



Half year financial report, 1-6/2016





Tulikivi Corporation

Half year financial report 1-6/2016: Net sales at last year's level, operational efficiency measures progress as planned

4 August 2016 at 1 p.m.

- The Tulikivi Group's second-quarter net sales were EUR 7.9 million (Q2/2015: EUR 8.5 million), the operating result was EUR 0.0 (-0.8) million and the result before taxes was EUR -0.2 (-0.9) million.

- For the review period as a whole, the Tulikivi Group's net sales were EUR 14.2 million (EUR 14.7 million in H1/2015).

The operating result was EUR -1.3 (-3.3) million and the result before taxes EUR -1.7 (-3.6) million.

- Net cash flow from operating activities was EUR 0.1 (1.2) million for the second quarter and EUR -0.4 (-0.0) million for the review period.

- Order books at the end of the review period amounted to EUR 3.9 (4.4) million.

- Future outlook: Net sales in 2016 are expected to be at the previous year's level, and the operating profit is expected to improve year-on-year.

Key financial ratios

	1-6/16	1-6/15	Change, %	1-12/15	4-6/16	4-6/15	Change, %
Sales, MEUR	14.2	14.7	-3.1 %	32.0	7.9	8.5	-6.7
Operating profit/loss, MEUR	-1.3	-3.3	59.2 %	-2.9	0.0	-0.8	100.8
Profit before tax, MEUR	-1.7	-3.6	53.1 %	-3.9	-0.2	-0.9	80.2
Total comprehensive income for the period, MEUR	-1.7	-3.6	52.8 %	-3.8	-0.2	-0.9	83.5
Earnings per share, Euro	-0.03	-0.06		-0.06	0.00	-0.02	
Net cash flow from operating activities, MEUR	-0.4	-1.0		0.8	0.1	1.2	
Equity ratio, %	33.0	34.8		36.9			
Net indebtedness ratio, %	134.4	121.2		113.4			
Return on investments, %	-8.5	-17.5		-7.7	0.0	-2.0	

Comments by Heikki Vauhkonen, Managing Director:

The second-quarter demand for Tulikivi's products on the domestic market was slightly up on the previous year. Recovering low-rise housing construction and closer cooperation with the home-building industry have increased our market share and consequently the sales of fireplaces in Finland.

Market conditions continue to be challenging, however, due to the low level of low-rise housing construction, low heating energy prices and consumer uncertainty in purchasing decisions.



In Germany and France, the main markets in Central Europe, demand was still relatively weak. While net sales from fireplace exports to Germany remained at the 2015 level in the second quarter, they were considerably lower than the year before in the case of exports to France. Despite the improved economic conditions, no turn for the better can yet be discerned in the fireplace market. With respect to exports, sales efficiency measures are being targeted at Germany and France. The goal of these measures is to strengthen Tulikivi's position in the sales catalogues of current dealers and to identify new dealers where necessary.

With regard to Russia, net sales were down in the second quarter but order books improved on the previous year.

In the second quarter the company's incoming orders totalled EUR 7.6 (8.0) million. The order flow was up on the previous year in Finland. Conversely, the order flow from exports to Central Europe was down.

At the end of the review period as a whole, Tulikivi's order books amounted to EUR 3.9 (4.4) million.

The measures taken last year to improve structural efficiency have increased the company's profitability. As a result of improved sales margins, decreased fixed costs and lower depreciation, the company's operating result for the review period improved by EUR 2.0 million compared with the previous year.

With improved profitability, the company's net cash flow from operating activities for the review period was EUR 0.6 million higher than in the previous year.

Even though the operating environment is likely to remain challenging for the remainder of 2016, the downward trend in net sales is expected to bottom out thanks to the sales efficiency measures. Profitability is expected to improve for 2016 as a whole, due to the structural savings and production efficiency measures.

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Operating environment

The recovery of low-rise housing construction and renovation projects, as well as a slight improvement in consumer confidence compared with 2015, has energised demand for fireplaces in Finland. Low-rise housing construction has also begun to increase in the EU, which will boost the performance of the fireplace market in the near future. In Russia, the fluctuating rouble and economic developments are affecting the demand for Tulikivi products.



Net sales and result

The Tulikivi Group's second-quarter net sales totalled EUR 7.9 million (Q2/2015: EUR 8.5 million), the operating result was EUR 0.0 (-0.8) million and the result before taxes was EUR -0.2 (-0.9) million.

The Group's net sales for the reporting period, 1 January - 30 June 2016, were EUR 14.2 million (1 January - 30 June 2015: EUR 14.7 million), the operating result was EUR -1.3 (-3.3) million and the result before taxes was EUR -1.7 (-3.6) million.

Tulikivi's order books at the end of the review period amounted to EUR 3.9 (4.4) million. In the second quarter the company's order flow was EUR 7.6 (8.0) million.

Net sales in Finland for the reporting period were EUR 7.3 (7.2) million, or 51.6% (49.3%) of total net sales. Net sales from exports amounted to EUR 6.9 (7.4) million. The principal export countries were Sweden, France, Germany, Russia and Denmark.

Tulikivi has increased its market share in Finland by concluding several cooperation agreements regarding fireplace deliveries to the home-building industry. Sales of the new ceramic fireplace collection launched last year grew in Finland in the first half of the year.

In order to increase profitability the company will continue to improve its operational efficiency by targeting savings of EUR 1.0 million in fixed costs in 2016.

Financing

Net cash flow from operating activities was EUR 0.1 (1.2) million in the second quarter and EUR -0.4 (-1.0) million in the review period. Working capital released during the review period totalled EUR 0.0 (1.2) million. Inventories were reduced by EUR 0.4 million in the review period by improving efficiency. Working capital totalled EUR 5.5 (6.0) million at the end of the review period. The target for 2016 is to increase working capital by a total of EUR 1.0 million by reducing inventories.

Loan repayments totalled EUR 0.1 million in the review period. Interest-bearing debt was EUR 17.6 (18.8) million at the end of the review period and net financial expenses were EUR 0.4 (0.3) million. The Group's equity ratio at the end of the review period was 33.0% (34.8%). The ratio of interest-bearing net debt to equity, or gearing, was 134.4% (121.2%). The current ratio was 1.5 (0.9). Equity per share was EUR 0.21 (0.24). At the end of the reporting period, the Group's cash and other liquid assets came to EUR 0.5 (1.1) million.



On 11 December 2015, Tulikivi Corporation signed a financing agreement with its finance providers on the repayment of the company's debt in 2016–2018 in proportion to the exposures of the finance providers and on the additional collateral and loan covenants given to them. The financing agreement includes covenants concerning EBITDA, the equity ratio and the ratio of debt to EBITDA. The company's management estimates that the company will fulfil these covenants in 2016. The loan interest rates did not change.

Investments and product development

The Group's investments totalled EUR 0.4 (0.5) million during the review period.

Research and development expenditure was EUR 0.5 (0.5) million, or 3.6% (3.6%) of net sales. EUR 0.1 (0.1) million of this was capitalised in the balance sheet. In product development, the focus is on developing the soapstone fireplace collection, making good use of the advantages of soapstone as a material for fireplaces and interior design. As part of the development work Tulikivi launched the new Grafia surface finish for soapstone at the Verona fireplace fair (Progetto Fuoco Verona) and at the Finnish Housing Fair. Grafia received a very positive welcome at both. We also introduced our first wall-mounted electric sauna heater, which is now available in the electric sauna heater collection.

Personnel

The Group employed an average of 205 (246) people during the review period. Salaries and bonuses during the period totalled EUR 4.4 (5.0) million. The number of personnel will be adjusted through lay-offs in accordance with the level of demand. In addition to temporary lay-offs, three members of the office staff have been laid off for the time being. The Tulikivi Group has an incentive pay scheme for all personnel. The company also has a stock option scheme for management that was launched in 2013.

Annual General Meeting

Tulikivi Corporation's Annual General Meeting, held on 20 April 2016, resolved not to distribute a dividend for the 2015 financial year. Jaakko Aspara, Markku Rönkkö, Reijo Svanborg, Jyrki Tähtinen and Heikki Vauhkonen were elected as members of the Board of Directors. The Board elected Jyrki Tähtinen as its Chairman. The auditor appointed was KPMG Oy Ab, Authorised Public Accountants, with Kirsi Jantunen, APA, as the chief auditor.



The Annual General Meeting authorised the Board of Directors to decide on issuing new shares and on the transfer of Tulikivi Corporation shares held by the company in accordance with the proposals of the Board. Tulikivi can issue new shares or transfer treasury shares held by the company as follows: a maximum of 10,437,748 Series A shares and 1,536,500 Series K shares.

The authorisation includes the right to decide on a directed rights issue, deviating from the shareholders' right of pre-emption, provided that there is compelling financial reason for the company. The authorisation also includes the right to decide on a bonus issue to the company itself, where the number of shares issued to the company is no more than one tenth of the total number of the company's shares.

The authorisation also includes the right to issue special rights referred to in Chapter 10, section 1, of the Limited Liability Companies Act, which would give entitlement to Tulikivi shares against payment or by setting off the receivable. The authorisation includes the right to pay the company's share rewards. The Board is authorised to decide on other matters concerning share issues. The authorisation is valid until the 2017 Annual General Meeting.

Treasury shares

The company did not purchase or assign any treasury shares during the reporting period. At the end of the period, the total number of Tulikivi shares held by the company was 124,200 Series A shares, corresponding to 0.2% of the company's share capital and 0.1% of all voting rights.

Near-term risks and uncertainties

The Group's most significant risk is the potential continuation of the decline in net sales in the principal market areas. New construction and the delayed increase of renovation projects impact the demand for Tulikivi products in Finland. The slower-than-predicted recovery of the markets in Central Europe and the uncertain economic situation in Russia also have an impact on the demand for fireplaces.

Maintaining the Group's financing position at the present level and securing the continuation of financing will depend on an improvement in profitability in the future. If the company's business operations and result do not develop as planned, the repayment of its debts may create a greater burden on the company's cash flow than anticipated.

As regards the company's foreign currency risk, the most significant currencies are the U.S. dollar and Russian rouble. About 90% of the company's cash flow is in euros, which means that the

company's exposure to foreign currency risks is very low. A weakening of currencies may have an adverse effect on the sales margin.

The risks are described in more detail on page 82 of the Tulikivi Annual Report for 2015.

Future outlook

Net sales in 2016 are expected to be at the previous year's level, and the operating profit is expected to improve year-on-year.

FINANCIAL STATEMENT Jan-Jun 2016. SUMMARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Eur million	1-6/16	1-6/15	Change. %	1-12/15	4-6/16	4-6/15
Sales	14.2	14.7	-3.1	32.0	7.9	8.5
Other operating income	0.2	0.2		0.6	0.1	0.1
Increase/decrease in inventories in finished goods and in work in progress	0.0	-0.6		-0.7	0.4	-0.3
Production for own use	0.2	0.1		0.5	0.1	0.0
Raw materials and consumables	-3.3	-3.6		-7.1	-1.9	-1.9
External services	-2.1	-1.8		-4.6	-1.2	-1.0
Personnel expenses	-5.6	-6.3		-11.8	-3.0	-3.2
Depreciation and amortisation	-1.4	-1.6		-3.3	-0.7	-0.8
Other operating expenses	-3.6	-4.3		-8.5	-1.7	-2.2
Operating profit/loss	-1.3	-3.3	59.2	-2.9	0.0	-0.8
<i>Percentage of sales</i>	<i>-9.4 %</i>	<i>-22.5 %</i>		<i>-9.2 %</i>	<i>0.1 %</i>	<i>-8.8 %</i>
Finance income	0.0	0.2		0.2	0.0	0.1
Finance expense	-0.4	-0.5		-1.2	-0.2	-0.2
Share of the profit of associated company	0.0	0.0		0.0	0.0	0.0
Profit before tax	-1.7	-3.6	53.1	-3.9	-0.2	-0.9
<i>Percentage of sales</i>	<i>-12.0 %</i>	<i>-24.7 %</i>		<i>-12.1 %</i>	<i>-2.3 %</i>	<i>-10.8 %</i>
Direct taxes	0.0	0.0		0.0	0.0	0.0
Profit/loss for the period	-1.7	-3.6	53.6	-3.9	-0.2	-0.9
Other comprehensive income						
Items that may later have effect on profit or loss						
Interest rate swaps	0.0	0.0		0.0	0.0	0.0
Translation difference	0.0	0.1		0.1	0.0	0.0
Total comprehensive income for the period	-1.7	-3.6	52.8	-3.8	-0.2	-0.9
Earnings per share attributable to the equity holders of the parent company, EUR, basic and diluted	-0.03	-0.06		-0.06	0.00	-0.02



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS (EUR million)	6/16	6/15	12/15
Non-current assets			
Property, plant and equipment			
Land	0.8	0.9	0.9
Buildings	4.5	5.0	4.8
Machinery and equipment	2.8	3.5	3.1
Other tangible assets	1.0	1.1	1.0
Intangible assets			
Goodwill	4.2	4.2	4.2
Other intangible assets	9.2	9.8	9.6
Investment properties	0.1	0.2	0.1
Available-for sale-investments	0.0	0.0	0.0
Receivables			
Other receivables	0.0	0.0	0.0
Deferred tax assets	3.2	3.3	3.2
Total non-current assets	25.9	28.0	26.9
Current assets			
Inventories	8.3	8.9	8.7
Trade receivables	3.4	3.4	1.9
Current income tax receivables	0.0	0.0	0.0
Other receivables	0.9	1.4	0.6
Cash and cash equivalents	0.5	1.1	1.4
Total current assets	13.2	14.8	12.5
Total assets	39.0	42.8	39.4



EQUITY AND LIABILITIES (EUR million)	6/16	6/15	12/15
Equity			
Share capital	6.3	6.3	6.3
The invested unstricted equity fund	14.4	14.4	14.4
Revaluation reserve	-0.1	-0.2	-0.1
Treasury shares	-0.1	-0.1	-0.1
Translation difference	0.1	0.1	0.1
Retained earnings	-7.8	-5.9	-6.2
Total equity	12.7	14.6	14.4
Non-current liabilities			
Deffered income tax liabilities	0.8	0.8	0.8
Provisions	0.8	0.9	0.8
Interest-bearing debt	15.8	10.8	15.8
Other debt	0.0	0.0	0.0
Total non-current liabilities	17.3	12.5	17.4
Current liabilities			
Trade and other payables	7.1	7.5	5.5
Short-term interest bearing debt	0.0	0.2	0.1
Current liabilities	1.9	8.0	2.0
Total current liabilities	9.0	15.7	7.6
Total liabilities	26.3	28.2	25.0
Total equity and liabilities	39.0	42.8	39.4

**CONSOLIDATED STATEMENT OF CASH FLOWS (EUR million)**

	1-6/16	1-6/15	1-12/15
Cash flows from operating activities			
Profit for the period	-1.7	-3.6	-3.9
Adjustments			
Non-cash			
transactions	1.3	1.6	2.9
Interest expenses and interest income and taxes	0.3	0.3	1.0
Change in working capital	0.1	1.2	1.8
Interest paid and received			
and taxes paid	-0.4	-0.5	-1.0
Net cash flow from operating activities	-0.4	-1.0	0.8
 Cash flows from investing activities			
Investment in property, plant and			
equipment and intangible assets	-0.4	-0.5	-1.2
Grants received for investments			
and sales of property, plant and equipment	0.0	0.0	0.4
Net cash flow from investing activities	-0.4	-0.5	-0.8
 Cash flows from financing activities			
Proceeds from non-current and current borrowings	0.0	2.0	2.0
Repayment of non-current and current borrowings	-0.1	-3.2	-4.2
Dividends paid and treasury shares	0.0	0.0	0.0
Net cash flow from financing activities	-0.1	-1.2	-2.2
 Change in cash and cash equivalents	-0.9	-2.6	-2.3
Cash and cash equivalents at beginning of period	1.4	3.7	3.7
Cash and cash equivalents at end of period	0.5	1.1	1.4

Consolidated statement of changes in equity (EUR Million)

	Share capital	The invested unstricted equity fund	Revaluation reserve	Treasury shares	Translations diff.	Retained earnings	Total
Equity Jan. 1, 2016	6.3	14.4	-0.1	-0.1	0.1	-6.2	14.4
Total comprehensive income for the period			0.0		0.0	-1.7	-1.7
Transactions with the owners							
Dividends paid						0.0	0.0
Equity Jun. 30, 2016	6.3	14.4	-0.1	-0.1	0.1	-7.9	12.7
Equity Jan. 1, 2015	6.3	14.4	-0.2	-0.1	0.1	-2.3	18.2
Total comprehensive income for the period			0.1		0.0	-3.9	-3.8
Transactions with the owners							
Dividends paid						0.0	0.0
Equity Dec. 31, 2015	6.3	14.4	-0.1	-0.1	0.1	-6.2	14.4

Key financial ratios and share ratios

	1-6/16	1-6/15	4-6/16	4-6/15	1-12/15
Earnings per share, EUR	-0.03	-0.06	0.00	-0.02	-0.06
Equity per share, EUR	0.21	0.24	0.21	0.24	0.24
Return on equity, %	-24.9	-44.5	-1.5	-6.1	-23.8
Return on investments, %	-8.5	-17.5	0.0	-2.0	-7.7
Equity ratio, %	33.0	34.8			36.9
Net debtness ratio, %	134.4	121.2			113.4
Current ratio	1.5	0.9			1.7
Gross investments, MEUR	0.4	0.5			1.1
Gross investments, % of sales	2.8	3.4			3.6
Research and development costs, MEUR	0.5	0.5			1.0
%/sales	3.6	3.6			3.1
Outstanding orders, MEUR	3.9	4.4			3.9
Average number of staff	205	246			219
Rate development of shares, EUR					
Lowest share price, EUR	0.15	0.12			0.12
Highest share price, EUR	0.22	0.30			0.30
Average share price, EUR	0.19	0.18			0.18
Closing price, EUR	0.18	0.16			0.17
Market capitalization at the end period, 1000 EUR (Supposing that the market price of the K-share is the same as that of the A-share)	10 754	9 560			10 157
Number of the shares traded, (1000 pcs)	7 428	18 136			27 900
% of total amount of A-shares	14.3	35.0			53.9
Number of shares average	59 747 043	59 747 043	59 747 043	59 747 043	59 747 043
Number of the shares at the end of period	59 747 043	59 747 043	59 747 043	59 747 043	59 747 043

Notes to the Consolidated Financial Statements

The figures contained in the financial statements release have not yet been audited.

This half year financial report release has been prepared in accordance with the IAS 34 Interim Financial Reporting standard. The IFRS accounting principles applied in preparation of these half year financial statements are the same as those applied by Tulikivi in its consolidated financial statements as at and for the year ended December 31, 2015. The key performance ratios and share ratios are calculated using the same methods as for the consolidated financial statements for 2015. As there are no non-recurring expenses in this review period following the end of the performance improvement programme last year, no figures based on non-recurring expenses are presented. The calculations rules can be found in the 2015 annual report, page 86.

Income taxes (EUR million)

	1-6/16	1-6/15	1-12/15
Taxes for current and previous reporting periods	0.0	0.0	0.0
Deferred taxes	0.0	0.0	0.0
Total	0.0	0.0	0.0

Commitments (EUR million)

	6/16	6/15	12/15
Loans from credit institutions and other long term debts and loan guarantees, with related mortgages and pledges	17.6	18.8	17.8
Mortgages granted and collaterals pledged	35.8	35.8	35.8
Other given guarantees and pledges on behalf of own liabilities	0.5	0.5	0.5
Derivates			
Interest rate swpas; nominal value	6.3	6.9	6.4
Interest rate swaps; fair value	-0.2	-0.2	-0.2
Foreign exchange forward contracts; nominal value	0.0	0.0	0.0
Foreign exchange forward contracts; fair value	0.0	0.0	0.0

The fair value of derivatives is the gain or loss for closing the contract based on market rates at the balance sheet date. Derivatives are classified as level 2 in the fair value hierarchy. Available for sale financial assets are investments in unlisted shares. They are valued at acquisition cost because their value cannot be reliably determined.



Provisions (EUR million)

	Environmental provision	Warranty provision	Restructuring Provision
	6/16	6/16	6/16
Provisions Jan. 1.	0.2	0.1	0.6
Increase in provisions	0.0	0.0	0.0
Used Provisions	0.0	0.0	-0.1
Discharge on reserves	0.0	0.0	0.0
Provisions Jun. 30.	0.2	0.1	0.5
	6/16		
Non-current provisions	0.8		
Current provisions	0.0		
Total	0.8		

Changes in tangible assets are classified as follows (EUR million):

	1-6/16	1-6/15	1-12/15
Acquisition costs	0.1	0.3	0.3
Proceeds from sale	0.0	0.0	-0.4
Total	0.1	0.3	-0.1

Changes in intangible assets are classified as follows (EUR million):

	1-6/16	1-6/15	1-12/15
Acquisition costs, net	0.3	0.2	0.8
Amortisation loss	0.0	0.0	0.0
Total	0.3	0.2	0.8

Share capital

Share capital by share series

	Number of shares	% of shares	% of voting rights	Share, EUR of share capital
K shares (10 votes)	7 682 500	12.8	59.5	810 255
A shares (1 vote)	52 188 743	87.2	40.5	5 504 220
Total 30 June, 2016	59 871 243	100.0	100.0	6 314 475



There have been no changes in Tulikivi Corporation's share capital during the review period. According to the Articles of Association, the dividend paid on Series A shares shall be EUR 0.0017 higher than the dividend paid on Series K shares. The A share is listed on NASDAQ OMX Helsinki. At the end of the review period, the company held 124 200 series A shares.

Related party transactions (EUR 1 000)

The following transactions with related parties took place:

	1-6/16	1-6/15
Acquisitions from associated companies	-	18
Premises leased from related parties	-	-

Transactions with other related parties

Tulikivi Corporation is a founder member of the Finnish Stone Research Foundation. The company has leased offices and storage facilities from a property owned by the Foundation and North Karelia Educational Federation of Municipalities. The rent paid for these facilities was EUR 23 (24) thousand in the period. The rent corresponds to market rents. The company's sales of services to the Foundation came to EUR 3 (2) thousand.

Management benefits (EUR 1 000)

	1-6/16	1-6/15
Salaries and other short-term employee benefits of the Board of Directors' members and the Managing Director	135	163

Principal shareholders on 30 June 2016

Name of shareholder	Shares	Percentage of votes
Vauhkonen Heikki	6 932 590	45.9%
Elo Mutual Pension Insurance Company	4 545 454	3.5%
Ilmarinen Mutual Pension Insurance Company	3 720 562	2.9%
Elo Eliisa	3 108 536	5.7%
Varma Mutual Pension Insurance Company	2 813 948	2.2%
Toivanen Jouko	2 531 259	2.7%
Finnish Cultural Foundation	2 258 181	2.5%
Mutanen Susanna	1 643 800	6.8%



Fennia Mutual Insurance Company	1 515 151	1.2%
Nikkola Jarkko	1 185 000	0.9%
Others	29 616 762	25.7%

The companies in the Group are the parent company Tulikivi Corporation, AWL-Marmori Oy, Tulikivi U.S. Inc., OOO Tulikivi and Tulikivi GmbH. Group companies also include The New Alberene Stone Company Inc., which no longer has any business operations. AWL-Marmori Oy to merge with Tulikivi Corporation. The planned registration date for consummation of the merger is September 30, 2016.

TULIKIVI CORPORATION

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Key media

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