All other features need to be included in the grant date fair value and do not impact the number of awards expected to vest or the valuation subsequent to grant date. The amendment also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment is not expected to have an impact on the group’s financial statements.
– IFRS 8, ‘Operating Segments’. The new standard replaces IAS 14. The new standard requires a ‘management approach’, under which segment information is presented on the same basis as that used for internal reporting purposes. Business operations of Larox Group are managed as one operational entity from the vies-point of profit-generating activities. This means that segment reporting includes one operational entity. The previously presented secondary segment reporting format, geographical segments will be omitted. The standard will not have impact on impairment testing in the group.
– IFRIC 11, ‘IFRS 2 – Group and treasury share transactions’. The interpretation provides guidance on whether share-based transactions involving treasury shares or involving group entities should be accounted for as equity settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. The interpretation will not have a material impact on the group’s financial statements.
– IFRIC 13, ‘Customer Loyalty Programmes’. The interpretation clarifies that where goods or services are sold together with a customer loyalty incentive, the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 will not have an effect on the group’s financial statements as none of the group’s companies operate loyalty programmes.
– IFRIC 14, ‘IAS 19 – The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction’. The interpretation is applied to post-employment defined benefit plans and other long-term defined benefit plans under IAS 19, if the plan includes minimum funding requirements. The interpretation also clarifies the criteria for recognition of an asset on future refunds or reductions in future contributions. The interpretation will not have a material impact on the group’s financial statements.
– IFRIC 15, ‘Agreements for the Construction of Real Estate’. The interpretation clarifies whether an agreement for the construction of real estate is within the scope of IAS 11, ‘Construction Contracts’, or IAS 18, ‘Revenue’, and when revenue from such construction projects can be recognized on a percentage of completion basis. The interpretation will not have a material impact on the group’s financial statements.*
– IFRIC 16, ’Hedges of a Net Investment in a Foreign Operation’. IFRIC 16 clarifies the accounting treatment in respect of a hedge of a net investment in a foreign operation. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency. In addition hedging instruments may be held anywhere in the group. The requirements of IAS 21, ‘The effects of changes in foreign exchange rates’, do apply to the hedged item. Management assesses that the interpretation will increase the group’s possibilities to apply hedge accounting, but the impact on the on the group’s financial statements will most likely not be material.*

IASB published changes to 34 standards in May 2008 as part of the annual Improvements to IFRS project. The following presentation includes those changes, that the group will adopt in 2009 and where the management assesses that the change may have an impact on the group’s financial statements:

– IAS 1 (Amendment), ‘Presentation of financial statements’. The amendment clarifies that some rather than all financial assets classified as held for trading in accordance with IAS 39 are current assets. Management assesses that the amendment will not have a material impact on the financial statements of the group.*
– IAS 16 (Amendment), ‘Property, plant and equipment’ (and consequential amendment to IAS 7, ‘Statement of cash flows’). Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to IAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The amendment is not expected to have an impact on the group’s financial statements.
– IAS 19 (Amendment), ‘Employee benefits’. The amendment clarifies among others things that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. Management assesses that the amendment will not have a material impact on the financial statements of the group.*
– IAS 20 (Amendment), ‘Accounting for government grants and disclosure of government assistance’. The benefit of a below market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39 and the proceeds received with the benefit accounted for in accordance with IAS 20. Management assesses that the amendment will not have a material impact on the financial statements of the group.*
– IAS 23 (Amendment), ‘Borrowing costs’. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39. Management assesses that the amendment will not have a material impact on the financial statements of the group.*

– AS 27 (Amendment), ‘Consolidated and separate financial statements’. Where an investment in a subsidiary that is accounted for under IAS 39, ‘Financial instruments: recognition and measurement’, is classified as held for sale under IFRS 5, ‘Non-current assets held-for-sale and discontinued operations’, IAS 39 would continue to be applied. Management assesses that the amendment will not have a material impact on the financial statements of the group.*
– IAS 28 (Amendment), ‘Investments in associates’ (and consequential amendments to IAS 32, ‘Financial Instruments: Presentation’ and IFRS 7, ‘Financial instruments: Disclosures’). Where an investment in associate is accounted for in accordance with IAS 39, only certain rather than all disclosure requirements in IAS 28 need to be made in addition to disclosures required by IAS 32 and IFRS 7. The amendments will not have an impact on the financial statements of the group.*
– IAS 28 (Amendment), ‘Investments in associates’ (and consequential amendments to IAS 32, ‘Financial Instruments: Presentation’, and IFRS 7, ‘Financial instruments: Disclosures’). An investment in an associate is treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The amendments will not have an impact on the financial statements of the group.*
– IAS 31 (Amendment), ‘Interests in joint ventures’ (and consequential amendments to IAS 32 and IFRS 7). Where an investment in joint venture is accounted for in accordance with IAS 39, only certain rather than all disclosure requirements in IAS 31 need to be made in addition to disclosures required by IAS 32 and IFRS 7. The amendments will not have an impact on the financial statements of the group.*
– IAS 36 (Amendment), ‘Impairment of assets’. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. Management is assessing the impact of this revision on the financial statements of the Group.
– IAS 38 (Amendment), ‘Intangible assets’. A prepayment may only be recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. This means that an expense will be recognized for mail order catalogues when the group has access to the catalogues and not when the catalogues are distributed to customers. The amendments will not have an impact on the financial statements of the group.*
– IAS 38 (Amendment), ‘Intangible assets’. The amendment deletes the wording that states that there is ‘rarely, if ever’ support for use of a method that results in a lower rate of amortization than the straight-line method. The amendments will not have an impact on the financial statements of the Group.*
– IAS 39 (Amendment), ‘Financial instruments: Recognition and measurement’. The amendment clarifies among other things the classification of derivative instruments where there is a change in the hedge accounting, the definition of financial asset or financial liability at fair value through profit or loss and requires use of a revised effective interest rate to remeasure the carrying amount of a debt instrument on cessation of fair value hedge accounting. . Management assesses that the amendment will not have a material impact on the financial statements of the group.*
– IAS 40 (Amendment), ‘Investment property’ (and consequential amendments to IAS 16). Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable. The amendments will not have an impact on the financial statements of the Group.*
– IAS 41 (Amendment), ‘Agriculture’. The amended standard requires the use of a market-based discount rate where fair value calculations are based on discounted cash flows and removes the prohibition on taking into account biological transformation when calculating fair value. Management assesses that the amendment will not have a material impact on the financial statements of the group.
– IFRS 1 (Amendment) ‘First time adoption of IFRS’, and IAS 27 ‘Consolidated and separate financial statements’). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment does not have an impact on the group’s financial statements, and the group companies are not applying IFRS in their stand alone financial statements.*

The following standards and interpretations published by the IASB will be adopted by the group in 2010:
– IFRS 3 (Revised), ’Business combinations’. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through income. Goodwill may be calculated based on the parent’s share of net assets or it may include goodwill related to the minority interest. All transaction costs will be expensed. The Group will change possible future business combination accounting procedure according to the standard. *
– IAS 27 (Revised), ’Consolidated and separate financial statements’. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value and a gain or loss is recognized in profit or loss. Management is assessing the impact of this revision on the financial statements of the group. *
– IAS 39 (amendment), ‘Financial instruments: Recognition and measurement – Eligible Hedged Items’. The amendment prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. This amendment does not have an impact on the group’s financial statements.*
– IFRS 5 (Amendment), ‘Non-current assets held-for-sale and discontinued operations’ (and consequential amendment to IFRS 1, ‘First-time adoption’). The amendment is part of the IASB’s annual improvements project published in May 2008. The amendment clarifies that all of a subsidiary’s assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. Management is assessing the impact of this revision on the financial statements of the group.*

– IFRIC 17, 'Distributions of non-cash assets to owners'. The interpretation clarifies how an entity should measure distributions of assets other than cash made as a dividend to its owners. Management is assessing the impact of this interpretation on the financial statements of the group.*
– IFRIC 12, 'Service Concession Arrangements'. The interpretation applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services.*

** The standard/ interpretation is still subject to endorsement by the European Union.*

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.

All intra-group transactions, receivables, liabilities and unrealized margins, and distribution of profits within the Group are eliminated. Unrealized losses are not eliminated if they provide evidence of an impairment.

Associates are entities over which the Group has significant influence, generally accompanying a shareholdings of between 20 % and 50 % of the voting rights. Group has one associated company, which is accounted for using the equity method of accounting. Also the existences of potential voting rights that are currently exercisable are considered when assessing whether the Group controls another entity. The Group's share on its associates' profit or loss is recognized in the income statement on a separate line after operating profit. 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".

Foreign currency transactions
Items included in the financial statements of each subsidiary are measured using the currency of the primary economic environment in which the entity operates (" the functional currency"). The consolidated financial statements are presented in euro, which is the company's functional and presentation currency.

Foreign currency transactions are translated into euros using the prevailing exchange rate 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. Balance sheets of subsidiaries 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 either at the date when the fair value was determined or at the transaction date.

Also the gains and losses arising through hedging net investments are recognized in the translation difference, when the hedge accounting requirements are met.

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. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred, that are likely to be recoverable.

Interest income is recognized using the effective interest method and dividend income is recognized when the right to receive payment is established.

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, intra-group inventory profits, defined benefit plans, provisions, accelerated depreciation and tax losses and credits carried forward. Deferred 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. Deferred tax is not accounted for if it arises from initial recognization of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit of loss.

Intangible assets
Intangible assets, with finite useful life, are amortized based on the following estimated useful lives:

Development costs	5 – 10 years
Intangible rights	4 – 18 years
Customer relations	17 years
Technology	8 – 18 years
Supplier relations	15 years
Process development	12 – 20 years

The assets' estimated useful lives and residual values are reviewed at each balance sheet date and if they differ significantly from the prior estimates, the amortization periods are adjusted accordingly.

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. Research and development costs relate to development of new products and enhancement of internal efficiency and include for example costs of customization of the new ERP system. Research and development projects are regularly assessed in project meetings and costs incurred are capitalized when IAS 38 capitalization requirements are met.

Capitalized development expenses including materials, supplies, direct labor and related overhead costs are amortized on a systematic basis over their expected useful lives. The assets are amortized from the point at which the asset is ready for use. Assets that are not yet for use, are tested for impairment annually. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. After initial recognition capitalized development costs are carried at historical cost less accumulated amortization and impairment losses.

Goodwill and other intangible assets
Goodwill and other intangible assets with indefinite useful lives are shown at historical cost less impairment losses.

Goodwill and brands with indefinite useful lives are not amortized, but tested annually for impairment. For this purpose goodwill is allocated to cash-generating units.

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 measured at fair value at the acquisition date 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 is expensed as incurred.

Property, plant and equipment
Property, plant and equipment are stated at historical cost less accumulated straight-line depreciation and possible impairments losses.

Depreciation is based on the following expected useful lives:

Constructions	5 years
Buildings	40 years
Machinery	4 – 10 years
Other fixed assets	5 – 10 years

Depreciation methods are reviewed at the end of each financial year. Land and water are not depreciated excluding depreciation of asphalt paving. 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 relevant asset. Grants deducted from the acquisition cost of investments are recognized in income in the form of smaller depreciation over the useful life of the asset.

Impairment of non-financial assets
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. For purposes of assessing impairment, assets of the Group are grouped as cash-generating units at the lowest levels for which there are separately identifiable cash flows. Larox Group has one such level, Group. An impairment loss recognized in income statement is the amount by which the carrying amount of the assets exceeds the recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from tan asset or cash-generating unit. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to 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 (note 14).

Lease agreements when the Group is the lessee

Leases of property, plant and equipment where the Group has substantially all the rewards and risks of ownership are classified as finance leases. Asset acquired by finance lease 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 determined by the purpose of the financial asset upon original acquisition. 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 transferred the significant risks and rewards outside the Group.

Loans and other receivables are recognized on 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 and goods. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current financial assets.

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 net of taxes. 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. These are recognized at fair value at trade date. Fair value is based on quoted market prices and rates.

Cash and cash equivalents include 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 also 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 amortized 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. Borrowers' considerable financial difficulties, likelihood of bankruptcy and neglecting to pay invoices due more than 90 days are evidence of impairment.

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

Reversal of an impairment loss recognized on a debt instrument is recognized in profit or loss.

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. Borrowers' considerable financial difficulties, likelihood of bankruptcy and neglecting to pay invoices are evidence of accounts receivables impairment.

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.

Upon initial application of hedge accounting, Group has documented 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 affect 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 recognized when the forecast transaction is ultimately recognized 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 foreign exchange risk related to the net investments in foreign operations. A foreign currency loan from a third party denominated in the same foreign currency is used as a hedging instrument. Accumulated gains and losses from that hedging instrument are taken to translation differences in equity and recognized in the income statement only if the hedged foreign operation is sold as a whole or in part or discontinued. All fair value changes recognized in equity are recorded net of tax as applicable.

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.

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 are recognized, when the product is delivered. Warranty provisions included in the financial statements 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. Non-current provisions relate to warranty provisions. The duration of a warranty provision is 18 months at the maximum. The effect of discounting is not material and therefore discounting has not been used.

Provision is established for an onerous contract, if the unavoidable cots of meeting the obligations under the contract exceed the economic benefits expected to receive under it.

Contingent liability is an obligation incurred as a result of past events, which is confirmed when uncertain event outside the Group’s control realize. Also existing obligation, that is not likely to require the payment obligation to be fulfilled, nor the amount cannot be defined reliably. Contingent liabilities are disclosed in the notes to the consolidated financial statement.

Employee benefits
The Group companies in different countries have various pension plans in accordance with local conditions and practices. These pension plans are classified either as defined contribution plans or defined benefit plans. Under a defined contribution plan the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that does not meet the definition of a defined contribution plan. The contributions to defined contribution plans are recognized in the income statement during the applicable financial year.

The defined benefit plan obligations of the Group have been calculated separately for each adjustment using the projected unit credit method. Pension costs are recognized as an expense over the period of employees' service based on calculations carried out by authorized actuaries. The present value of the defined benefit obligation is determined using discount rate based on the interest rates of high quality corporate and government bonds. Bonds and debentures have terms to maturity corresponding to that of the pension liability. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains and losses and past service costs.

Share-based payments
The board of directors of Larox has decided on 29 May 2007 to introduce a share-based award program as a part of the Group's award and commitment program for the key personnel. The share-based award program gives the target group an opportunity to be awarded Larox series B shares after a vesting period of four years when achieving the set targets. The board of directors sets the vesting conditions and targets to be achieved. These award programs will be recognized depending on the payment method either in equity or cash. The fair values of the shares are recognised as employee benefit expenses at the vesting date

The Group has applied IFRS 2 Share-based Payments standard on the share issues directed to top management. The amount due to the share issue is valued at fair value at the grant date of the benefit and the benefit is recognized in the income statement and in retained earnings in equity as a share-based benefit during the period of obligation to remain as an employee related to the ownership of the shares. The amount recognized as an expense is based on the Group's estimate of how the amount of shares that will be held by the receivers of the benefits when the obligation to remain as an employee related to the shares expires. Estimates are revised at each balance sheet date

2. Critical judgments 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 although 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.

Impairment
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 any achievable cost savings. Changes in the discount rates used may also affect the results of impairment tests.

Discounted cash flows used in impairment testing are based on estimates on budgeted sales volume approved by management and management views of the cost structure of each product and unit. Also existing order backlogs are used to estimate the volumes and deliveries of products scheduled to the years included in the forecast. The interest rate used (WACC) is determined on the basis of general risk-free interest rates and risk factors of companies operating on the same industry or corresponding benchmark companies. See note 14 for more information on the sensitivity of the recoverable amount on the assumptions used.

Derivatives
The Group policy is to hedge currency risks that affect cash flows. Total foreign exchange position consists mainly of trade receivables, order backlog, foreign currency denominated debts and own offer base. Currency options and forward contracts are used as hedging instruments. Derivative financial instruments that do not fulfill the criteria for hedge accounting are measured at a fair value with changes recognized in other operating income or expenses in the income statement.

The foreign exchange position is determined on the basis of sale forecasts and estimates of future cash flows presented to the management as well as amounts recorded in the accounts. The fair value is determined based on the foreign exchange rates prevailing at the balance sheet date.

Revenue recognition under the percentage of completion method
As stated in the revenue recognition principle, when the outcome of a project can be estimated reliably, revenue and costs from construction contracts are recognized as income and expenses based on the stage of completion. Revenue recognition based on the percentage of complition method is based on estimates of revenue and costs related to the project. If estimates relating to the outcome of the project change, the revenue and costs of the project are changed during the period when the change is initially known and estimable. Any expected losses are recognized as an expense immediately.

Income taxes
Group company income taxes for the period, tax adjustments from prior periods and changes in deferred taxes are recognized in Larox 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 accounts for the temporary differences arising between the tax bases of assets and liabilities at the estimated date of tax payment and their carrying amounts in the consolidated financial statements. 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 in the income

statement. For this purpose the probability of subsidiaries having future taxable profit available against which the unused tax losses or unused tax related credits can be utilized.

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 after 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. Warranty provision is mainly determined as 1 % of the value of project deliverables. Those estimates are evaluated / adjusted during the year and changes are made in warranty provisions for each project, if required. Warranty provisions are normally related to the technical performance of the process / machinery and value under warranty.

3. Segment reporting

The organizational 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, Middle East and Africa

The sales in the geographical segments are presented according to the location of customers whereas assets and investment are presented according to their own locations. Inter-segment pricing is based on market prices.pricing is based on market prices.

Geographical segments

Net sales 1000 EUR	2008		2007	
North, Central and South America	68 846	33.1 %	45 881	29.0 %
Asia and Australasia	45 759	22.0 %	40 479	25.6 %
Europe, CIS, Middle East and Africa	93 390	44.9 %	71 910	45.4 %
Total net sales	**207 995**		**158 270**	

Assets 1000 EUR	2008	2007
North, Central and South America	13 636	11 647
Asia and Australasia	9 434	8 133
Europe, CIS, Middle East and Africa	123 297	114 904
Internal items	-28 228	-31 831
Total assets	**118 139**	**102 853**

Investments 1000 EUR	2008	2007
North, Central and South America	144	148
Asia and Australasia	80	332
Europe, CIS, Middle East and Africa	7 178	2 804
Total investments	**7 402**	**3 284**

4. Long-term projects

Net sales included EUR 112.1 million revenue recognized of long-term projects in 2008 (EUR 73.9 million in 2007).

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 26.9 million (EUR 11.6 million on 31 Dec, 2007). For long-term projects in progress the amount of advances received (note 26) included in the balance sheet was EUR 7.2 million (EUR 6.7 million on 31 Dec, 2007).

The gross amount due from customers (note 20) was EUR 6.2 million (EUR 5.5 million on 31 Dec, 2007) and gross amount due to customers was EUR 9.3 million (EUR 3.8 million on 31 Dec, 2007) for the projects.

5. Other operating income

1000 EUR	1 Jan–31 Dec, 2008	1 Jan–31 Dec, 2007
Grants	194	215
Gain on disposal of non-current assets	4	92
Provisions	73	167
Derivative income	3 251	1 062
Other operating income	708	704
Total other operating income	**4 230**	**2 240**

6. Materials and services

1000 EUR	1 Jan–31 Dec, 2008	1 Jan–31 Dec, 2007
Purchases during the period	-107 971	-76 674
External services	-11 146	-10 185
Total materials and supplies	**-119 117**	**-86 859**

7. Employee benefits expense

1000 EUR	1 Jan–31 Dec, 2008	1 Jan–31 Dec, 2007
Salaries and fees	-28 245	-24 711
Pension expenses, defined contribution plans	-3 064	-2 302
Pension expenses, defined benefit plans	-23	-57
Share-based payments (payment in cash)	-28	-63
Share-based payments (payment in shares)	-9	-101
Other employee benefits	-2 573	-2 672
Other employee benefits, voluntary	-2 418	-1 620
Total employee benefits expense	**-36 360**	**-31 526**

The average number of personnel employed by the Group	1 Jan–31 Dec, 2008	1 Jan–31 Dec, 2007
Office personnel	481	381
Workers	81	77
Total	**562**	**458**

Share-based payments are discussed also in note 22. Shareholders` equity; pension liabilities in note 24. Employee benefit obligations and employee benefits of the management in note 31. Related party transactions.

8. Other operating expenses

1000 EUR	1 Jan–31 Dec, 2008	1 Jan–31 Dec, 2007
Adjustment items to sales	-9 353	-6 574
Real estate maintenance	-856	-1 102
Rents	-1 894	-1 013
Travel expences	-5 282	-4 075
Advertising and marketing costs	-2 839	-2 249
External services	-7 976	-5 128
Derivative expenses	-2 632	-514
Other operating expenses	-5 490	-4 896
Total other operating expenses	**-36 322**	**-25 551**

Auditing expenses

1000 EUR	2008	2007
PricewaterhouseCoopers:		
Auditing	237	245
Tax consultancy	171	81
Other services	53	24
Total	**461**	**350**
Others		
Auditing	24	23
Other services	50	14
Total	**74**	**37**

9. Research and development costs

The income statement includes R&D costs EUR 6.5 million (EUR 6.8 million 2007).
To the balance sheet R&D costs have been activated EUR 0.8 million (EUR 0.8 million 2007).

1000 EUR	1 Jan–31 Dec, 2008	1 Jan–31 Dec, 2007
Research and development costs in income statement	6 500	6 800
Capitalized as an asset	750	800
Proportion of net sales, %	3.5	4.8

10. Financial income and expenses

Financial income and expenses mainly consist of interest income and interest expenses as shown in the table below:

1000 EUR	1 Jan–31 Dec, 2008	1 Jan–31 Dec, 2007
Gain on disposal of available-for-sale investments		172
Interest income from loans and other receivables	79	53
Other financial income		39
Foreign exchange rate gains designated as financial assets/liability at fair value through profit and loss		8
Foreign exchange rate gains from interest-bearings receivables and liabilities	576	674
Financial income	**655**	**946**
Interest expenses from debts amortized at cost	-1 881	-1 881
Foreign exchange rate losses from debts and other liabilities	-1 897	-741
Other financial expenses		
Financial expenses	**-3 778**	**-2 622**

11. Income tax expense

1000 EUR	1 Jan–31 Dec, 2008	1 Jan–31 Dec, 2007
Current year tax expense	-2 184	-4 510
Tax expense for previous years	13	-23
Change in deferred tax assets and liabilities	-1 764	2 274
Income taxes	**-3 935**	**-2 259**

Reconciliation of income before taxes with total income taxes:

1000 EUR	2008	2007
Profit before taxes	13 957	11 755
Tax calculated at the domestic tax rate of 26%	-3 629	-3 056
Effect of different tax rates in foreign subsidiaries	-162	-227
Non-deductible expenses	-94	-152
Income not subject to tax	224	90
Income tax in respect of prior years	13	-23
Associates' result	-120	-94
Used deferred tax assets	-167	
Tax recognised on financial year's losses on group level		448
Changes in taxation law		755
Income taxes in the income statement	**-3 935**	**-2 259**

2007 income tax include EUR 755 000 of income because of tax rate changes in Germany and in the Netherlands.

12. Earnings per share

Earnings per share calculated from profit attributable to equity holders of the company		
Basic and diluted earnings per share, (EUR)	1.07	1.01
Weighted average number of ordinary shares:		
Basic and diluted	9 381 600	9 381 600

Basic earnings per share are 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, Larox Group does not have any instruments affecting the number of diluting ordinary shares.

The share-based award program established in 2007 is not dilutive at the balance sheet date.

13. Intangible assets (excluding goodwill)

1 Jan–31 Dec, 2008 1000 EUR	Development costs	Intangible rights	Technology	Customer relations
Acquisition cost 1 Jan	2 709	10 427	5 463	3 752
Translation differences		15		
Additions	754	1 009		
Business combinations		2		
Acquisition cost 31 Dec	3 463	11 454	5 463	3 752
Cumulative depreciations 1 Jan	-849	-5 701	-2 042	-950
Translation differences		-14		
Depreciation for the period	-476	-820	-523	-215
Cumulative depreciations 31 Dec	-1 325	-6 535	-2 565	-1 165
Carrying value 31 Dec, 2008	**2 138**	**4 919**	**2 898**	**2 587**

1 Jan–31 Dec, 2008 1000 EUR	Brands	Supplier relations	Process delevoment	Total
Acquisition cost 1 Jan	1 792	3 783	1 933	29 858
Translation differences				18
Additions				1 763
Business combinations		848		850
Acquisition cost 31 Dec	1 792	4 631	1 933	32 488
Cumulative depreciations 1 Jan		-1 008	-512	-11 062
Translation differences				-14
Depreciation for the period		-252	-128	-2 414
Cumulative depreciations 31 Dec		-1 260	-640	-13 490
Carrying value 31 Dec, 2008	**1 792**	**3 371**	**1 293**	**18 998**

1 Jan–31 Dec, 2007 1000 EUR	Development costs	Intangible rights	Technology	Customer relations
Acquisition cost 1 Jan	2 092	8 958	5 463	3 752
Translation differences		-55		
Additions	617	1 524		
Acquisition cost 31 Dec	2 709	10 427	5 463	3 752
Cumulative depreciations 1 Jan	-405	-5 091	-1 530	-735
Translation differences		-61		
Depreciation for the period	-444	-550	-512	-215
Cumulative depreciations 31 Dec	-849	-5 702	-2 042	-950
Carrying value 31 Dec, 2007	**1 860**	**4 725**	**3 421**	**2 802**

1 Jan–31 Dec, 2007 1000 EUR	Brands	Supplier relations	Process delevoment	Total
Acquisition cost 1 Jan	1 792	3 783	1 933	27 772
Translation differences				-55
Additions				2 141
Acquisition cost 31 Dec	1 792	3 783	1 933	29 858
Cumulative depreciations 1 Jan		-756	-384	-8 901
Translation differences				-61
Depreciation for the period		-252	-128	-2 101
Cumulative depreciations 31 Dec		-1 008	-512	-11 063
Carrying value 31 Dec, 2007	**1 792**	**2 774**	**1 421**	**18 795**

Technology and process development columns refer to intangible assets transferred to the Group in business combination on 8 January 2004. They relate to material products that existed at the date of the transaction and were transferred in the business combination, which can be grouped under Ceramec, Hoesch and Pannevis trademarks. Trademarks have indefinite useful lives. Most of the trademarks 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.

14. Goodwill and impairment testing

1 Jan–31 Dec, 2008 1000 EUR	Goodwill
Acquisition cost 1 Jan	3 047
Additions	260
Acquisition cost 31 Dec	3 307
Translation differences	-464
Translation differences 31 Dec	2 843
Carrying value 31 Dec, 2008	**2 843**

1 Jan–31 Dec, 2007 1000 EUR	Goodwill
Acquisition cost 1 Jan	3 047
Additions	
Acquisition cost 31 Dec	3 047
Translation differences	-121
Translation differences 31 Dec	-121
Carrying value 31 Dec, 2007	**2 926**

For purposes of assessing impairment, assets of the Group are grouped as cash-generating units at the lowest levels that are largely independent from other units and for which there are separately identifiable cash flows. The Larox Group has one such level, the Group, for which goodwill and brands are allocated to Larox's business as a whole and not allocated to separate cash generating units. Goodwill and brands with an indefinite useful life are tested yearly for impairment. Also trademarks are allocated to Larox's 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. Discount rate is defined as the weighted average pre-tax cost of capital (WACC). The discount rate was 9.9 % in 2008 (10.5 % in 2007). No impairment losses have been recognized as a result of the impairment tests. The growth of sales and profitability are the key assumptions used in the impairment tests. In the sensitivity analysis a hypothetical decline of 5 % in net sales and an increase of 5 % in raw materials did not give rise to impairment. 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.

15. Property, plant and equipment

1 Jan–31 Dec, 2008 1000 EUR	Land and water	Buildings and construc-tions	Machinery and equipment	Other tangible assets	Tangible assets in progress	Total
Acquisition cost 1 Jan	1 147	9 043	18 199	1 131		29 520
Translation differences		-12	-330	-7		-349
Additions		87	1 096	29	14	1 226
Business combinations			2 053	345		2 398
Disposals			-33			-33
Acquisition cost 31 Dec	1 147	9 118	20 985	1 498	14	32 762
Cumulative depreciations 1 Jan	-19	-4 725	-14 671	-848		-20 263
Translation differences			261	18		279
Depreciation for the period	-4	-245	-1 062	-84		-1 394
Cumulative depreciations 31 Dec	-23	-4 970	-15 473	-914		-21 380
Carrying value 31 Dec, 2008	**1 124**	**4 148**	**5 512**	**584**	**14**	**11 382**

1 Jan–31 Dec, 2007 1000 EUR	Land and water	Buildings and construc-tions	Machinery and equipment	Other tangible assets	Tangible assets in progress	Total
Acquisition cost 1 Jan	1 147	8 980	17 500	962		28 589
Translation differences			-171	51		-120
Additions		63	963	118		1 144
Disposals			-93			-93
Acquisition cost 31 Dec	1 147	9 043	18 199	1 131		29 520
Cumulative depreciations 1 Jan	-15	-4 482	-13 733	-793		-19 023
Translation differences			158	5		163
Depreciation for the period	-4	-243	-1 096	-60		-1 403
Cumulative depreciations 31 Dec	-19	-4 725	-14 671	-848		-20 263
Carrying value 31 Dec, 2007	**1 128**	**4 318**	**3 528**	**283**		**9 257**

Additions for 2008 do not include assets acquired through finance leases (2007 EUR 187 000).

Finance leases

Property, plant and equipment include the following amounts where the Group is a lessee under a finance lease:

Machinery 1000 EUR	2008	2007
Acquisition cost 1 Jan	1 030	843
Translation differences	9	
Additions		187
Acquisition cost 31 Dec	1 039	1 030
Cumulative depreciations 1 Jan	-802	-657
Depreciation for the period	-126	-145
Cumulative depreciations 31 Dec	-928	-802
Carrying value 31 Dec	**111**	**228**

16. Investments in associates

The Group has one associated company, Larox Flowsys Oy, in which Larox Oyj holds 49 % of the voting rights and in which Larox Oyj has significant influence but not control.

1000 EUR	1 Jan–31 Dec, 2008	1 Jan–31 Dec, 2007
Acquisition cost 1 Jan	1 393	1 153
Share of the profit	462	361
Dividends received	-125	-112
Recognized directly to equity	-7	-9
Carrying value 31 Dec	**1 723**	**1 393**

Associated companies, 1000 EUR	2008	2007
Larox Flowsys Oy, Lappeenranta		
Share (%)	49	49
Assets	10 884	5 810
Liabilities	7 160	2 967
Sales	20 752	15 348
Profit/loss for the period	944	736

Larox Flowsys Oy develops and manufactures hose valves and hose pumps for process industry's demanding applications.

17. Available-for-sale investments

Available-for-sale investments consist of in their entirety of unlisted shares which 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 practice active investment activities..

1000 EUR	2008	2007
Carrying value 1 Jan	23	208
Purchases		-185
Carrying value 31 Dec	23	23

18. Deferred tax assets and liabilities

1000 EUR	1 Jan, 2008	Recognized in income statement	Acquisition of subsidiary	31 Dec, 2008
Deferred tax assets				
Losses carried forward	4 140	-50		4 090
Internal profit margin on inventories	978	-119		859
Internal profit margin on fixed assets	539	1		540
Fair value changes	344	-44		300
Retirement benefit and other provisions	186	97		283
Other adjustments	290	-277		13
Deferred tax assets, total	**6 477**	**-392**		**6 085**
Netting of deferred tax assets and liabilities	-1 239	217		-1 022
Deferred tax assets, net	**5 238**	**-175**		**5 063**
Deferred tax liabilities				
Revenue recognition under percentage of completion method (POC)	1 136	1 399		2 535
Carrying amount of tangible and intangible assets that exceeds the taxable acquisition cost after depreciation	986	205		1 191
PPA/allocation of purchase price		-25	548	523
Cumulative depreciation differences	769	-76	106	799
Valuation of available for sale investments and derivatives at fair value		7		7
Other adjustments	152	-74		78
Deferred tax liabilities, total	**3 043**	**1 496**	**654**	**5 133**
Netting of deferred tax assets and liabilities	-1 239	217		-1 022
Deferred tax liabilities, net	**1 804**	**1 713**	**654**	**4 111**

1000 EUR	1 Jan, 2007	Recognized in income statement	Acquisition of subsidiary	31 Dec, 2007
Deferred tax assets				
Losses carried forward	3 452	688		4 140
Internal profit margin of inventories	917	61		978
Internal profit margin on fixed assets		539		539
Fair value changes	11	333		344
Retirement benefit and other provisions	9	177		186
Other adjustments		290		290
Deferred tax assets, total	**4 389**	**2 088**		**6 477**
Netting of deferred tax assets and liabilities	-828	-411		-1 239
Deferred tax assets, net	**3 561**	**1 677**		**5 238**
Deferred tax liabilities				
Revenue recognition under percentage of completion method (POC)	1 422	-286		1 136
Carrying amount of tangible and intangible assets that exceeds the taxable acquisition cost after depreciation	686	300		986
Cumulative depreciation differences	766	3		769
Other adjustments	465	-313		152
Deferred tax liabilities, total	**3 339**	**-296**		**3 043**
Netting of deferred tax assets and liabilities	-828	-411		-1 239
Deferred tax liabilities, net	**2 510**	**-707**		**1 804**

According to the strategic opinion of Larox Group the deferred tax receivables EUR 4.1 million (EUR 4.1 million in 2007), recognized in tax losses and tax credits carried forward will be reduced by the future taxable income.

The Company has not recognized in its financial statements as on 31 December 2008 or 31 December 2007 such taxable losses, for which the realization in the future is not probable. At the end of year 2007, the project operations in Central Europe were sold to the Parent Company and German and Dutch companies continued as contract manufacturers with regard to project operations. This change in conducting the business operations will improve the future profit-making abilities of these companies. Financial statements for year 2007 include deferred tax assets relating to previously unrecognized losses recorded prior to year 2004 for the German company and for both companies after 1 July 2006. The resulting total effect of these deferred tax assets is altogether 1.2 million euros.

Deferred income tax assets and liabilities are offset, if there is a legally enforceable right to set off current tax liabilities against current taxable assets and if the deferred taxes relate to the same taxation authority.

19. Inventories

1000 EUR	31 Dec, 2008	31 Dec, 2007
Materials and supplies	9 716	9 407
Work in progress	3 169	2 159
Finished products	13 340	12 981
Advance payments for inventories	1 966	2 045
Total inventories	**28 191**	**26 592**

Carrying amount of inventories was reduced by EUR 229 600 to reflect its net realization value (EUR 222 000 in 2007).

20. Trade receivables and other receivables

1000 EUR	31 Dec, 2008	31 Dec, 2007
Trade receivables	36 059	27 706
Receivables from associated companies	15	1
Receivables of unfinished projects	6 210	5 512
Accrued receivables	831	691
Derivative receivables	32	244
Other receivables	3 408	2 497
Total trade receivables and other receivables	**46 555**	**36 651**

Maximum credit risk of receivables is the book value.
During the financial year Larox Group recognized credit losses of trade receivables EUR 87 200 (EUR 236 000 in 2007).

Analysis of trade receivables by age

1000 EUR	31 Dec, 2008	31 Dec, 2007
Undue trade receivables	12 931	6 566
Trade receivables 1 – 30 days overdue	11 297	11 997
Trade receivables 31 – 60 days overdue	5 744	3 996
Trade receivables more than 60 days overdue	6 087	5 147
Total	36 059	27 706

21. Cash and bank

1000 EUR	31 Dec, 2008	31 Dec, 2007
Cash and bank	1 661	1 812
Total cash and bank	**1 661**	**1 812**

22. 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, 2007	2 124	7 257	5 629	5 777	11 406
Equity 31 Dec, 2007	**2 124**	**7 257**	**5 629**	**5 777**	**11 406**
Equity 31 Dec, 2008	**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. Each share in the A series entitles the holder to twenty (20) votes and each share in the B-series entitles the holder to one (1) vote. All issued shares are paid in full.

Translation differences

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

Hedging reserve

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

1000 EUR	
1 Jan, 2007	-44
Recognised in hedging reserve	31
Transfers to net sales	26
Tax on amounts recognized in hedging reserve	-6
Tax on transfers to the income statement	-7
31 Dec, 2007	**0**
1 Jan, 2008	0
Recognised in hedging reserve	-222
Transfers to net sales	19
Transfers to tangible assets	0
Tax on amounts recognized in hedging reserve	-5
Tax transfers to the income statement	0
31 Dec, 2008	**-208**

Fair value reserve

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

Dividends

During the financial period a dividend of EUR 0.60 per share was paid. After the balance sheet date the Board of Directors has proposed a dividend payment of EUR 0.50. Dividend income is recognized in the period in which the right to receive payment is established.

Share issue directed to management

The annual general meeting of shareholders on 17 March 2004 authorized the increase of 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 as the other B shares of the company and are entitled 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 trading prices 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 must subscribe for at least 100 shares by 28 December 2004 in order to have a subscription right. As of 28 December 2004 a total of 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. An additional 105 900 shares have been subscribed in the share issue directed to the company's top management as of 16 December 2005. These shares were registered to the trade register on 13 January 2006.

In accordance with share subscription agreement between the company and subscribers and if the Board of Directors has not decided otherwise, should an employee who has subscribed for shares resign or be dismissed from the company based on the individual termination clause of the employment contract as per employment act regardless of whether the employment contract is relevant 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 any two shares he or she has subscribed for which restriction period has not yet ended. The share subscription agreement is a pre-requisite to the granting of the afore-mentioned 50 % discount off of the trading price to key personnel. During the restriction period, a key person may neither transfer the shares he or she has subscribed for nor enter into derivative or other corresponding agreements relating to the shares without specific permission from the Board of Directors of the company. A person who has subscribed for shares is however entitled to dividends which may be paid during the restriction period. As of 1 December 2006, the end of the restriction period I, 25 % of the shares allocated to key personnel were released for trading together with other Larox Corporation B-series shares. On 1 December 2007, the end of the restriction period II, 35 % of the shares allocated to key personnel were released. On 1 December 2008, the end of the restriction period III, 40 % of the shares allocated to key personnel were released.

Share-based payments

The Board of Directors of Larox decided on 29 May 2007 to introduce a share-based award program as a part of the Group's award and commitment program for the key personnel. The share-based award program gives the target group an opportunity to be awarded Company's series B shares during a vesting period of four years when achieving the set targets. The board of directors sets the vesting conditions and targets to be achieved. The amount of the share-based award is tied to the financial ratio earning per share (EPS) for the Group. The vesting period includes three measurement periods, financial period 2007-2008, financial period 2007-2009 and financial periods 2007-2010. The award will be paid to the key personnel in three parts, after the end of the measurement periods by the end of April 2009, April 2010 and April 2011 as combination of shares and cash.

The maximum number of shares to be granted under the share-based award programme is in total 150.000 and in cash such an amount that is needed to cover the taxes and tax-related payments at the grant date; however the amount can not exceed the value of shares at the grant date. After the measurement period, by the end of April, the average EPS for the measurement period and targets achieved by that time are identified. However, for the first measurement period a maximum of 1/3 of the total award can be paid and for the second measurement period a maximum of 2/3 of the total award from which the amount paid in the first period has been deducted.

In order to participate in the share-based award program and to receive the award, the key person selected by the board of directors to be included in the target group, shall own or acquire shares of the company at the beginning of the award program at an amount set in advance by the board of directors. Award is not paid, if the employee leaves the company before the end of the measurement period. In addition, the employee shall own the earned shares for at least two years after the end of the vesting period (the commitment period).

Basic information of the share-based award program and events are presented in the following table:

Basic Information		
Grant dates		**15 Jun, 2007/ 15 Feb, 2008 / 12 Dec,2008**
Nature of arrangement		50 % in shares 50 % in cash
Maximum number of share-based awards		**150 000**
Cash equivalent to share-based award fees (pcs shares at most)*		150 000
Share price at grant date		**5.35 – 13.80**
Fair value of share at grant date **		
	Measurement period 2007 – 2008	13.08 €
	Measurement period 2008 – 2009	12.43 €
	Measurement period 2009 – 2010	12.09 €
Share price at balance sheet date		**4.60 €**
Vesting period begins, date		**1 Jan, 2007**
Vesting period ends, date		**31 Dec, 2010**
Vesting conditions		Period of employment and obligation to hold the shares until the end of the commitment period Earnings per share (EPS)
Probability that the vesting conditions will be met		50 %
Release of shares, date		31 March, 2013
Obligation to hold the shares, years		2.00
Remaining commitment period, years		4.25
	Number of persons (31 Dec 2008)	26

** The part of the share-based award that is paid in cash and accounted for under IFRS 2 as a share-based payment.*
*** Share price at grant date less expected dividend for the vesting period: 0.30 euros per year.*

Transactions in financial period	Amounts	Change in financial period	Amounts	Amounts	Change in financial period	Amounts
Gross amounts***	1 Jan, 2007		31 Dec, 2007	1 Jan, 2008		31 Dec, 2008
Share awards approved	0	201 000	201 000	201 000	27 200	228 200
Shares returned	0	0	0		8 250	8 250
Shares paid	0	0	0		0	0
Shares expired	0	0	0		0	0
Awards granted (share+cash) stated as shares	0	201 000	201 000	201 000	18 950	219 950

**** Amounts include the cash granted under the share-based award program stated as shares.*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Determination of the fair value

As the share-based award is settled with a combination of shares and cash, the determination of fair value under IFRS 2 is divided in two parts: equity-settled and cash-settled parts. Equity-settled share-based payments are recognised in equity and cash-settled transactions in liabilities.

The fair value of the equity-settled share-based payments is based on quoted market price of the share of Larox at the grant date. Correspondingly the fair value of the cash-settled transaction is evaluated at each balance sheet date until the end of the vesting period and the fair value of the liability changes with the price of the share of Larox.

Determination of the fair value of the share-based awards, 2008	
Share-based awards granted as shares, pcs	114 100
Share-based awards granted as cash (stated as shares), pcs	114 100
Share price at grant date, EUR	5.35 – 13.80
Expected annual dividends p.a., EUR	0.30 – 0.60
Share price at 31 December 2008 (cash portion), EUR	4.60
Probability that the vesting conditions will be met, %	50.0
Estimated returned share-based awards prior to settlement, %	8.8
Estimated returned share-based awards after settlement, %	4.4
Fair value of share-based awards at grant date, EUR	**1 302 398**
Fair value of share-based awards as at 31 December 2008, EUR	**857 603**
Recognized in 2008 income statement, EUR	**141 167**

Determination of the fair value of the share-based awards, 2007	
Share-based awards granted as shares, pcs	100 500
Share-based awards granted as cash (stated as shares), pcs	100 500
Share price at grant date, EUR	13.80
Expected annual dividends p.a., EUR	0.30
Share price at 31 December 2007 (cash portion), EUR	12.00
Probability that the vesting conditions will be met, %	50.0
Estimated returned share-based awards prior to settlement, %	10.0
Estimated returned share-based awards after settlement, %	5.0
Fair value of share-based awards at grant date, EUR	**1 190 711**
Fair value of share-based awards as at 31 December 2007, EUR	**1 109 306**
Recognized in 2007 income statement, EUR	**129 769**

23. Interest-bearing liabilities

1000 EUR	Carrying amount 31 Dec, 2008	Fair value 31 Dec, 2008	Carrying amount 31 Dec, 2007	Fair value 31 Dec, 2007
Long-term				
Bank loans	12 976	12 900	12 531	12 881
Finance lease liabilities	148	191	220	272
Other loans				
Total	**13 124**	**13 091**	**12 751**	**13 153**
Short-term				
Bank loans	25 073	25 031	24 046	24 010
Finance lease liabilities	71	71	87	87
Total	**25 144**	**25 102**	**24 133**	**24 097**

Loans and receivables are carried at amortised cost using the effective interest rate method and the fair value is determined through discounted cash flow method discounting at balance sheet date market rate of interest or balance sheet date market value.

Repayment schedule of long-term liabilities:

2008 1000 EUR	2009	2010	2011	2012	2013	Later
Loans with fixed interest	3 137	2 866	2 497	204	204	613
Loans with floating interest	4 482	3 023	2 045	1 524		
Finance lease liabilities	81	63	75			
Other loans						
Total long-term liabilities	**7 700**	**5 952**	**4 617**	**1 728**	**204**	**613**

2007 1000 EUR	2008	2009	2010	2011	2012	Later
Loans with fixed interest	3 161	2 041	1 708	1 345	204	821
Loans with floating interest	1 725	4 400	1 492	519		
Finance lease liabilities	111	78	48	70		
Other loans						
Total long-term liabilities	**4 997**	**6 519**	**3 248**	**1 934**	**204**	**821**

Long-term interest-bearing liabilities in different currencies:

1000 EUR	31 Dec, 2008	31 Dec, 2007
EUR	12 329	9 499
USD	647	1 292
ZAR		801
AUD		1 159
Total	**12 976**	**12 751**

Effective interest rates (weighted averages) of long-term interest-bearing loans on 31 Dec, 2008:

Loans	4.9565
Finance lease liabilities	8.9434

Short-term interest-bearing liabilities in different currencies:

1000 EUR	31 Dec, 2008	31 Dec, 2007
EUR	21 160	22 574
USD	3 490	1 559
AUD	494	
Total	**25 144**	**24 133**

Effective interest rates (weighted averages) of short-term interest-bearing loans on 31 Dec, 2008:

Loans	4.6705
Finance lease liabilities	8.9434

Finance lease liabilities

1000 EUR	31 Dec, 2008	31 Dec, 2007
Long-term finance lease liabilities	148	220
Short-term finance lease liabilities	71	87
Total finance lease liabilities	**219**	**307**
Finance lease liabilities - minimum lease payments		
No later than 1 year	88	119
Later than year and no later than 5 years	159	254
Total minimum lease payments	247	373
Future finance charges	-28	-66
Present value of finance lease liabilities	**219**	**307**
Present value of minimum lease payments		
No later than 1 year	81	111
Later than year and no later than 5 years	138	196
Present value of minimum lease payments	**219**	**307**

24. Employee benefit obligations

Larox 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.

Pension liabilities

1000 EUR	31 Dec, 2008	31 Dec, 2007
Present value of unfunded obligations	464	418
Underfunding / Overfunding	**464**	**418**
Unrecognized actuarial losses	41	37
Pension liability	**505**	**455**

Pension expenses

1000 EUR	31 Dec, 2008	31 Dec, 2007
Pension costs based on current period's service	-28	-13
Benefit related interest expense	-22	-39
Gains on plan curtailment	0	-5
Pension expenses	**-50**	**-57**

Benefit plan reconciliation

1000 EUR	31 Dec, 2008	31 Dec, 2007
Pension liabilities from defined benefit plan at the beginning of period	455	398
Current service cost	26	32
Actuarial gains and losses	24	25
Liabilities at the end of period	**505**	**455**

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

	Germany 31 Dec, 2008	Germany 31 Dec, 2007
Discount rate (%)	5.25	5.25
Future salary increase (%)	2.50	2.50
Expected return on plan assets (%)	2.00	2.50

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

	Finland 31 Dec, 2008	Finland 31 Dec, 2007
Discount rate (%)	5.00	5.00
Future salary increase (%)	4.00	4.00
Expected return on plan assets (%)	4.70	4.70

Other pension and employee benefit liabilities

1000 EUR	31 Dec, 2008	31 Dec, 2007
Pension provision	40	40
Other long-term employee benefit	49	59
Total	**89**	**99**

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

Total pension liabilities

1000 EUR	31 Dec, 2008	31 Dec, 2007
Pension provision	505	455
Other long-term employee benefit	89	99
Total	**594**	**554**

In addition to Finland, the Group has defined benefit plans in Germany. Pension provision includes EUR 29 000 short term provisions, the rest is long term pension provision.

25. Provisions

1000 EUR	2008	2007
Warranty provisions 1 Jan	2 147	1 341
Additions	1 196	1 306
Used provisions	-775	-500
Warranty provisions 31 Dec	**2 568**	**2 147**
Other provisions 1.1.		
Change in provisions	385	
Change in provision 31.12.	**385**	

1000 EUR	2008	2007
Long term provisions	1 843	826
Short term provisions	1 110	1 321
Total	**2 953**	**2 147**

Larox offers most of its products a 12 month warranty from start-up or an 18 month warranty from delivery. Warranty provision is based on project specific estimates and historical experiences. Warranty provision includes the expenses related to warranty claims for goods sold with valid warranty in prior accounting periods. Warranty provisions are expected to be used during the warranty period or within 12 months after the warranty period if research and development is required.

Other provisions include provisions relating to pensions and provisions for losses. Pension provisions are recognized in group companies in accordance with local legislation and are divided into short-term and long-term provisions based on the realization dates. A provision for losses is recognized on a company level when it is expected that the contract will become unprofitable. The amounts of the provisions are not discounted, as discounting would not have a material impact.

26. Trade payables and other payables

1000 EUR	31 Dec, 2008	31 Dec, 2007
Payables to associated companies	236	783
Trade payables	13 121	9 399
Accrued payables	70	191
Accrued employee-related liabilities	2 237	2 506
Derivate liabilities	434	18
Other accruals	10 522	4 601
Other liabilities	2 029	2 488
Total liabilities belonging financial instruments	**28 649**	**19 986**
Advances received	7 244	6 697
Tax liability, income tax	550	1 935
Total trade payables and other payables	**36 443**	**28 618**

27. Carrying amounts of financial assets and liabilities by measurement categories

2008 Balance sheet item	Note	Financial assets/ liabilities at fair value through income statement	Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortized cost	Carrying amounts by balance sheet item	Fair value
Non-current financial assets							
Other financial assets	17)			23		23	23
Current financial assets							
Trade and other receivables	20)		46 523			46 523	46 523
Derivative financial instruments							
*Hedge-accounted	20)	32				32	32
*Non-hedge accounted							
Carrying amount by category		**32**	**46 523**	**23**		**46 578**	**46 578**
Non-current financial liabilities							
Borrowings	23)				13 124	13 124	13 091
Current financial liabilities							
Borrowings	23)				25 144	25 144	25 102
Derivative financial instruments							
*Hedge-accounted	26, 29)	220				220	220
*Non-hedge accounted	26, 29)	214				214	214
Trade and other payables	26)				28 649	28 649	28 649
Carrying amount by category		**434**			**66 917**	**67 351**	**67 276**

2007 Balance sheet item	Note	Financial assets/ liabilities at fair value through income statement	Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortized cost	Carrying amounts by balance sheet item	Fair value
Non-current financial assets							
Derivatite financial instruments							
Other financial assets	17)			23		23	23
Current financial assets							
Trade and other receivables	20)		36 407			36 407	36 407
Derivative financial instruments							
*Hedge-accounted		14				14	14
*Non-hedge accounted	29)	230				230	230
Carrying amount by category		**244**	**36 407**	**23**		**36 674**	**36 674**
Non-current financial liabilities							
Borrowingst	23)				12 751	12 751	13 153
Current financial liabilities							
Borrowings	23)				24 133	24 133	24 097
Derivative financial instruments							
*Hedge-accounted							
*Non-hedge accounted	26, 29)	18				18	18
Trade and other payables	26)				19 968	19 968	19 968
Carrying amount by category		**18**			**56 852**	**56 870**	**57 236**

The fair values of current assets and liabilities do not differ from balance sheet values. The fair values of derivatives are presented in note 29.

28. Commitments and contingencies

Loans secured by real estate and corporate mortgages

1000 EUR	31 Dec, 2008	31 Dec, 2007
Loans from financial institutions	38 049	36 577
Total	**38 049**	**36 577**
Real estate mortgages	6 560	6 560
Corporate mortgages, general pledging	3 936	3 936
Corporate mortgages, specific pledging	9 062	9 062
Total	**19 558**	**19 558**

Guarantees for others

	31 Dec, 2008	31 Dec, 2007
Pledged securities *)	13 511	9 097
Others	161	124
Total	**13 672**	**9 221**

** Book value of secured shares*

Other liabilities

Operating lease liabilities 1000 EUR	31 Dec, 2008	31 Dec, 2007
No later than 1 year	445	491
Later than year and no later than 5 years	649	366
Total	**1 094**	**857**

Non-cancellable lease liabilities 1000 EUR	31 Dec, 2008	31 Dec, 2007
No later than 1 year	848	
Later than year and no later than 5 years	8 422	21
Total	**9 270**	**21**

Cancellable lease liabilities 1000 EUR	31 Dec, 2008	31 Dec, 2007
No later than 1 year	619	618
Total	**619**	**618**

Rent expenses in the income statement were EUR 1.8 million in 2008 (EUR 1.4 million in 2007).

29. Financial risk management

The market risks are caused by changes in price of currency, interest and commodity. The objective of Larox Group is to minimize the impacts of fluctuations in financial markets on the Group's cash reserves, profits and shareholders' equity.

Financial risks are divided into market, credit and liquidity risks. Market risks arise from fluctuations in currencies, interest rates and commodity prices.

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

Currency risk

The objective of the Group's currency risk management is to limit the risks caused by changes in foreign currency rates on cash flows, income statement and balance sheet. In accordance with the approved foreign currency policy, the Group's treasury function shall hedge against all major currency risks

The Larox Group treasury function manages financial risks generally together with business units. Business units are responsible for estimating their future foreign currency net cash flows and the Group treasury is responsible for carrying out hedging activities based on these estimations.

Group's foreign currency exposure consists primarily of accounts receivables, order backlog, liabilities in foreign currencies and some of the outstanding offers (transaction risk).

In accordance with the approved foreign currency policy, the Group's treasury function shall hedge against all major currency risks. The most important invoicing currencies for Larox are EUR, USD, AUD and ZAR. Larox Group's main purchasing currency is EUR.

The Group also hedges the equities of foreign subsidiaries with external currency loans (translation risk). Hedge accounting is applied on significant projects which are worth one million euros or more and managed in group level The exchange differences arising from the projects under hedge accounting are recognized in income in accordance with the revenue recognition of the projects. The duration of the projects vary from 6 months to 1.5 years.

Exchange rate profits and losses from financial operations are booked under financial income and expenses. To hedge currency positions, the company uses forward contracts, currency options and currency loans. Derivative contracts are entered into only for hedging purposes. Some of the currency forwards hedge highly probable future cash flows (cash flow hedges) and those are designated as hedging instruments, in which case hedge accounting is applied. 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, are recognized in equity to the extent that the hedge is effective. There was no inefficiency in hedge accounting.

Interest rate risk

Interest-bearing debt exposes the Group to interest rate risk, which is the risk of repricing and price risk caused by the changes in market interest rate. To control interest rate risks, Larox Group disperses its loans and short-term investments in fixed and floating rate instruments. Total loan risk position is stabilized by changing the portion of fixed and foreign currency denominated debts.

The share of fixed rate loans was 28 percent. The monthly management reporting includes weighted average interest rates and long-term loans as compared to short term loans, among others . Investments that are longer than one year are hedged by fixing the long-term loans to a fixed rate. Out of the long term loans, with a maturity longer than one year, 49.3% had a fixed rate. The share of long term and fixed rate loans was increased during the reporting period. At the end of the financial year, Larox Group had no open interest rate forward agreements or interest rate swaps. Management has not identified any considerable interest rate risk.

Credit risk

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

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 and using letter of credits. 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. Maximum credit risk equals to the currying amount.

Liquidity and refunding risk

The business of Larox includes regular and irregular cash flows. Larox aims at maintaining sufficient liquidity with efficient cash management. The Company seeks to minimise potential liquidity and refinancing risk exposures through balanced maturity spread of the loans and sufficient financial reserves. Monthly reporting to management includes 6 months' cash flow estimation and the amount of unused bank limits.

The Company has limit arrangements with banks for short-term working capital requirements and credit accounts for daily cash management. During the year the share of committed bank limits and long term loans was increased in relation to total interest bearing liabilities. The share of long term loans was 57.8 % of the total loan portfolio. At the end of year 2008, unused limits and account credits totaled EUR 13.6 million.

Sensitivity analysis

By presenting the sensitivity analysis the Company seeks to show what the effect of reasonably possible changes in the relevant risk variables is to the income statement. Risk variables contain interest and currency instruments. The effect of the fair value changes of derivative financial instruments, for which hedge accounting is applied, is assumed to be on equity in full.

The table below presents the foreign exchange net position in the consolidated balance sheet and the corresponding total net position at the balance sheet day. The foreign exchange hedges are not included in the position. The forward foreign exchange agreements hedging the foreign exchange risk are presented separately in the table.

Currencies in balance sheet , net (1000)			Total net position		Forward agreement	
	2008	2007	2008	2007	2008	2007
USD	1 826	7 491	19 581	19 098	6 729	13 310
ZAR	26 076	41 614	59 257	67 835	10 110	30 800
AUD	5 168	5 353	11 453	8 580	2 000	4 350
CAD	12	177	1 118	1 279	745	650

Depart from IFRS 7 disclosure requirements, sensitivy analysis emphasizes the total foreign exhange. As the Company monitors and hedges the total foreign exchange exposure, the off-balance sheet items are presented separately in the sensitivity analysis. The total foreign exchange position consists mainly of trade receivables, order backlog, foreign currency -denominated debts and the Company's own offer backlog. The table below presents how the reasonably possible changes in the non-hedged total foreign exchange exposure and interest rate exposure to the result before tax.

Market risk

1000 EUR	Income statement			
	2008		2007	
5 % change in the central exchange rate	+	–	+	–
USD	486	440	189	205
AUD	245	222	104	149
ZAR	198	179	194	176
CAD	12	10	20	39
Total	**941**	**851**	**507**	**569**
Loans with varialble interest: 23 198 EUR				
1 % parallel shift in market interest rates	237		241	

The Group's foreign currency exposure has been determined with the exchange rates prevailing at the balance sheet date, of which the effect that a 5 % change in exchange rates would have on the income statement has been calculated. Interest sensitivy analysis includes EUR 23 198 million of loans with variable interest rates. The analysis presents how 1 % change in interest rate affects the income statement. All of the effects are allocated to income statement, because the equity component is not material.

Fair value of derivative financial instruments 1000 EUR	Positive fair value 31 Dec, 2008	Negative fair value 31 Dec, 2008	Net fair value 31 Dec, 2008	Net fair value 31 Dec, 2007
Derivative financial instruments designated as cash flow hedges				
Forward contracts	32	-220	-188	14
Non-hedging derivative financial instruments:				
Forward contracts		-214	-214	
Options				211
Derivative financial instruments total			**-402**	**225**

Nominal values of derivative instruments 1000 EUR	31 Dec, 2008	31 Dec, 2007
Currency derivatives:		3 155
Forward contracts	7 033	18 313
Total currency derivatives	**7 033**	**21 468**

As of 31 December 2008, the contractual maturity of liabilities was as follows:

The table shows undiscounted cash flow analysis of financial assets and liabilities presented on the balance sheet. It is not possible to match the amounts directly with the balance sheet items without adjustments.

1000 EUR	2009 1)	2010	2011	2012	2013	Later
Long term liabilities		5 846	4 535	1 700	200	600
Short term liabilities						
Short term liabilities included in long term liabilities	7 619					
Short term liabilities	17 476					
Finance charges	1 763	596	321	114	36	27
Derivative instrument liabilities	434					
Trade payables	13 357					

1) Repayments in 2009 are included in current liabilities in the balance sheet. Finance charges are primarily interest expenses.

As of 31 December 2007, the contractual maturity of liabilities was as follows:

1000 EUR	2008 1)	2009	2010	2011	2012	Later
Long term liabilities		6 476	3 197	1 907	200	800
Short term liabilities						
Short term liabilities included in long term liabilities	4 886					
Short term liabilities	19 182					
Finance charges	2 246	777	382	182	69	48
Derivative instrument liabilities	19					
Trade payables	10 182					

1) Repayments in 2008 are included in current liabilities in the balance sheet. Finance charges are primarily interest expenses.

Capital risk management

The Group's objective when managing capital is to secure an efficient capital structure that gives the Group's access to capital market at all times. The capital structure of the Group is reviewed by the Board of Directors on a regular basis.

The Group seeks to minimize the restricted equity and to hold it on a level, that it is able to meet challenges related to the growth of its operations.

The table below shows Group's equity, interest-bearing loans and gearing:

1000 EUR	31 Dec, 2008	31 Dec, 2007
Total equity	35 770	32 845
Long-term interest bearing debts	13 124	12 751
Short-term interest bearing debts	25 144	24 133
Total interest bearing debts	38 268	36 884
Equity and debts, total	**74 038**	**69 729**
Total interest bearing debts	38 268	36 884
Total interest net debts	**38 268**	**36 884**
Gearing	1.1	1.1

The Group monitors its capital on the basis of equity and gearing ratio. The Company determines the equity ratio as shareholders' equity divided by total assets less advances received. Debt-equity ratio is determined as interest-bearing liabilities divided by shareholders' equity. Changes in working capital and cash flow are reviewed systematically as part of the risk management. The Group has debt covenants and reguirements are met during the financial period. Changes in working capital and cash flow are reviewed systematically as part of the risk management. The Group aims to reach equity ratio of over 40 %. Accompanying key ratios as of 31 Dec 2008 and 31 Dec 2007 were:

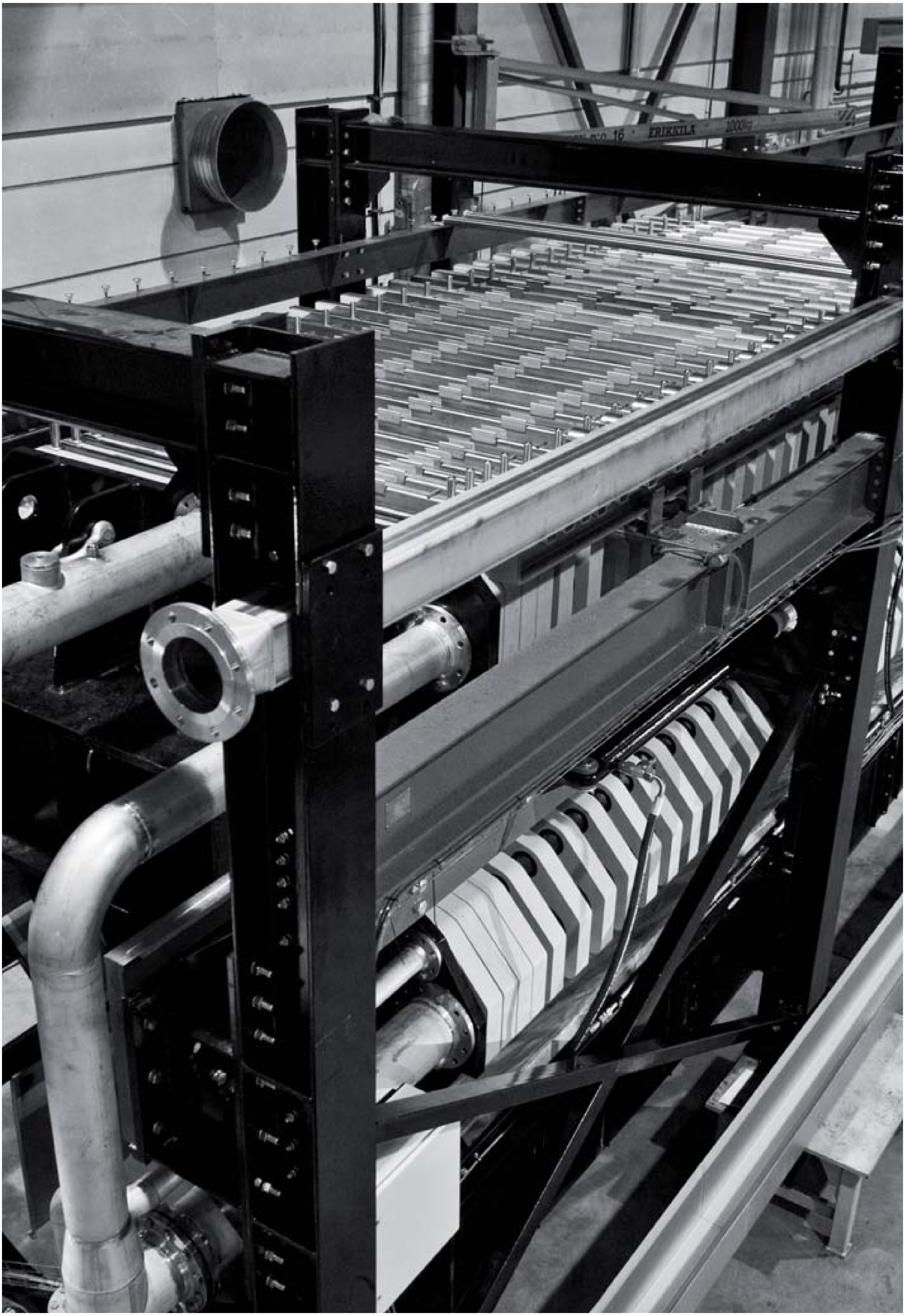
	2008	2007
Equity ratio	32.3	34.2
Gearing	1.1	1.1

30. Business combinations

On 1 October 2008 Larox Group acquired the total share capital of Turku Ceramics Oy and obtained the control in the company. Turku Ceramics concentrates mainly on subcontract manufacturing of highly tailored parts and components designed by the customers. Durable high tech ceramics are used more and more to replace conventional materials in challenging conditions of machine and chemical process industries. The acquired business contributed revenues of EUR 0.3 million and net profit of EUR 0.03 million for the last quarter of 2008. If the acquisition had occurred on 1st of January 2008, the influence in group revenue would had been EUR 1.4 million and in net profit EUR 0.15 million. These amounts have been calculated according to group accounting policies. The result of the subsidiary have been adjusted to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to tangible and intangible assets had applied from 1 January 2008, in addition to the tax effects from depreciations.

Details of net assets acquired and goodwill are as follows:			
Purchase consideration:			
Cash paid		4 333	
Direct costs relating to the acquisition		81	
Total purchase consideration		4 414	
The assets and liabilities as of 1 October 2008 are as follows:	Note	Fair value	Acquiree's carrying amount
Cash and cash equivalents		949	949
Property, plant and equipment	15)	2 397	1 359
Contractual supplier relationship (included in intangible assets)	13)	850	2
Inventories		553	333
Trade and other receivables		337	337
Trade and other payables		-278	-278
Deferred tax liabilities	18)	-653	-106
Fair value of net assets		4 155	2 596
Goodwill		259	
Total purchase consideration		4 414	
Purchase consideration settled in cash			4 333
Cash and equivalents in subsidiary acquired			-949
Cash outflow on acquisition			3 384

In business combination mentioned above acquired tangible assets were valued with fair values based on the market prices of similar tangible assets. In evaluating the market values wholesale price index and remaining economical operating life were used. In business combination the Group has acquired contractual supplier relations. These relations were valued using cost based method, because market price method and methods based on cash flows would not have given as reliable results. Subcontractor and suppliers have a great consequence in acquired business, because components need to fulfill high quality requirements. A new supplier can be accepted only after test series have been produced. The fair value of contractual supplier relations has been evaluated based on costs of required test series. Goodwill is evaluated based on capable personnel, technological know-how and going concern -principle.



31. Related party transactions

Parent company and subsidiary relations.

Shares and shareholdings on Dec 31, 2008	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
Turku Ceramics Oy	Finland	2 000	100.0	100.0
Larox AB	Sweden	11 000	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-Britan	500	100.0	100.0
Larox Tecnologia de separacao de líquidos de 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, 2008	1 Jan–31 Dec, 2007
Sales of goods and services	15	3
Purchases of goods and services	2 736	2 829

Other transactions with related parties

1000 EUR	1 Jan–31 Dec, 2008	1 Jan–31 Dec, 2007
Purchases of services	20	22

Balances with associated companies

1000 EUR	31 Dec, 2008	31 Dec, 2007
Trade receivables	16	1
Trade payables	236	783

Employee benefits for key management

Key management of Larox consists of the Board of Directors, the President and Larox Group management team.

1000 EUR	1 Jan–31 Dec, 2008	1 Jan–31 Dec, 2007
Short-term employee benefits	1 385	1 419
Post-employment benefits	339	284
Share-based payments	38	164
Total employee benefits	**1 762**	**1 867**

Salaries and fees 1000 EUR	1 Jan–31 Dec, 2008	1 Jan–31 Dec, 2007
President	278	279
Members of the Board of Directors		
Timo Vartiainen	101	93
Katariina Aaltonen	65	63
Teppo Taberman	20	17
Thomas Franck	20	17
Matti Ruotsala	20	17

Retirement age of parent company's President and chairman of the Board of Directors in employment relationship is 60.

32. Events after the balance date

The management is not aware of any material uncertainties after the balance sheet date, that would have required changes to the financial statements.

Parent Company Financial Statements, FAS

Parent Company: Income Statement, FAS

1000 EUR	Note	1 Jan–31 Dec, 2008	1 Jan–31 Dec, 2007
Net sales	2)	**147 268**	**105 734**
Change in inventories of finished goods and work in progress		9 121	-2 027
Other operating income	3)	1 058	767
Materials and services	4)	-100 105	-53 822
Personnel expenses	5)	-15 782	-13 133
Depreciation and amortization	6)	-3 692	-3 044
Other operating expenses	7)	-34 112	-21 217
OPERATING PROFIT		**3 756**	**13 258**
Financial income and expenses	9)	-466	-667
PROFIT BEFORE EXTRAORDINARY ITEMS		**3 290**	**12 591**
Appropriations	10)	291	-13
Income tax	11)	-1 073	-3 292
PROFIT FOR THE PERIOD		**2 509**	**9 286**

FAS = Finnish Accounting Standards

Parent Company: Balance Sheet, FAS

1000 EUR	Note	31 Dec, 2008	31 Dec, 2007
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	12)	17 951	19 234
Tangible assets	13)	8 386	8 827
Holdings in Group companies	14)	15 181	10 756
Other investments		270	294
TOTAL NON-CURRENT ASSETS		**41 788**	**39 111**
CURRENT ASSETS			
Inventories	15)	32 328	19 283
Long-term receivables	16)	904	3 394
Deferred tax asset			264
Short-term receivables	16)	41 590	30 720
Cash and bank		315	27
TOTAL CURRENT ASSETS		**75 137**	**53 688**
TOTAL ASSETS		**116 925**	**92 799**
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY	17)		
Share capital		5 629	5 629
Share premium account		6 182	6 182
Revaluation reserve		75	75
Retained earnings		13 117	9 460
Profit for the period		2 509	9 286
TOTAL SHAREHOLDERS' EQUITY		**27 512**	**30 632**
Accelerated depreciation	18)	2 668	2 959
Total statutory provisions	19)	2 101	1 149
LIABILITIES			
Long-term liabilities, interest-bearing	21)	12 743	12 385
Short-term liabilities, interest-bearing	21)	26 388	23 957
Short-term liabilities, interest-free		45 513	21 717
TOTAL LIABILITIES		**84 644**	**58 059**
TOTAL EQUITY AND LIABILITIES		**116 925**	**92 799**

FAS=Finnish Accounting Standards

2008

Parent Company: Statement of Cash Flow, FAS

1000 EUR	1 Jan–31 Dec, 2008	1 Jan–31 Dec, 2007
Cash flow from operating activities		
Profit for the period	2 508	9 286
Adjustments to the profit for the period	4 940	7 011
Change of the working capital	-516	-12 879
Cash flow from operations before financial items and taxes	6 932	3 418
Interests paid in operating activities	-1 773	-1 796
Interests received in operating activities	978	1 063
Other financial items in operating activities	-10	-16
Income taxes paid in operating activities	-3 252	-2 436
Net cash generated from operating activities	**2 875**	**233**
Cash flow from investing activities		
Investments in tangible and intangible assets	-1 969	-2 469
Income from disposals of tangible and intangible assets	-4 425	
Group companies founded		5
Loans granted	-3 688	-8 892
Repayments of loan receivables	9 664	5 567
Dividends received from investments	858	113
Net cash used in investing activities	**440**	**-5 676**
Cash flow from financing activities		
Short-term loans made	19 330	20 509
Repayments of short-term loans	-19 849	-5 204
Long-term loans made	9 400	2 687
Repayments of long-term loans	-6 280	-9 820
Dividends paid	-5 629	-2 814
Net cash generated from financing activities	**-3 028**	**5 358**
Net change in cash and cash equivalents	**288**	**-85**
Cash and cash Equivalents on 1 Jan	27	113
Cash and cash Equivalents on 31 Dec	315	27
Net change in working capital		
Change of inventories	-13 045	-2 657
Change of trade receivables and other short-term receivables	-11 248	-8 339
Change of trade payables and other interest-free short term liabilities	22 825	-2 174
Change of provisions	952	292

Notes to the Parent Company Financial Statements

1. Accounting principles

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 at the balance sheet date. Accordingly, realized as well as unrealized exchange rate differences from sales receivables and accounts payable, current and non-current liabilities and receivables are recorded in the income statement. The exchange difference of hedged items the corresponding item to be hedged has been adjusted by the exchange difference of corresponding derivative instrument used for hedging purposes.

Net sales

Sales of products and services are recognized at the time of delivery. Sales are presented as net of indirect taxes and adjustments to sales. Adjustments to sales include granded 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 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.

Fixed assets and depreciation

Fixed assets are stated based on original acquisition cost, with the exception of parent company's land areas and buildings which have been revalued. Revaluations in the amount of EUR 563 000 for land areas and EUR 2 512 000 for buildings were recorded in year 1990 and prior based on external evaluations. Additional revaluation in the amount of EUR 800 000 in deferred tax liability was not recognized since its realization is not likely in the 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 5-20 years.

Goodwill includes, among other things, technology, trademarks, and customer and supplier relationships. Useful life of technology in use is estimated to be long term whereas useful life of trademarks is considered to be indefinite. Customer and supplier relationship is estimated to have long-term useful life ranging typically from 15 to 20 years. Subcontractor and supplier turnovers are 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, 2008	1 Jan-31 Dec, 2007
North, Central and South America	41 158	28 183
Asia and Australasia	33 026	34 987
Europe, Middle East and Africa	73 084	42 564
Total	**147 268**	**105 734**

3. Other operating income

1000 EUR	1 Jan-31 Dec, 2008	1 Jan-31 Dec, 2007
Grants	194	215
Provisions	73	167
Other	791	385
Total other operating income	**1 058**	**767**

4. Materials and services

1000 EUR	1 Jan-31 Dec, 2008	1 Jan-31 Dec, 2007
Raw materials and consumables		
Purchases during the financial year	-93 498	-52 944
Change in inventories	2 823	2 562
External services	-9 430	-3 440
Total materials and services	**-100 105**	**-53 822**

5. Personnel expenses

1000 EUR	1 Jan-31 Dec, 2008	1 Jan-31 Dec, 2007
Salaries and fees	-12 674	-10 321
of which president's and board members' salaries	-504	-486
Pension expenses	-2 257	-1 595
Other employee benefits	-851	-1 217
Total personnel expenses	**-15 782**	**-13 133**

Salaries and fees 1000 EUR	1 Jan-31 Dec, 2008	1 Jan-31 Dec, 2007
President	278	279
Members of the Board of Directors		
Mr. Timo Vartiainen	101	93
Ms. Katariina Aaltonen	65	63
Mr. Teppo Taberman	20	17
Mr. Thomas Franck	20	17
Mr. Matti Ruotsala	20	17

Retirement age of parent company's President and chairman of the Board of Directors in employment relationship is 60.

The average number of personnel	1 Jan-31 Dec, 2008	1 Jan-31 Dec, 2007
Office personnel	173	139
Workers	81	77
Total	**254**	**216**

6. Planned depreciation and amortization

1000 EUR	1 Jan-31 Dec, 2008	1 Jan-31 Dec, 2007
Development costs	-378	-311
Intangible rights	-756	-543
Goodwill	-1 612	-1 608
Other capitalized expenditure	-19	-19
Land (asphalting)	-4	-4
Buildings	-414	-136
Machinery and equipment	-509	-423
Total depreciation and amortization	**-3 692**	**-3 044**

7. Other operating expenses

1000 EUR	1 Jan-31 Dec, 2008	1 Jan-31 Dec, 2007
Sales expenses	-11 068	-7 510
Consumables	-564	-387
Maintenance of premises	-711	-562
Rents	-477	-286
Personnel expenses	-1 006	-834
Traveling expenses	-3 176	-2 343
Marketing and public relations	-2 119	-1 574
External services	-13 253	-6 475
Other operating expenses	-1 738	-1 246
Total other operating expenses	**-34 112**	**-21 217**

8. Fees paid to auditors

1000 EUR	1 Jan-31 Dec, 2008	1 Jan-31 Dec, 2007
PricewaterhouseCoopers:		
Auditing	115	83
Tax consultancy	91	52
Other fees	53	22
Total	**259**	**157**

9. Financial income and expenses

1000 EUR	1 Jan-31 Dec, 2008	1 Jan-31 Dec, 2007
Share of profit from subsidiaries	733	
Share of profit from associated companies	124	112
Interest and other financial income		
From Group companies	969	1 063
From others	10	487
Total financial income	**1 836**	**1 662**
Interest and other financial expenses		
To Group companies	-7	
To others	-2 295	-2 329
Total financial expenses	**-2 302**	**-2 329**
Total financial income and expenses	**-466**	**-667**
Exchange gains (+) and losses (-) included in financial income and expenses	-519	-31

10. Appropriations

1000 EUR	1 Jan-31 Dec, 2008	1 Jan-31 Dec, 2007
Difference between booked depreciation and depreciation according to plan		
Buildings	70	17
Machinery	763	512
Goodwill	-542	-542
Total appropriations	**291**	**-13**

11. Income tax

1000 EUR	1 Jan-31 Dec, 2008	1 Jan-31 Dec, 2007
Current taxes	-1 073	-3 292
Total income taxes	**-1 073**	**-3 292**

12. Intangible assets

1 Jan-31 Dec, 2008	Development costs	Intangible rights in progress	Intangible rights	Goodwill	Other long-term expenditure
Acquisition cost 1 Jan	**1 689**	**443**	**9 617**	**16 190**	**4 674**
Additions	35	718	732		
Acquisition cost 31 Dec	1 724	1 161	10 349	16	4 674
Cumulative depreciations 1 Jan	-399		-5 159	-3 234	-4 618
Depreciation for the period 1 Jan -31 Dec	-379		-757	-1 612	-20
Cumulative depreciations 31 Dec	-748		-5 916	-4 846	-4 638
Carrying value 31 Dec	**976**	**1 161**	**4 433**	**11 344**	**37**

13. Tangible assets

1 Jan-31 Dec, 2008 1000 EUR	Land areas	Buildings	Machinery	Tangible assets in progress	Other tangible assets
Acquisition cost 1 Jan	**1 147**	**8 634**	**12 429**		**104**
Additions		21	463		
Disposals					
Acquisition cost 31 Dec	1 147	8 655	12 892		104
Cumulative depreciations 1 Jan	-19	-3 178	-10 187		-104
Depreciation for the period1 Jan-31 Dec	-4	-411	-509		
Cumulative depreciations 31 Dec	-23	-3 589	-10 696		-104
Carrying value 31 Dec	**1 124**	**5 066**	**2 196**		
Includes revaluations *)	563	2 512			

**) Additional revaluation in the amount of EUR 800 000 in deferred tax liability was not recognized since its realization is not likely in the near future.*

14. Investments

Shares and shareholdings on 31 Dec, 2008	Country	No. Of shares	Share (%)	Book value, 1000 EUR
Larox Company Oy	Finland	50	100,0	8
Turku Ceramics Oy	Finland	2 000	100,0	4 414
Larox AB	Sweden	11 000	100,0	11
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 de sólidos LTDA*)	Brazil	60 000	10,0	24
Cia Minera Trinidad S.A.C.	Peru	57 398	99,7	0
Total subsidiary shares				**15 181**

*)Larox Company Oy holds 90% of the shares.
In addition, the parent company has a branch office in Peru, Larox Sucursal Peru.

1000 EUR	31 Dec, 2008
Total subsidiary shares	15 181
Associated company shares, Larox Flowsys Oy	247
Other shares	23
Total investments	**15 451**

Larox Flowsys Oy, Lappeenranta	2008	2007
Share of ownership (%)	49	49
Assets	10 884	5 810
Liabilities	7 160	2 967
Net sales	20 752	15 348
Profit for the period	**944**	**736**

15. Inventories

1000 EUR	31 Dec, 2008	31 Dec, 2007
Materials and supplies	9 223	6 401
Work in progress	15 247	5 354
Finished products and goods	4 200	4 971
Advance payments for inventories	3 658	2 557
Total inventories	**32 328**	**19 283**

16. Receivables

1000 EUR	31 Dec, 2008	31 Dec, 2007
Long-term receivables		
Receivables from Group companies	904	3 394
Total long-term receivables	**904**	**3 394**
Short-term receivables		
Trade receivables	18 588	8 694
Other receivables	2 185	1 480
Accrued receivables	1 664	420
Receivables from Group companies	12 938	10 428
Loans to Group companies	6 202	9 697
Receivables from associated companies	13	1
Total short-term receivables	**41 590**	**30 720**

17. Shareholders' equity

Changes in shareholders' equity 2007 1000 EUR	Share capital	Share premium account	Revaluation reserve *)	Retained earnings	Total
Shareholders´ equity 1 Jan	5 629	6 182	75	12 275	24 161
Dividend distribution				-2 814	-2 814
Profit for the period				9 286	9 286
TOTAL SHAREHOLDERS' EQUITY 31 Dec, 2007	**5 629**	**6 182**	**75**	**18 746**	**30 632**

Changes in shareholders' equity 2008 1000 EUR	Share capital	Share premium account	Revaluation reserve *)	Retained earnings	Total
Shareholders equity 1 Jan	5 629	6 182	75	18 746	30 632
Dividend distribution				-5 629	-5 629
Profit for the period					2 509
TOTAL SHAREHOLDERS' EQUITY 31 Dec, 2008	**5 629**	**6 182**	**75**	**13 117**	**27 512**

**) 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, 2008
Retained earnings	13 117
Profit for the period	2 509
Total shareholders` equity attributable to shareholders	**15 626**

18. Accelerated depreciation

1000 EUR	31 Dec, 2008	31 Dec, 2007
Difference between booked depreciation and depreciation according to plan		
Other long-term expenditure	17	17
Buildings	792	862
Machinery	-851	-88
Goodwill	2 710	2 168
Total accelerated depreciation	**2 668**	**2 959**

19. Provisions

1000 EUR	2008	2007
Warranty provision on 1 Jan	1 109	817
Change	596	292
Warranty provision on 31 Dec	**1 705**	**1 109**
Pension provision on 1 Jan	40	40
Change		
Pension provision on 31 Dec	**40**	**40**
Reverse provision		
Change	356	
Reverse provision on 31 Dec	356	
Total provisions	**2 101**	**1 149**

20. Deferred tax assets and liabilities

1000 EUR	31 Dec, 2008	31 Dec, 2007
Deferred tax assets recognized on the balance sheet		
Timing differences and other temporary differences		264
Unrecognized deferred tax liabilities		
Depreciation differences	694	769
Revaluations	800	871

21. Liabilities

1000 EUR	31 Dec, 2008	31 Dec, 2007
Long-term liabilities		
Loans from financial institutions	12 742	12 385
Other loans		
Total long-term liabilities	**12 742**	**12 385**
Short-term liabilities		
Loans from financial institutions	25 014	23 957
Loans to Group companies	1 374	
Total interest-bearing short-term liabilities	**26 388**	**23 957**
Short-term interest-free liabilities		
Trade payables	7 659	6 267
Accrued payables	6 403	4 868
Other payables	368	332
Advances received	23 248	7 317
Loans to Group companies	7 714	2 500
Loans to associated companies	121	433
Total interest-free short-term liabilities	**45 513**	**21 717**

Accrued payables include mainly employee related expenses.

22. Commitments and contingencies

1000 EUR	31 Dec, 2008	31 Dec, 2007
Loans from financial institutions	38 049	36 342
Other loans		
Total	**38 049**	**36 342**
Real estate mortgages	6 560	6 560
Corporate mortgages, general pledging	3 936	3 936
Corporate mortgages, specific pledging	9 062	9 062
Total	**19 558**	**19 558**

Guarantees for others	31 Dec, 2008	31 Dec, 2007
Pledged securities*	10 890	9 097
Others	161	124
Total	**11 051**	**6 600**

**) book value of secured shares*

Leasing liabilities 1000 EUR	31 Dec, 2008	31 Dec, 2007
Current portion	66	
Non-current portion	2 072	
Total	**2 138**	

Leasing liabilities 1000 EUR	31 Dec, 2008	31 Dec, 2007
Current portion	437	277
Non-current portion	365	264
Total	**802**	**541**

Group Key Figures 2004-2008

1000 EUR	2008	2007	2006	2005	2004
Scope of activity					
New orders	184 799	208 421	137 971	121 470	93 204
Order backlog	72 006	97 330	44 911	29 845	12 425
Net sales	207 995	158 270	122 809	104 324	96 469
Change in net sales, %	31.4	28.9	17.7	8.1	70.7
Share of exports and foreign operations, %	93	97	96	97	97
Number of personnel	562	458	450	438	436
Net sales per person	370	346	273	238	221
Total liabilities	82 370	70 008	56 627	59 368	51 733
Current liabilities	62 248	54 072	33 821	31 452	20 906
Shareholders` equity	35 770	32 845	26 668	24 901	20 890
Total assets	118 139	102 853	83 295	84 269	72 523
Investments	7 402	3 285	2 285	1 832	32 580
Investments, %	3.6	2.1	1.9	1.8	34.3
Profit and profitability					
Depreciation	3 808	3 504	3 412	3 931	4 395
Operating profit (EBIT)	16 618	13 070	8 931	6 670	3 894
Financial income and expenses	-2 661	-1 315	-2 141	-1 091	-2 248
Profit before taxes	13 957	11 755	7 044	5 790	1 825
Profit for the period	10 022	9 496	5 004	4 502	1 507
Operating profit, %	8.0	8.3	7.3	6.4	4.0
Net financial expenses, %	1.3	0.8	1.5	0.8	2.3
Profit before taxes, %	6.7	7.4	5.7	5.6	1.9
Profit, %	4.8	6.0	4.1	4.3	1.6
Return on shareholders´ equity, %	29.2	31.9	19.4	19.7	8.6
Return on invested capital, %	24.2	22.9	16.7	12.6	8.0
Financial					
Quick ratio	0.8	0.7	0.8	0.9	1.0
Current ratio	1.2	1.2	1.4	1.5	1.7
Equity ratio, %	32.3	34.2	33.9	29.9	28.9
Relative indebtedness, %	36.1	40.0	42.3	56.1	53.3

Key Figures by Quarters

1000 EUR	2008 IV quarter	2008 III quarter	2008 II quarter	2008 I quarter	2007 IV quarter
New orders	25 817	53 759	51 906	53 317	64 912
Group order backlog at the end of the period	72 006	110 087	115 675	109 183	97 330
Net sales	64 079	58 804	47 548	37 563	49 298
Operating profit	4 908	5 524	3 460	2 726	5 164
% of net sales	7.7	9.4	7.3	7.3	10.5
Net financial costs	1 182	732	233	514	256
% of net sales	1.8	1.2	0.5	1.4	0.5
Result before taxes	3 726	4 792	3 227	2 212	4 908
Result for the quarter	2 828	3 317	2 548	1 329	5 250

Shares and Shareholders

Share related data

	2008	2007	2006	2005	2004
Earnings per share, Group, EUR	1.07	1.01	0.53	0.49	0.17
Shareholder equity per share, EUR	3.81	3.50	2.84	2.68	2.25
Dividend per share, EUR	**) 0.50	0.60	0.30	0.24	0.17
Dividend per earnings ratio, %	46.7	59.4	56.6	49.0	100.0
Dividend yield, %	10.9	5.0	3.3	3.9	3.6
Price per earnings ratio (P/E)	4.30	11.88	16.98	12.45	27.4
Development of share price					
Average trading price, EUR	9.23	12.66	7.76	5.40	5.24
Lowest trading price, EUR	4.60	8.04	6.12	4.50	3.85
Highest trading price, EUR	12.40	16.85	9.35	6.24	9.10
Trading price at end of period, EUR	4.60	12.00	9.00	6.10	4.66
Change in trading price, %	-61.7	33.3	47.5	30.9	18.6
Shareholders' earnings, %	-56.7	36.7	51.5	34.5	22.9
Market capitalization at end of period					
A shares, EUR million*)	9.8	25.5	19.1	13.0	9.9
B shares, EUR million	33.4	87.1	65.3	43.6	33.3
Total	43.2	112.6	84.4	56.6	43.2
Trading volume					
B shares, 1000 pcs	2 228.3	4 173.6	2 570.7	1 124.9	417.9
In relation to average number of B shares, %	23.8	44.5	27.4	12.1	6.3
Average number of shares at end of period, 1000 pcs	7 257.6	7 257.6	7 253.9	7 151.2	6 624.1
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	7 257.6	7 257.6	7 151.7	7 149.3
Total, 1000 pcs	9 381.6	9 381.6	9 381.6	9 275.7	9 273.3

**) A share data is based on B share´s closing trading price 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 (1) one vote per share.
Distribution of the different series shares and their voting rights are as follows:

Series of shares	No. of shares (thousand)	% of share capital 31 Dec, 2008	No. of voting rights (thousand)	% of voting rights 31 Dec, 2008
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 31 December, 2008

	Number of shareholders	% of shareholders	Total shares, pcs	% of share capital
Private enterprises	139	7.3	1 724 209	18.4
Financial institutions and insurance companies	13	0.7	504 058	5.4
Public corporations	1	0.1	410 000	4.4
Non-profit institutions	18	0.9	40 031	0.4
Households	1 714	89.8	6 552 846	69.8
Foreign owners	24	1.2	133 173	1.4
Total	1 909	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 31 December, 2008

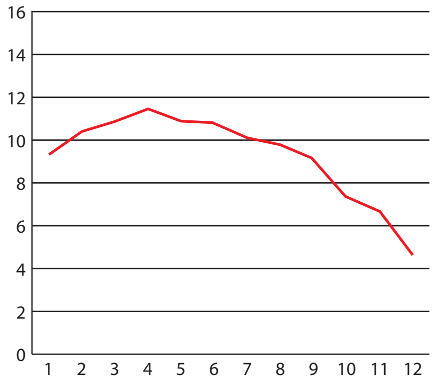
	Number of shareholders	% of shareholders	Total shares, pcs	% of share capital
1-100	398	20.8	26 337	0.3
101-500	864	45.3	249 851	2.7
501-1 000	322	16.9	256 766	2.7
1 001- 5 000	243	12.7	497 878	5.3
5 001 – 10 000	31	1.6	233 714	2.5
10 001 – 50 000	25	1.3	480 931	5.1
50 001-100 000	13	0.7	1 047 034	11.1
100 001-500 000	8	0.4	1 931 125	20.6
Over 500 000	5	0.3	4 640 681	49.5
On joint account			17 283	0.2
Total issued	**1 909**	**100.0**	**9 381 600**	**100.0**
Of which administratively registered	8		400 015	4.3

Principal shareholders on 31 December, 2008

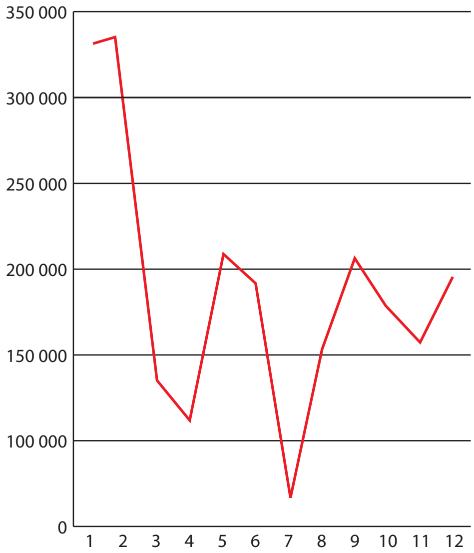
	% of share capital 31 Dec, 2008	% of voting rights 31 Dec, 2008
Laakkonen Mikko	10.8	2.04
Capillary Oy	10.4	1.96
Aaltonen Katariina	9.5	22.43
Kupias Karoliina	9.5	22.42
Vartiainen Timo	9.3	22.40
Keskinäinen Vakuutusyhtiö Ilmarinen	4.4	0.82
Vartiainen Nuutti	3.9	14.84
Laakkosen Arvopaperi Oy	3.3	0.63
Nordea Pankki Suomi Oyj	2.9	0.56
Karo Vesa	2.1	0.40

The Board of Directors and the President of Larox hold a total of 1.796.085 shares representing 44.9 % of the voting rights.
Larox Corporation is not aware of any valid partner contracts.

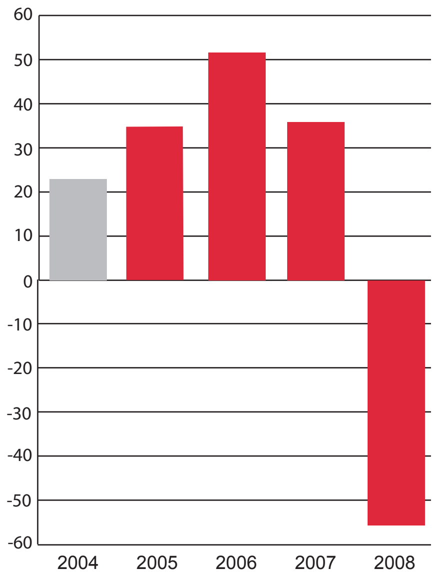
Price development of Larox B share, 2008 EUR



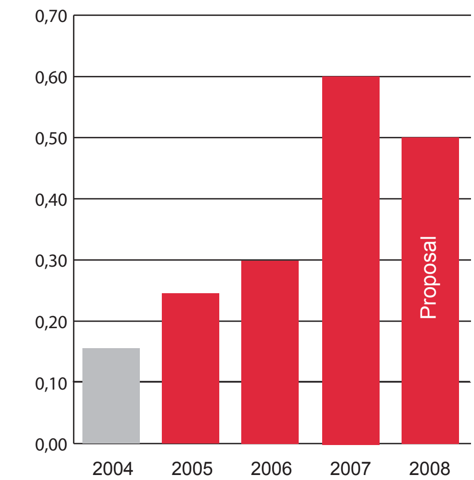
Trading of B share, 2008



Shareholders´ earnings, %



Dividend/Share, EUR



Calculation of Key Figures

Return on shareholders' equity, %

Profit / loss for the period	x 100
Average adjusted shareholders' equity	

Invested capital

Shareholders' equity + Interest-bearing liabilities

Return on invested capital, %

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

Equity ratio, %

Shareholders' equity	x 100
Total assets – advances received	

Relative indebtedness, %

Total liabilities + Statutory 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

Net profit
Average number of shares during the period adjusted for share issues

Shareholders' equity per share

Shareholders' equity
Average number of shares at the end of the period adjusted for share issues

Dividend per share

Dividend distributed for the financial period
Average number of shares at the end of the period adjusted for share issues

Dividend per earnings ratio, %

Dividend per share	x 100
Earnings per share	

Dividend yield, %

Dividend per share	x 100
Trading price at the end of the period adjusted for share issues	

Price per earnings ratio (P/E)

Trading price at the end of the period adjusted for share issues
Earnings per share

Average trading price

EUR amount of shares 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 the period x trading price at the end of period weighted by the number of 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


Electronic Calculator

Signatures to Board of Directors' Report and Financial Statements

Lappeenranta 12 February 2009

Timo Vartiainen
Chairman of the Board

Katariina Aaltonen

Teppo Taberman

Thomas Franck

Matti Ruotsala

Toivo Matti Karppanen
President & CEO

Auditors' Report

To the Annual General Meeting of Larox Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Larox Corporation for the period 1.1. – 31.12.2008. The financial statements comprise the consolidated balance sheet, income statement, cash flow statement, statement of changes in equity and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the financial statements and the report of the Board of Directors and for the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the parent company's financial statements and the report of the Board of Directors in accordance with laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent company's financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. Good auditing practice requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements and the report of the Board of Directors are free from material misstatement and whether the members of the Board of Directors of the parent company and the Managing Director have complied with the Limited Liability Companies Act.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

The audit was performed in accordance with good auditing practice in Finland. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the Company's Financial Statements and the Report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki, 12 February 2009
PricewaterhouseCoopers Oy
Authorized Public Accountants

Kim Karhu
Authorized Public Accountant

Corporate Governance Principles of Larox Corporation, 30 January 2009

Table of contents

1. General information on the corporate governence of the company

Applicable regulations

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

In addition, Larox Corporation applies the Finnish Corporate Governance Code for listed companies, which came into force on 1st January, 2009, except for its Recommendation 51 (Corporate Governance statement), which the company will start to apply in full in accordance with the applicable transitional period during the fiscal year that starts after 1 September, 2008.

2. Annual general meeting of the shareholders

The highest decision-making power in Larox Corporation belongs to its shareholders at the annual general meeting, which is summoned by the board of directors.

Normally, the annual general meeting addresses matters that the board has proposed to the meeting. In accordance with the Finnish Companies' Act, shareholders have the right to make a written request to the board to address particular matters at the next annual general meeting.

An invitation to the annual general meeting is published in at least one Finnish national newspaper and should provide the shareholders with sufficient information of the matters that are to be addressed in the meeting. In addition, the company will publish an invitation to its shareholders on its Internet page no less than 21 days prior to the annual general meeting, which should include the following information:

- the total number of shares and voting rights according to share type at the date of the notice
- the documents to be submitted to the general meeting
- proposals for a resolution by the board or another competent body
- items that have been included in the agenda of the general meeting with no proposal for a resolution.

The most important matters that can be decided by the annual general meeting include:

- amendments to the company's articles of association
- an increase or decrease in share capital
- decisions on releasing the board members and the managing director from liability
- decisions on the number, election, and fees of board members
- approval of the annual account
- distribution of profits
- election of auditors and decision on their fees

Minutes will be prepared of the annual general meeting, and made available for all shareholders together with voting results and appendices relevant to the made decisions within two weeks after the meeting. In addition, the resolutions passed by the annual general meeting are published immediately after the meeting in a stock exchange release.

Managing director, chairman of the board, and a sufficient number of board members participate in each annual general meeting. The auditor participates in the ordinary general meeting and, when required, in the extraordinary general meetings. First time candidates for the board should participate in the annual general meeting at which their election is addressed.

3. Board of Directors

Larox Corporation's board of directors is responsible for organizing appropriate supervision of the company's administration, operations, bookkeeping, and finances. The board always addresses and makes decisions on matters that are financially, operationally, or principally significant to the Group.

Board meetings and composition

The chairman of the board of directors is responsible for summoning and managing the board meetings. The dates of the meetings are agreed in advance and the issues addressed include at least the following: previous year's financial statement, interim reports for the past 3 months, company strategy, and the budget for the following year. One of the board members will act as a meeting secretary.

Minutes are prepared of each board meeting, which will be commented and most often dealt with and approved in the beginning of the next board meeting.

When voting, the decision of the board of directors is the proposal favoured by the 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 drawing lots.

The board of directors conducts an internal audit of its operations once a year.

The company has no special regulations, according to which the company puts up the board member candidates or elects the board members.

According to its articles of association, Larox Corporation's board of directors must have between three and six members. The term of office of the board members is one year, with the period of service starting following the general meeting in which their election took place and terminating after the subsequent ordinary general meeting. The general meeting elects all members of the board of directors. The articles of association do not define an upper age limit for board members, limit the number of times individuals can be elected into the board, or restrict the power of the general meeting regarding the election of board members. The board elects a chairman from among its members.
The names of the candidates for board membership are published in the invitation to the general meeting or, after the invitation has been sent, by some other means prior to the general meeting provided that the candidate has given their consent and that shareholders who own a minimum of 10% of the total number of votes entitled by the company's shares are in favour of their election. The company provides the personal details of the candidates on its Internet pages. The candidates should have the competence required by the task and the opportunity to devote adequate time to their duties. The current needs and developmental phase of the company will be taken into account in the composition of the board of directors. The board members should represent both genders.

The essential contents of the board's procedural rules

The board of directors has an annual schedule and agenda for its meetings, which is modified as required.

The matters addressed by the board include:
- deciding on Group strategy and approving the strategies specific to certain operational fields
- deciding on the Group's structure and organization
- addressing and accepting interim reports, financial statements including the consolidated financial statement, and the report by the board
- accepting the operational plan, budget, and investment plan of the Group
- deciding on investments, company acquisitions and sales, reorganization, and contingent liabilities
- accepting the Group's risk management and reporting procedures
- accepting the Group's insurance policies
- accepting the Group's financing policies
- deciding on the Group management's remuneration and incentive system
- preparing dividend policy and assuming responsibility for the development of shareholder value
- appointing the managing director of the company and deciding on the remuneration they will be entitled to
- appointing the deputy of the managing director
- verifying Larox Corporation's values
- assuming responsibility for tasks assigned to the board either by the Finnish Companies' Act or some other body.

The number of board meetings held during the previous fiscal year and the participation activity of its members

The board met 7 times in 2008. The participation rate of the board members was 98%. The managing director participated in all of the meetings held.

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

The managing director or another member of the Group's management or otherwise employed by Larox so authorized by the managing director presents matters to the board of directors. According to the board's operational guidelines, the managing director is responsible for providing the board with sufficient information to evaluate the operations and financial situation of the Group, as well as for implementing the board's decisions, and reporting any defects or shortcomings observed in their implementation to the board.

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

The board's task is to promote the interests of the company and all its shareholders. Board members do not represent the parties within the company who proposed their election. To avoid conflicts of interest, board members cannot participate in the addressing of matters between a board member and the company. The majority of the board members should be independent from the company and at least two of these independent members of the board should also be independent from the most important shareholders of the company. In addition to the personal details of the board members, the company will also mention who of the board members are considered to be independent from the company and who from its most important shareholders.

The board has no special committees that would be responsible for certain board operations.

4. Managing Director and other executives

Larox Corporation has a managing director. His duties include managing the operations of the company in accordance with the board's instructions and regulations, and informing the board about the development of the company's operations and financial situation. He is also responsible for organizing the everyday administration of the company and ensuring that the financing of the company is arranged in a reliable manner. The managing director is never appointed as the chairman of the board.

In most meetings, the main task of the managing director is to present matters to the board. When considered appropriate, the managing director may authorize a member of the Group management team to present a particular matter to the board or prepare a draft resolution.

The board appoints the managing director and his deputy. The terms and conditions of the managing director's employment have been specified in writing and have been approved by the board. The financial benefits of the managing director have been described in section 5 (Remuneration).

The terms and conditions of the employment of the deputy to the managing director have also been approved in writing.

The term of office of the managing director and his deputy is not fixed and they are appointed to their positions until further notice. The managing director is not a member of the company's board of directors.

Group management team and management

Larox Corporation has a management team that also operates as the Larox Group management team. The managing director of the company acts as the chairman of this team and its members include the vice presidents responsible for global operations.

The Group management team has no operational power based on law or the company's articles of association. Put in place by the managing director, the Group management team has a supportive function, the purpose of which is to assist the managing director in the management of the company's operations. The Group management team participates in the preparation of matters that are to be addressed in board meetings.

The Group management team meets as and when necessary; however, no less than once a month (excluding the month of July). The Group management team has an annual schedule and agenda for its meetings, which is modified as required. The members of the Group management team take turns to act as the meeting chairman and secretary. Minutes of each monthly meeting are prepared and approved at the end of the next meeting. The areas of responsibility of the members of the Group management team have been included in their personal details.
The board members of Larox Group's most important subsidiary companies are elected from among the Group executives. In most cases, the Larox Corporation's managing director acts as the chairman of the boards of the company's most important subsidiaries.

5. Remuneration

Remuneration and other financial benefits of the board members

The ordinary general meeting annually decides on the remuneration that will be payable to the board members.

In 2008 the members of Larox Corporation's board of directors were paid a total of EUR 179 700 in remuneration for their work as members of the board.

Based on the decision made in the general meeting held on 26th March, 2008, the board members are entitled to the following remuneration:

- chairman: EUR 8 500 a month and
- other members: EUR 1 700 per month

The board members are not entitled to any additional attendance fee for their participation in the meetings.

Board members are entitled to daily allowances and reimbursement of travel expenses in accordance with Larox Corporation's general travel policy.

In addition to board remuneration Mr. Timo Vartiainen, chairman of the board of directors, has been paid EUR 480 as telephone compensation in 2008. He is also included in the group pension insurance, the value of which is tied with the value development of defined and chosen investment objects. Insurance payment for Mr. Timo Vartiainen totaled EUR 17 026 in 2008.

In addition to board remuneration, board member Ms. Katariina Aaltonen has been paid for other work defined by the board a remuneration of EUR 31 500 and EUR 13 680 as benefits in kind.

During the previous fiscal year, no other members of the board had an employment contract or relationship with the company or received other financial benefit from the company than the aforementioned board work remuneration and reimbursement of travel expenses.

The remuneration policy applied to the managing director and other executives

The board of directors decides on the remuneration and other financial benefits to which the managing director will be entitled.

The managing director decides on the remuneration of the members of the Group management team together with the chairman of the board. All incentive systems directed to the personnel, key persons, and senior management of the Larox Group will require the approval of the board. With the exception of the managing director, the retirement age of the members of the management team is not regulated.

In 2007, the company decided to put in place the following share-based incentive system, aimed at the key persons within the company:

The system consists of one four-year accumulation period, which started on 1st January, 2007, and will end on 31st December, 2010.

Participation in the system and receiving the bonus requires that the key person owns at least the minimum number of Larox Corporation's series B shares as defined by the board in advance. Bonuses will be paid based on the system in 2009, 2010, and 2011, partly in shares and partly in money. The amount that is paid in money covers the fiscal charges caused by the bonus. The shares may not be transferred for two years after the bonus is received (committing period). In the event that the employment contract or relationship of the key person ends during the committing period, they have to return the shares paid to them as a bonus to the company without compensation.

For the members of the management team, the ownership obligation of the shares will continue in a manner decided by the board for as long as their employment contract or relationship with the Group remains. The profit produced by the system, if any, is based on the Group's EPS key figure. The system's target group consists of 30-40 persons. The maximum amount of bonuses paid within the framework of the system corresponds to approx. 300 000 Larox Corporation's series B shares in total.

The financial benefits pertaining to the employment relationship of the managing director

In 2008, Toivo Matti Karppanen, managing director, received EUR 277 572 in wages, bonuses and benefits in kind.

The managing director has not been granted shares or share-related rights as compensation for his work in the company.

The retirement age of the managing director is 60 years, and the full pension amounts to 60% of their salary. (In Finland, pension is currently based on what is known as retirement salary, which is affected by the wages, bonuses, and benefits in kind received by the employee during their working life, but not the income based on share option rights enjoyed by virtue of their employment.)

The notice period applied to the employment of the managing director is 12 months and in addition to the dismissal pay, he/she is entitled to dismissal compensation equal to 6 month's pay.

The managing director will not be paid monthly or attendance fees for participation in meetings or other tasks undertaken as a board member in Larox Group's subsidiaries.

The managing director is entitled to daily allowances and remuneration for travel expenses in accordance with Larox Corporation's general travel policy.

6. Risk management and control

Risk management is part of Larox Group's management and control system. It aims to:

- prevent losses and other negative phenomena that may concern Larox Group in advance;
- support the implementation of Larox Group strategy and the achievement of set targets; and
- ensure the continuity of the Larox Group's operations and the wellbeing of its personnel.

The principles of risk management should be approved by Larox Corporation's board of directors, which also defines the general tolerance level of risks. Larox Corporation's managing director reports significant risks and issues relating to the implementation of the principles of risk management to the board. The management team defines the rules applied to risk management and accepts operational principles.

Larox Corporation's managing director is responsible for the implementation of the principles of Larox Group's risk management. Members of the management team implement risk management within their area of responsibility within the entire Group. The managing directors of Larox Group's subsidiaries implement risk management in their companies. Larox Group's risk manager implements risk management on the Group level.

The company's managing director confirms the annual global risk management programme, which the Group's risk manager realizes according to the existing risk management regulations of the Group. The Group's risk manager carries out, documents and monitors with chosen Group functions or subsidiaries the risk management measures, which the Group management team follows-up and controls regularly.

Larox Group's risks can be divided into commercial, operational, and financial risks, and risks of damage.

The commercial risks cover erroneous decisions or failures to make decisions relating to issues such as company acquisitions or other significant investments and out sourcing of the Group's operations, internationalisation, and risks relating to the extension of operations that may exceed the Group's risk tolerance capacity.

Operational risks cover any phenomena that may disturb or prevent the achievement of the company's operational targets. Therefore, operational risks include any errors or defects that relate to the marketing, tendering, sales, production, delivery, and post-marketing operations of the company.

Financial risks cover uncertainty factors that relate to the Group's own and its interest groups' solvency and risks relating to credit, currency, and interest rates.

Risks of damage cover the prospect of accidents that may lead to personal injuries or damage to company property.

In the event that negative consequences are caused to the company by the same phenomena more often than is allowed by its risk tolerance capacity, as defined in the Group's risk management principles, the Group will not address such phenomena as risks but errors that will be transferred to the Group's quality management system for correction.

The Group has also prepared for risks by insuring its personnel, operations, and property: for example, it has various pension and accident insurance policies, third party insurances, loss of profits insurance, transport insurance, and property insurances that are checked and updated at regular intervals.

Operational principles and inspection of internal audit

The company's board of directors is responsible for internal control of the administration. The managing director is responsible for organizing and putting into practise the internal control in his area of responsibility with the help of the Group management team. Superiors are obliged to control the functions in their areas of responsibility.

The company controls its own and the Group's financial development on monthly and quarterly basis. It includes income statements, balance sheet, chosen key figures and other matters, which are considered important to the business.

Internal audit

The purpose of internal audit is to supervise the company's operations and produce additional value to the board and management. Internal audit is an independent function and concentrates on the following areas:

- ensuring the efficiency of operations and result making capability of the company as well as the reliability and sufficiency of reporting
- monitoring that the Group's operational instructions are followed
- ensuring the functionality of risk management

Internal audit reports to Larox Corporation's board of directors. The managing director and financial manager coordinate the implementation of the internal audit. The company outsourced internal auditing in 2005.

Insider administration of the company

Based on the Finnish Securities Market Act, insiders subject to the disclosure requirement include the members of Larox's board of directors, the managing director and their deputy, as well as auditors, deputy auditors, and the employee of an audit organization who has the main responsibility for Larox's audit procedure; other members of the senior management of Larox who obtain inside information regularly and who have the 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 their position or duties, obtains inside information regularly and whom Larox has defined separately as 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 other persons 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 at Euroclear Finland Oy (former the Finnish Central Securities Depository); street address Urho Kekkosen katu 5 C, 00101 HELSINKI, which maintains Larox Corporation's insider register. The same information can be found on the Larox website.

All insiders have been given a book called 'Insider's Guide' for reading and been requested to study the regulations regarding insiders published on the webpage of the Nasdaq OMX Helsinki Ltd. in an address defined by the administrator at each given time. The company also has its own insider regulations, which it requires to be followed. Once a year, the assistant to the managing director sends permanent insiders a letter to remind them of their disclosure requirement and any changes that have taken place in issues relating to the insiders. Enclosed with the letter is a list of insiders' holdings as registered in Euroclear Finland Oy's register and an insider notification form with instructions. The company's permanent insiders are not permitted to trade in Larox Group's shares for 21 days prior to the publication of either the Larox Group's financial statements or interim reports.

7. Audit

The auditor has an important position as a controlling body appointed by the shareholders. The main purpose of the statutory audit procedure is to verify that the financial statement and the consolidated financial statement provide correct and sufficient information about the result and financial status of the company and the group during the fiscal year. Larox Corporation's fiscal year is the calendar year.

The auditor is liable for inspecting the accuracy of the company's bookkeeping and financial statement for the fiscal year and providing an auditors' report to the general meeting about the inspection. In addition, based on Finnish legislation, the auditor also verifies that the company's administration complies with the law and applicable regulations. The auditor should report their observations to the board no less than once a year.

A proposal for the election of the auditor, made by shareholders who own a minimum of 10% of the total number of votes entitled by the company's shares, is published in the invitation to the general meeting provided that the candidate has given their consent and that the company has been able to inform all shareholders about the proposal in good time prior to the general meeting. The company may also include the board's proposal for the auditor of the company in the invitation to the general meeting.

The annual meeting elects the auditor, taking into account that the maximum duration of consecutive terms of office of the main auditor is seven years. Based on Larox Corporation's articles of association, the company employs one (1) auditor, which should be an audit firm approved by the Finnish Central Chamber of Commerce or, alternatively, an auditor and a deputy auditor both of whom are approved by the Finnish Central Chamber of Commerce. The auditor's term of office ends at the end of the ordinary general meeting subsequent to their election.

The ordinary general meeting on 26 March, 2008 appointed PricewaterhouseCoopers Oy, a certified public accountancy company, as Larox Corporation's auditor. Kim Karhu, a certified public accountant, will assume the main responsibility for the auditing process

Auditors´ Fees:

	2008	2007
CPA PricewaterhouseCoopers:		
Auditing fees	237 000	245 000
Tax consultancies	171 000	81 000
Other fees	53 000	24 000
Total	**461 000**	**350 000**
Other audit organizations:		
Auditing fees	24 000	23 000
Other fees	50 000	14 000
Total	**74 000**	**37 000**

8. Shareholder agreements known to the company

The company is not aware of any shareholder agreements.

9. 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. 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. 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.

The Finnish Corporate Governance Code for listed companies (2008) is available on the Securities Market Association's Internet pages at www.cgfinland.fi.

From left

The Board of Directors 31 December 2008

Mr. Thomas Franck (1950)

- Independent Member of the Larox Corporation Board of Directors since 2005
- M.Sc. (Eng.)
- Senior Executive Vice President Rettig Group Ltd, Bore and Vice President, Group Business Development Rettig Group Ltd.
- 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

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. Teppo Taberman (1944)

- Independent Member of the Larox Corporation Board of Directors since 1995
- M.Sc. (Econ)
- Member of the Larox Corporation Board of Directors and Economical Adviser since 1995
- Work History: 20 years in banking business, including Deputy Chief Executive Officer in two different Banks

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. Matti Ruotsala (1956)

- Independent Member of the Larox Corporation Board of Directors since 2005
- M.Sc. (Eng.)
- 9.1.2007 Other Senior Company Executive, Fortum Oyj, from 9.1.2008 Member of the Board of Directors, Fortum Power and Heat Oy
- Work history: 2005-2007 Managing Director Valtra Oy Ab, 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 on the Larox website www.larox.com, which has a direct link to insider pages maintained by Investis Flife.*

From left

The Group Management Team 31 December 2008

■ **Mr. Juhana Ylikojola (1961)**
- M.Sc. (Engineering)
- Vice President, Service
- Member of the Group 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 Group Management Team since 2006
- Employed by Larox since 1990

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

■ **Mr. Toivo Matti Karppanen (1956)**
- M.Sc. (Tech)
- President & CEO
- President of Larox since 2000
- Member of the Board from 1995 to 1997
- Member of the Group Management Team since 1997
- Employed by Larox since 1991

■ **Mr. Louis Manie (1958)**
- M.Sc. (Chem. Eng.)
- Vice President, Engineering & Production
- Member of the Group Management Team since 2005
- Employed by Larox since 2004

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

** Larox holdings of the members of the Group management team can be found on the Larox website www.larox.com, which has a direct link to insider pages maintained by Investis Flife.*

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