



6.2.2015

Tulikivi Corporation Corporate Governance Statement 2014

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 prepared by NASDAQ OMX Helsinki. 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.

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 in the Tulikivi Group are the parent company Tulikivi Corporation, AWL-Marmori Oy, Tulikivi U.S. Inc., OOO Tulikivi, and Tulikivi GmbH, which was 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 the associated company Rakentamisen MALL Oy. The former associated company Stone Pole Oy was liquidated in 2014.

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.

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

6.2.2015

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 Annual General Meeting of 2 April 2014 decided that the Board shall have seven members.

The members of the Board of Directors

- Harri Suutari, born 1959. Chairman of the Board since 23 August 2013. B.Sc. (Eng.). Board membership in several companies.
- Olli Pohjanvirta, born 1967. LL.M. President and CEO of Nurminen Logistics Plc Managing Director of Russian Capital Management Ltd. Board membership in several companies.
- Markku Rönkkö, born 1951. M.Sc. (Econ. & Bus. Admin.). Board membership in several companies.
- Pasi Saarinen, born 1968. M.Sc. (Eng.). Director of Locks Business Unit at Abloy Oy. Federation of Finnish Technology Industries, Chairman, Locks and Fittings Groups.
- Nella Ginman-Tjeder, born 1959. M.Sc. (Econ. & Bus. Admin.). Senior Advisor at Indmeas Oy. Board membership in several companies.
- Anu Vauhkonen, born 1972. Member of the Board of Directors since 8 October 2013. M.A., Diploma in Communication Management. Tulikivi Corporation, Director of Sales and Marketing.
- Heikki Vauhkonen, born 1970, Chairman of the Board of Directors until 23 August 2013. LL.B., B.B.A. Managing Director of Tulikivi Corporation until 16 April 2013 and as of 23 August 2013.

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.

The members of the Board during the period 1 January–2 April 2014 were Harri Suutari, Olli Pohjanvirta, Markku Rönkkö, Pasi Saarinen, Nella Ginman-Tjeder, Anu Vauhkonen and 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 responsi-

6.2.2015

ble 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 2014, the company's Board of Directors convened 14 times. The average attendance at Board meetings was 96.9 per cent. The attendance 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 with the Nomination Committee of the Board, the members of which the Board selects from among its members.

The Nomination Committee was composed of Harri Suutari (Chairman) and Markku Rönkkö (member) and Heikki Vauhkonen (member). The duties of the Nomination Committee include preparation of proposals for the election of directors to be presented to the General Meeting, the preparation of matters relating to the compensation of members of the Board of Directors and succession planning for members of the Board of Directors. The Nomination Committee met once in 2014.

The personal information of the members of the Nomination Committee:

- Harri Suutari, born 1959. Chairman. B.Sc. (Eng.) Chairman of the Board of Directors of Tulikivi Corporation since 23 August 2013. Board membership in several companies.
- Markku Rönkkö, born 1951. M.Sc. (Econ. & Bus. Admin.). Board membership in several companies.
- Heikki Vauhkonen, born 1970. LL.B. and B.B.A. Chairman of the Board of Directors of Tulikivi Corporation until 23 August 2013. Managing Director of Tulikivi Corporation until 16 April 2013 and as of 23 August 2013.

The members of the Audit Committee are Markku Rönkkö (Chairman), Pasi Saarinen, Nella Ginman-Tjeder and Heikki Vauhkonen. The Audit Committee's duties are to assist and expedite the work of the



6.2.2015

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 four times in 2014. The average attendance at committee meetings was 100.0 per cent.

PARTICIPATION BY BOARD MEMBERS IN THE MEETINGS OF THE BOARD, THE AUDIT COMMITTEE, THE NOMINATION COMMITTEE 1 JANUARY– –31 DECEMBER 2014:

Board meetings Audit Committee Nomination Committee

Harri Suutari	14/14		1/1
Olli Pohjanvirta	12/14		
Markku Rönkkö	14/14	4/4	1/1
Pasi Saarinen	14/14	4/4	
Nella Ginman-Tjeder	13/14	4/4	
Anu Vauhkonen	14/14		
Heikki Vauhkonen	14/14	4/4	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 is responsible for ensuring 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 of Directors 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

6.2.2015

of Production, Anu Vauhkonen, Director of Sales and Marketing, and Jouko Toivanen, Director of Finance and Administration. The Management Group met 43 times in 2014.

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 also 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 impacts. 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.

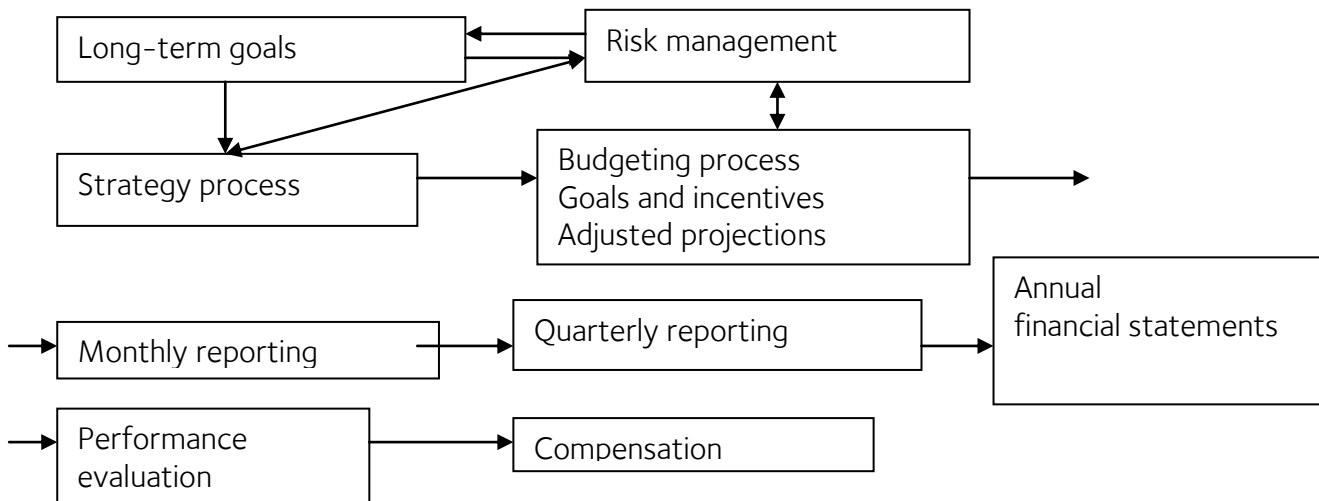
Planning and monitoring processes

The Group plans its operations and ensures the efficiency of the operations during its annual strategy planning and budgeting process. The implementation of the plans and changes in the operating 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 provisions and operating policies.

6.2.2015

FIGURE: Planning and monitoring process



Internal control is part of the planning and monitoring process.

Control functions

Based on organisational 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 party	Control responsibilities
Board of Directors	<ul style="list-style-type: none"> - establishes guidelines for internal control - ensures effective monitoring - approves risk management principles - reviews auditors' reports - establishes incentive systems
Audit Committee	<ul style="list-style-type: none"> - evaluates the efficiency of internal control - attends to issues related to reporting - maintains contact with auditors

6.2.2015

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

In 2014 the operating focus will be on optimising the use of systems and improving the quality of reporting. The enterprise resources planning system contains the necessary internal control mechanisms.

In addition to various parties within the organisation, auditors also engage in internal control by conducting expanded audits on separately agreed targets. In 2014, auditing focused on the organisation and reporting of internal control, controls of sales functions, controls of the purchasing process and payment transactions, and controls of the monitoring of working capital and inventories. 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 company's control system. The purpose of risk management is to ensure that business risks are identified and constantly monitored and evaluated as part of normal business operations.

6.2.2015

2. Risk evaluation

The purpose of risk management is to ensure that the Tulikivi Group’s business risks are identified and managed as effectively as possible. This allows the Group to achieve its strategic and financial goals. All goals have been assigned risk limits. If these risk limits are exceeded, or if other divergences from operating plans so require, the responsible person will initiate enhanced risk management procedures. Regular reporting indicates when financial risk limits have been exceeded.

FIGURE: Risk identification and management

Risk analysis and prioritisation	<ul style="list-style-type: none"> - identifying risks at the Group level and in different areas of responsibility - evaluating the effects and probability of risks - determining risk limits for set goals - determining control points - identifying risks related to reporting
Risk management	<ul style="list-style-type: none"> - establishing risk management procedures - assigning responsible persons for different procedures - setting a time frame for implementation - establishing procedures for monitoring implementation
Risk management process control	<ul style="list-style-type: none"> - responsible persons report to the Managing Director on risk materialisation, implemented measures and their effectiveness - risk evaluations related to controls
Risk management process continuity	<ul style="list-style-type: none"> - measures implemented during a reporting period, as well as foreseeable changes in the business environment, will affect the plans and risk management measures for the subsequent period - risk identification requires continuous collection of background information

6.2.2015

3. Reporting system, internal control and risk management

In accordance with the reporting system, the Managing Director reports monthly to the Board of Directors on the operations and performance of the Group and its various business units and on any divergence from the budget and adjusted projections. The Managing Director also 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 operating environment. The responsible persons report according to the internal reporting system.

The parent company's Director of Finance and Administration is responsible for 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 the accounts and reporting of 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 and the auditors monitor 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.

To ensure the effectiveness of financial reporting, the Tulikivi Group has guidelines that all units must comply with. Organizational competence is ensured 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 auditors audit the contents of the deviation reporting during the expanded audit. Members of 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 policies are provided to all financial personnel and those who produce information and audit results into the financial system. The Managing Director reports



6.2.2015

any defects observed in internal control, including the accuracy of reporting, to the Audit Committee. The Audit Committee processes the audit reports and expanded 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 Managing Director is responsible for communications at the Tulikivi Group. The Group has communications guidelines which cover both internal and external communications. They also specify the persons with the right to speak on behalf of the company.

5. Monitoring

The efficiency of internal control is evaluated regularly in conjunction with management and governance and specifically on the basis of 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.