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Tulikivi Corporation

## Corporate Governance Statement 2013

The governance of Tulikivi Corporation and its subsidiaries is based on the law, the Articles of Association and the Finnish Corporate Governance Code which entered into force on 1 October 2010. The company complies with the Guidelines for Insiders of the Helsinki Stock Exchange. This Corporate Governance Statement has been prepared in accordance with recommendation 54 of the Finnish Corporate Governance Code and Chapter 2(6)(3) of the Finnish Securities Markets Act. The Corporate Governance Statement will be published separately from the Board of Directors' report and is available on the company's website and in the Annual Report.

The Corporate Governance Code is available to the public at the website of the Securities Market Association, [www.cgfinland.fi](http://www.cgfinland.fi).

Tulikivi Corporation prepares the consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards (IFRS), which have been adopted by the EU. In communications, the Group complies with the Securities Markets Act, applicable standards of the Financial Supervisory Authority and NASDAQ OMX Helsinki's regulations. The Board of Directors' Report and the parent company's financial statements are prepared in accordance with the Finnish Accounting Act and the instructions and statements of the Finnish Accountancy Board.

### Organisation of the Tulikivi Group

The companies included in the Tulikivi Group are the parent company Tulikivi Corporation, AWL-Marmorio Oy, Tulikivi U.S. Inc. and OOO Tulikivi, as well as Tulikivi GmbH, established during the financial year. The New Alberene Stone Company, Inc, which currently has no business operations, is also a Group company. The parent company has a permanent office in Germany, Tulikivi Oyj Niederlassung Deutschland. The Group has interests in associated companies Stone Pole Oy and Rakentamisen MALL Oy. (Stone Pole Oy had no business activities during 2013; liquidation proceedings have begun.)

The Board of Directors, which is elected by the Annual General Meeting, the Board committees, the Managing Director and the Management Group, which assists the Managing Director, are responsible for the Tulikivi Group's administration and operations.



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## Description of the composition and operations of the Board of Directors and the Board committees

The Board of Directors is responsible for the company's administration and the due organisation of operations. The Board of Directors is composed of no less than five and no more than seven members. The Annual General Meeting elects the members for terms of one year. The Board of Directors elects a Chairman from among its members. The Board of Directors of the Group's parent company decides on the composition of the subsidiaries' Boards of Directors.

### Composition of the Board of Directors

Tulikivi Corporation's Extraordinary General Meeting of October 8, 2013 the number of Board members was set at seven.

The personal information of the Board members:

- Harri Suutari, born 1959. Chairman of the Board of Directors since August 23, 2013. B.Sc. (Eng.). Board membership in several companies.
- Olli Pohjanvirta, born 1967. Master of Law. Managing Director of Nurminen Logistics Oy. Managing Director of Russian Capital Management Oy. Board membership in several companies.
- Markku Rönkkö, born 1951. M.Sc. (Econ. & Bus. Admin.). Board membership in several companies.
- Pasi Saarinen, born 1968. Master of Science in Engineering. Director of Locks Business Unit at Abloy Oy. Technology Industries, Chairman of the Group.
- Nella Ginman-Tjeder, born 1958. M.Sc. (Econ). Senior Advisor at Ifolor Oy. Board membership in several companies..
- Anu Vauhkonen, born 1972. Member of the Board of Directors since October 8, 2013. M.A, Diploma in Communication Management. Sales and Marketing Director of Tulikivi Corporation.
- Heikki Vauhkonen, born 1970. LLB and BBA. Managing Director of Tulikivi Corporation. Chairman of the board of Stone Pole Oy and member of the Board of North Karelian Chamber of Commerce.

The Board members who are independent of the company are Olli Pohjanvirta, Markku Rönkkö, Pasi Saarinen, Harri Suutari and Nella Ginman-Tjeder. The Board members who are independent of the company's major shareholders are Olli Pohjanvirta, Markku Rönkkö, Pasi Saarinen, Harri Suutari and Nella Ginman-Tjeder.



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Tulikivi Corporation's Annual General Meeting of April 16, 2013 the number of Board members was set at six.

In the period of Jan.1 – April 16, 2013 the board members were Matti Virtaala, Olli Pohjanvirta, Markku Rönkkö, Pasi Saarinen, Maarit Toivanen-Koivisto, Heikki Vauhkonen.

#### Primary duties of the Board of Directors

Pursuant to the Limited Liability Companies Act, the Board of Directors must see to the administration of the company and the appropriate organisation of its operations. The Board of Directors is responsible for the appropriate arrangement of the control of the company accounts and finances. The Board directs and supervises the company's operational management, appoints and dismisses the Managing Director, approves the company's strategic objectives, budget, total investments and their allocation, and the incentive systems employed, decides on agreements that are of far-reaching consequence and the principles of risk management, ensures that the management system is operational, confirms the company's vision, values to be complied with in operations and organisational model, approves and publishes the interim reports, annual report and financial statements, determines the company's dividend policy and summons the General Meeting. It is the duty of the Board of Directors to promote the best interests of the company and all its shareholders.

In 2013, the company's Board of Directors convened 24 times. The average attendance at Board meetings was 93.3 per cent. The participation of each member in the meeting is shown in the table below.

#### Board Committees

Tulikivi Corporation's Board of Directors has two committees, namely the Nomination Committee and the Audit Committee. The Board of Directors appoints the members and Chairmen of the committees. At the Extraordinary General Meeting held on 8 October 2013, it was decided in accordance with the proposal of the Board to discontinue the Nomination Board established on 12 April 2012. Its tasks are now with the Nomination Committee of the Board, the members of which the Board will select from among its members.

The Nomination Committee comprised three members. The Committee was composed of Harri Suutari (Chairman) and Markku Rönkkö (member) and Heikki Vauhkonen (member). The duties of the Nomination Committee included the preparation of proposals for the election of directors to be presented to the general meeting, the preparation of matters relating to the compensation



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of directors and succession planning with respect to the directors. The Nomination Committee did not meet in 2013.

The personal information of the members of Nomination Committee:

- Harri Suutari, born 1959. Chairman of the Nomination Committee.. Chairman of the Board of Directors of Tulikivi Corporation since August 23, 2013 B.Sc. (Eng.). Board membership in several companies.
- Markku Rönkkö, born 1951. M.Sc. (Econ. & Bus. Admin.). Board membership in several companies.
- Heikki Vauhkonen, born 1970. LLB and BBA. Managing Director of Tulikivi Corporation. Chairman of the board of Stone Pole Oy and member of the Board of North Karelian Chamber of Commerce.

Operating until 8 October 2013, the Nomination Board included three members: Reijo Vauhkonen as chairman and Olli Pohjanvirta and Matti Virtaala as members. The Nomination Board met one time in 2013. The average attendance at committee meetings was 66.7%.

The personal information of the members of Nomination Board

- Reijo Vauhkonen, born 1939. Chairman of the Nomination Board. M.Sc. (Civil Eng.). Industrial Counsellor.
- Olli Pohjanvirta, born 1967. Master of Law. Managing Director of Nurminen Logistics Oy. Managing Director of Russian Capital Management Oy. Board membership in several companies.
- Matti Virtaala, born 1951, Chairman of the Board of Tulikivi Corporation until April 16, 2013. M.Sc. (Tech.). Industrial Counsellor. Board membership in several companies.

The Audit Committee is made up of three members, who are appointed by the Board from among its members. Until April 16, 2013 the committee was composed of Markku Rönkkö (Chairman), Pasi Saarinen and Matti Virtaala. Since April 16, 2013 the committee was composed of Markku Rönkkö (Chairman), Pasi Saarinen and Nella Ginman-Tjeder. The Audit Committee's task is to assist and expedite the work of the Board by dealing with issues associated with the company's financial reporting and control and taking care of communications with the auditors. The Audit Committee met on 5 occasions in 2013. The average attendance at committee meetings was 93.3 per cent.



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Participation by Board members in the meetings of the Board, Audit Committee and Nomination Committee and Nomination Board.

Jan.1 -Dec. 31, 2013	Board meetings	Audit Committee	Nomination Committee since Oct. 8, 2013	Nomination Board until Oct. 8, 2013
Harri Suutari	20/24			
Olli Pohjanvirta	18/24			
Markku Rönkkö	24/24	5/5		
Pasi Saarinen	22/24	5/5		
Nella Ginman-Tjeder	18/24	4/5		
Anu Vauhkonen (since Oct. 8)	5/24			
Heikki Vauhkonen	24/24			
Matti Virtaala (until April 16)	4/24			1/1
Reijo Vauhkonen				1/1

#### Managing Director

Tulikivi Corporation's Managing Director is Heikki Vauhkonen. Pursuant to the Limited Liability Companies Act, the Managing Director sees to the executive management of the company in accordance with the instructions and orders given by the Board of Directors. The Managing Director must 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. The Managing Director must supply the Board and its members with the information necessary for the Board to perform its duties. The Managing Director may undertake measures that are unusual or extensive in view of the scope and nature of the activities of the company only if so authorised by the Board of Directors or if it is not possible to wait for a decision of the Board of Directors without causing essential harm to the business operations of the company. In the latter case, the Board of Directors must be notified of the measures as soon as possible. The Managing Director is responsible for line operations, the implementation of the budget, the Tulikivi Group's financial result, and the activities of his subordinates.

#### Management Group

In the management and planning of line operations, the Managing Director is assisted by the Management Group, whose members, in addition to the Managing Director, are Ismo Mäkeläinen, Director of Production and Purchasing, Anu Vauhkonen, Director of Domestic Sales and Marketing, Jouko Toivanen, Director of Finance and Administration. Management Group met on 19 occasions in 2013.



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## Description of the main characteristics of the internal control and risk management systems associated with the financial reporting process

### 1. Description of the control environment

#### Tulikivi's business idea and values

The Tulikivi Group specialises in fireplaces and heating equipment that produce radiant heat, and in household natural stone products. Customers value our environmentally friendly and aesthetically pleasing products and the comfort that these products create. They also value the benefits of wood-based heating. Tulikivi is an adaptable and innovative company that appreciates its customers, entrepreneurship and fair play.

#### Environmental Policy

Engaging in mining activities requires the forming of a mining concession and an environmental permit. Ceramic Production activities require an environmental permit. Mining operations are regulated by the Mining Act and environmental legislation. The director in charge of quarrying is responsible for making sure that mining permits are valid and up-to-date.

Tulikivi's environmental strategy is geared towards systematic progress in environmental efforts in specified sub-areas. The aim of environmental work is to improve the company's ability to use natural resources sparingly, as well as to manage processes and products in a way that minimizes their environmental loading. The Group complies with the environmental legislation and norms that concern its operations and engages, through continuous improvement of operations, in anticipatory environmental work. The Group acknowledges and is aware of its responsibility as an environmental operator.

#### Planning and monitoring processes

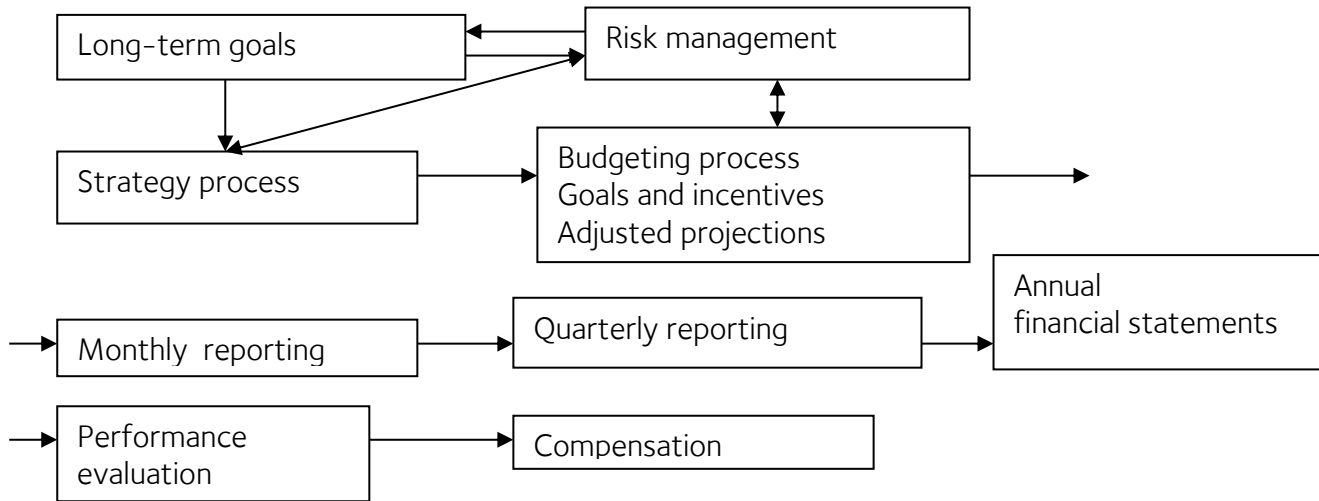
The Tulikivi Group plans its operations during its annual strategy and budgeting processes. These processes also ensure the efficiency of all operations. Plan implementation and developments in the business environment are monitored through monthly, quarterly and annual reporting.

Risk analysis and risk management are part of line operations and the annual strategy planning process at the Tulikivi Group. The purpose of internal control and risk management is to ensure that all operations are efficient and profitable, based on reliable information and compliant with regulations and operating policies.

#### FIGURE: Planning and monitoring process



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Internal control is a part of the planning and monitoring process

### Control functions

Based on organizational structure and job descriptions, powers and responsibilities are delegated to persons with budgetary responsibility and to responsible persons in the line organisation. Compliance with laws and regulations is ensured through the operational handbook and other internal guidelines.

FIGURE: Division of responsibilities in internal control and risk management

Responsible person/group	Responsibilities
Board of Directors	<ul style="list-style-type: none"> <li>- establishes guidelines for internal control</li> <li>- ensures effective monitoring</li> <li>- approves risk management principles</li> <li>- reviews auditors' reports</li> <li>- establishes incentive systems</li> </ul>
Audit Committee	<ul style="list-style-type: none"> <li>- evaluates the efficiency of internal control</li> <li>- attends to issues related to reporting</li> <li>- maintains contact with auditors</li> </ul>



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<p>Managing Director, assisted by the Management Group</p>	<ul style="list-style-type: none"> <li>- oversees the different areas of internal control and ensures their efficiency</li> <li>- ensures operational compliance with company values</li> <li>- adjusts operating principles and policies</li> <li>- ensures efficient and appropriate use of resources</li> <li>- establishes control mechanisms, including approval principles, reconciliations and reporting practices</li> <li>- establishes risk management methods and practices</li> </ul>
<p>Members of the Management Group, according to responsibility area: domestic sales, marketing, product development, exports, production, purchasing, administration and economy</p>	<ul style="list-style-type: none"> <li>- delegate specific control tasks in their respective areas of responsibility to people responsible for different operations</li> <li>- ensure the efficiency of internal control in their respective areas of responsibility</li> <li>- oversee risk management in their areas of responsibility</li> </ul>
<p>Director of Finance and Administration</p>	<ul style="list-style-type: none"> <li>- internal accounting: monitoring and analysis of results</li> <li>- external accounting and reporting</li> </ul>
<p>Auditor</p>	<ul style="list-style-type: none"> <li>- statutory audits</li> <li>- expanded audits assigned by the Board of Directors or the Audit Committee</li> <li>- reports to the Board of Directors and the Audit Committee</li> </ul>

The new enterprise resource planning (ERP) system was introduced during 2012. The implementation went smoothly and the set targets were achieved. With the new system, we have harmonised Tulikivi's internal processes in the company's businesses. The implemented system will enable more efficient cooperation with customers and subcontractors, and with partners.

In 2013 the focus will be on optimising the use of the system and improving the quality of reporting. The new system contains the necessary internal control mechanisms. In order to ensure the quality of operations, the operational handbook will be updated during 2014 in connection with the renewal of the intranet.





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Internal control is carried out not only by responsible persons within the company, but also by the auditors through expanded audits on specific items and operations. In 2013, the auditors conducted extended audits associated with the implementation of the new ERP system. The audits assessed the accuracy of the data transfer in the changeover to the new system from the old system. With regard to the size of the Group and the nature of its activities, it has not been deemed necessary to appoint an internal auditor. The Board may choose to use an external expert in certain fields.

Risk management is part of the Tulikivi Group’s control system. Risk management seeks to ensure that the risks related to the Group’s business are identified and constantly monitored and evaluated as part of normal operations.

2. Risk evaluation

Risk management ensures that the risks related to the Tulikivi Group’s business operations are identified and managed as efficiently as possible. This allows the Group to reach its strategic and financial goals. All goals have been assigned risk limits. If these limits are exceeded, or if other divergences from operating plans so require, the responsible person will implement enhanced risk management measures. Regular reporting indicates when financial risk limits have been exceeded.

FIGURE: Risk identification and management

Risk analysis and prioritization	<ul style="list-style-type: none"> <li>- identifying risks at the group level and in different areas of responsibility</li> <li>- evaluating the effects and probability of risks</li> <li>- determining risk limits for set goals</li> <li>- determining control points</li> <li>- identifying risks related to reporting</li> </ul>
Risk management	<ul style="list-style-type: none"> <li>- establishing risk management procedures</li> <li>- assigning responsible persons for different procedures</li> <li>- setting a time frame for implementation</li> <li>- establishing procedures for monitoring implementation</li> </ul>
Risk management process control	<ul style="list-style-type: none"> <li>- responsible persons report to the Managing Director on risk materialization, implemented measures and their effectiveness</li> <li>- risk evaluations related to controls</li> </ul>
Risk management process continuity	<ul style="list-style-type: none"> <li>- measures implemented during a reporting period, as well as foreseeable changes in the</li> </ul>



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	<p>business environment, will affect the plans and risk management measures for the subsequent period</p> <ul style="list-style-type: none"> <li>- risk identification requires continuous collection of background information</li> </ul>
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### 3. Reporting system, internal control and risk management

The Managing Director reports monthly to the Board of Directors on the operations and performance of the Group and its business units and on any divergence from the budget and adjusted projections (monthly report). The Managing Director reports quarterly to the Board of Directors on operating profit based on the interim reports or annual financial statements. The Managing Director must also report immediately on fundamental changes in the Group’s business environment. The responsible persons report according to the internal reporting system.

The Director of Finance and Administration of the parent company is responsible for the Group-level reporting. The parent company’s financial department handles accounts and group-level accounting for domestic companies. Qualified accounting firms or outside experts handle accounts and reporting for foreign subsidiaries. The parent company’s auditors compare the contents of the Russian subsidiary’s Russian reporting to the financial reporting delivered to the parent company for the consolidated financial statements.

Financial reporting guidelines, competence development, reliable information systems, standard control mechanisms and expanded audits ensure accuracy in reporting. Any divergences from the budget and operating plans call for closer analysis to find the underlying causes.

The Director of Finance and Administration, along with the auditors, monitors the accuracy of financial reporting. Periodic information system evaluations also serve this purpose. The Group seeks to ensure operational compliance with laws and regulations by using outside experts and services.

The Tulikivi Group has financial reporting guidelines that all units must adhere to. The Group ensures organizational competence through briefings and training. Accounting schedules and any changes to accounting policies and laws are reviewed in preparatory meetings related to the annual financial statements.

The Audit Committee evaluates the functionality of the financial reporting system quarterly on the basis of performance analyses of profit outlooks and the accuracy assessment of reporting. The evaluation also includes studying the risks associated with malpractice and illegal activity. The



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auditors audit the contents of the deviation reporting during the extended audit. The Management Group monitor the accuracy of result reporting on a monthly basis and evaluate the reasons for any deviation in their respective areas of responsibility.

#### 4. Communications

The guidelines for reporting and accounting principles are provided to all financial personnel and those who produce information and audit results into the financial system. The Managing Director reports any defects observed in the field of internal control, including the accuracy of reporting, to the Audit Committee. The Audit Committee processes the audit reports and extended audit reports and the statements for those reports provided by persons in charge in its meetings. Moreover, the Audit Committee reports to the Board about any observations it has made and any guidelines or recommendations it has supplied to the organisation.

The Communications Director is responsible for communications at the Tulikivi Group. The Group's communications guidelines define the persons responsible for internal, external and crisis communications and the persons with the right to speak on behalf of the company. The Director of Finance and Administration is responsible for compliance with the regulations related to stock exchange releases.

#### 5. Monitoring

The efficiency of internal control is evaluated regularly in conjunction with management and governance and, specifically, based on audit reports. In financial reporting, continual monitoring measures include comparing goals with actual results, implementing reconciliations and monitoring the regularity of operational reports.

The Board of Directors' annual plan includes planning and monitoring meetings. The Group's information systems are largely well established, and outside experts regularly evaluate their reliability.

#### 6. Auditing

The Auditor is elected at the Annual General Meeting for a term ending at the conclusion of the subsequent Annual General Meeting. The auditor has been KPMG Oy Ab, Authorized Public Accountants.

