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## Tulikivi Corporation Report on the Corporate Governance Statement 2019

The administration 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 January 2020. The company complies with the NASDAQ OMX Helsinki Guidelines for Insiders. This Corporate Governance Statement has been prepared in accordance with the recommendations of the Finnish Corporate Governance Code. The company deviates from the recommendations of the Corporate Governance Code regarding Recommendation 18 Nomination Committee. The composition of the Nomination Committee deviates from the recommendations of the Finnish Corporate Governance Code because Heikki Vauhkonen, the Managing Director, is a member of the Committee. The reason is that Tulikivi is a family company.

The Corporate Governance Statement is 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 publicly available on the Securities Market Association website at [www.cgfinland.fi/en/](http://www.cgfinland.fi/en/).

Tulikivi Corporation prepares its consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU. In communications, the Group complies with the Securities Markets Act, the 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 Group are the parent company Tulikivi Corporation, Tulikivi U.S. Inc. in the USA and OOO Tulikivi in Russia. Group companies also include Tulikivi GmbH and The New Alberene Stone Company, Inc., which are dormant.

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 fewer than five and no more than seven members. The Annual General Meeting elects the members of the Board for one year at a time. 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 24 April 2019 decided that the Board shall have six members.

### Personal information of the members of the Board of Directors:

- Jyrki Tähtinen, b. 1961. Chairman of the Board. LL.M., MBA, attorney-at-law. Board membership in several companies. Tulikivi Corporation's Series A shares 42,553.
- Jaakko Aspara, b. 1981. D.Sc. (Econ. & Bus. Admin.), D.A. (Industrial Design), M.Sc. (Tech.). Board membership in several companies. No shareholding.
- Markku Rönkkö, b. 1951. M.Sc. (Econ. & Bus. Admin.). Board membership in several companies. Tulikivi Corporation's Series A shares 159,453.
- Liudmila Niemi, s. 1972. Ms.S, eMBA. Board membership in several companies. No shareholding.
- Reijo Svanborg, b. 1943. B.Sc. (Eng.). Board membership in several companies. Tulikivi Corporation's Series A shares 216,208.
- Heikki Vauhkonen, b. 1970. Managing Director of Tulikivi Corporation. LL.B., B.Sc. (Econ. & Bus. Adm.). Tulikivi Corporation's Series K shares: 5,809,500 and Series A shares: 1,064,339.

According to the Board's general assessment, Jaakko Aspara, Liudmila Niemi, Markku Rönkkö, Reijo Svanborg and Jyrki Tähtinen are independent members of the Board. The company's goal is that both genders are represented on the Board. It has succeeded in reaching this goal.

During 1 January–24 April 2019 the members of the Board of Directors were Jyrki Tähtinen, Jaakko Aspara, Markku Rönkkö, Paula Salastie, Reijo Svanborg 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-



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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 reward 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; and 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 of its shareholders.

In 2019, the company's Board of Directors convened 17 times. The average participation rate of the Board members in these meetings was 96.1%. The attendance of each member at the meetings is shown in the table below. The Board of Directors conducts a self-assessment annually.

#### Board Committees

The Board of Directors has two committees: the Nomination Committee and the Audit Committee. The Board of Directors appoints the members and Chairmen of the committees.

The Nomination Committee was composed of Jyrki Tähtinen (Chairman), Markku Rönkkö (member) and Heikki Vauhkonen (member). The composition of the Nomination Committee deviates from the recommendations of the Finnish Corporate Governance Code because Heikki Vauhkonen, the Managing Director, is a member of the Committee. The reason is that Tulikivi is a family company. The duties of the Nomination Committee include the preparatory work for 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 three times in 2019.

The Audit Committee was composed of Markku Rönkkö (Chairman), Reijo Svanborg (member) and as of 24 April 2019, Liudmila Niemi (member). Heikki Vauhkonen was a member of the Audit Committee until 24 April 2019. 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 ensuring communication with the auditors. The Audit Committee met five times in 2019. The average participation rate of the committee members in these meetings was 100.0%.



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PARTICIPATION OF BOARD MEMBERS AT THE MEETINGS OF THE BOARD OF DIRECTORS, THE AUDIT COMMITTEE AND THE NOMINATION COMMITTEE 1 JANUARY–31 DECEMBER 2019:

	Board of Directors	Audit Committee	Nomination Committee
Jyrki Tähtinen	17/17		3/3
Jaakko Aspara	17/17		
Markku Rönkkö	17/17	5/5	3/3
Paula Salastie (until 24 April 2019)	0/3		
Liudmila Niemi (from 24 April 2019)	14/14	3/3	
Reijo Svanborg	16/17	5/5	
Heikki Vauhkonen	17/17	2/2	3/3

#### 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 provided by the Board of Directors. The Managing Director must ensure 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 performance of the Board's 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 operational management, the implementation of the budget, the Tulikivi Group's financial result and the activities of his or her subordinates.

#### Management Group

In operational management and planning, the Management Director has been assisted by the Management Group, the members of which are as follows, in addition to the Managing Director himself: Jouko Toivanen, Director of Finance and Administration, Markku Prättälä, Sales Director, Finland, Saskia Kerkkänen (until 24 April 2019), Marketing Manager, Martti Purtola, Director Sales & Marketing Scandinavia, Central Europe and Lining Stone, Jari Sutinen, Product Development Manager and Simo Kortelainen, Manager of Soapstone Production and Mining. The Management Group met 22 times in 2019.

Personal information of the members of the Management Group:



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- Heikki Vauhkonen, b. 1970. Managing Director of Tulikivi Corporation. LL.B., B.Sc. (Econ. & Bus. Adm.). Tulikivi Corporation's Series K shares: 5,809,500 and Series A shares: 1,064,339.
- Jouko Toivanen, b. 1967. Tulikivi Corporation's Director of Finance and Administration. D.Sc. (Tech.), M.Sc. (Eng.). Tulikivi Corporation's Series K shares: 100,000 and Series A shares: 2,431,259.
- Markku Prättälä, b. 1967. Tulikivi Corporation's Sales Director, Finland. Automation technician. Tulikivi Corporation's Series A shares 15,525.
- Saskia Kerkkänen, b.1975. Tulikivi Corporation's Marketing Manager. BBA & Ba (Hons.) No shareholding.
- Martti Purtoala, b. 1966. Tulikivi Corporation's Director Sales & Marketing Scandinavia, Central Europe and Lining Stone. B.Sc. (Eng.). Tulikivi Corporation's Series A shares 15,000.
- Jari Sutinen, b. 1962. Tulikivi Corporation's Product Development Manager. D.Sc. (Tech.), M.Sc. (Eng.). Tulikivi Corporation's Series A shares 15,000.
- Simo Kortelainen, b. 1980. Tulikivi Corporation's Manager of Soapstone Production and Mining. M.Sc. (Econ.) No shareholding.

## 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, sauna heaters and interior stone products that are of a high quality and made from natural materials. Our customers appreciate the environmentally friendly and aesthetically pleasing nature of our products, the comfort created by these products and the benefits of wood heating. Tulikivi is a versatile 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. Mining operations are regulated by the Mining Act and environmental legislation. The director in charge of quarrying is responsible for ensuring 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



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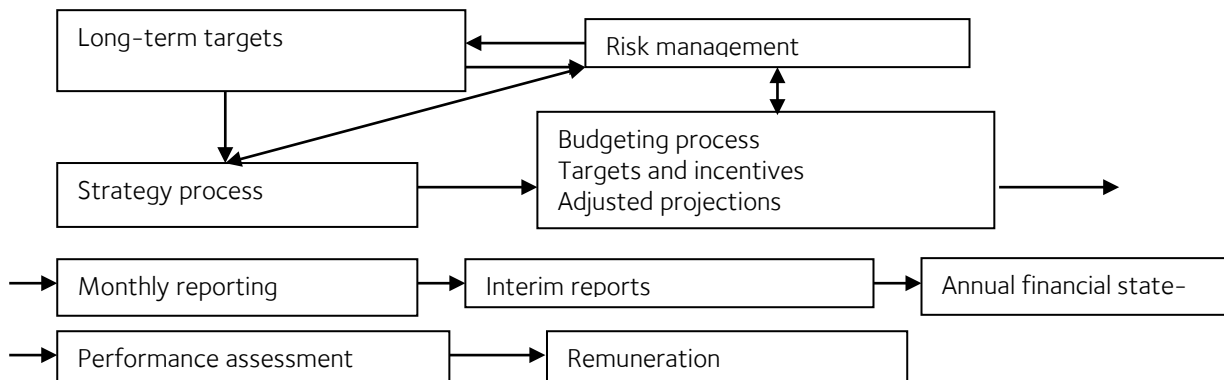
resources sparingly and to manage processes and products in a way that minimises their environmental loading. The Group complies with the environmental legislation and norms that concern its operations, and, through the continuous improvement of Tulikivi’s operations, it engages in preventive environmental 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.

In the Tulikivi Group, risk analysis and risk management form part of the regular strategic planning process performed each year and also part of the operational management. 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.

FIGURE: Planning and monitoring process



Internal control is part of the planning and monitoring process.

### Control responsibilities

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



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FIGURE: Division of responsibilities in internal control and risk management

Responsible party	Control 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>
Managing Director, assisted by the Management Group	<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 (approval principles, reconciliation and reporting practices)</li> <li>- establishes risk management methods and practices</li> <li>- environmental policy</li> </ul>
Members of the Management Group, according to area of responsibility: sales in Finland, marketing, production development, Germany and lining stone products, production and quarrying, administration and finances	<ul style="list-style-type: none"> <li>- delegate specific control tasks in their respective areas of responsibility to people responsible for different operations. Ensure the efficiency of internal control within respective area of responsibility</li> <li>- oversee risk management in respective area of responsibility</li> </ul>
Director of Finance and Administration	<ul style="list-style-type: none"> <li>- internal accounting: monitoring and analysis of performance</li> <li>- external accounting and reporting</li> </ul>
Auditor	<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 Audit Committee and the Board of Directors</li> </ul>





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In 2019 the focus of operations was on optimising the use of information systems and improving the quality of reporting. The enterprise resources planning system contains the necessary internal control mechanisms.

Internal control is performed by the parties mentioned above, using external specialists when needed. In 2019 auditing focused on sales functions, controls regarding the purchasing process and payment transactions, and inventories and assets. In view of the Group’s size 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.

## 2. Risk assessment

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 person in charge 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"> <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 persons responsible 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>- persons in charge report to the Managing Director on risk materialisation, implemented</li> </ul>





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	measures and their effectiveness – risk evaluations related to controls
Risk management process continuity	– measures implemented during a reporting period, as well as the operating environment and foreseeable changes in that environment, will affect the plans and risk management measures for the subsequent period – risk identification requires the continuous collection of background information.

### 3. Reporting system and the related 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 the operating profit based on the interim reports, semi-annual reports or annual financial statements. The Managing Director must also report immediately on fundamental changes in the operating environment. The relevant persons in charge 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. The accounts and reporting of foreign subsidiaries are handled locally, using qualified accounting firms or external experts.

Financial reporting guidelines, competence development, reliable information systems, standard control mechanisms and expanded audits ensure accuracy in reporting. Any reported 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 external experts and services.

To ensure the effectiveness of financial reporting, the Tulikivi Group has guidelines that all units must comply with. Organisational competence is ensured through briefings and training. Accounting schedules and any changes to accounting policies and laws are reviewed in preparatory meetings related to annual financial statements.



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The Audit Committee evaluates the functionality of the financial reporting system quarterly on the basis of performance analyses of profit outlooks and assessment of the reporting accuracy. The evaluation also includes studying the risks associated with malpractice and illegal activity. The auditors audit the contents of the deviation reporting during the extended audit. The Management Group members monitor the accuracy of result reporting on a monthly basis and, within their respective areas of responsibility evaluate the reasons for any deviation.

#### 4. Communications

The guidelines for reporting and accounting principles are provided to all financial personnel and those who produce information and auditing results for 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. In its meetings, the Audit Committee processes the audit reports and extended audit reports and the statements for those reports provided by the persons in charge. 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's communications guidelines 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 separately on the basis of audit reports. In financial reporting, continuous 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 external experts regularly evaluate their reliability.

#### 6. Company insiders, insider administration and related parties' transactions

The company complies with the valid NASDAQ OMX Helsinki Guidelines for Insiders. The members of the Tulikivi Corporation Board of Directors and Management Group have been specified as managers as referred to in the Market Abuse Regulation. A Tulikivi manager may not trade in Tulikivi shares during the 30 days preceding financial results announcements. Managers and persons closely related to them must notify the company and the Financial Supervisory Authority of all transactions made on their own account concerning the company's financial instruments. The company must publish such



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information in a stock exchange release. Persons and parties with access to specific insider information are entered in a project-specific insider list. A person or party entered in a project-specific insider list may not engage in trading while they are on the list.

Tulikivi's related parties include the members of the company's management, their family members and also companies in which the above persons, alone or jointly, hold a controlling position. Tulikivi evaluates and monitors transactions with related parties and ensures that any conflicts of interest are taken into consideration in the company's decision-making. The Board of Directors will decide on related party transactions that are not the company's normal business operations or that are not conducted on normal commercial terms. The company maintains a list of related parties.

Tulikivi announced on 7 August 2019 that it had decided to take out interest-bearing debt of EUR 0.5 million due to the delay of the Suomussalmi talc project. The loan period is three years, and the annual interest of the loans is 8%. Tulikivi Corporation will not issue collateral for the loans. In terms of repayment, the company's senior debt takes precedence over these loans. The company may, however, repay these loans if the talc project is concluded before it repays the senior debt of its principal financing providers. Of the loan agreements, EUR 0.2 million have been signed with Jaakko Aspara, Markku Rönkkö, Reijo Svanborg and Jyrki Tähtinen, who are Tulikivi Corporation's related parties and members of its Board of Directors. There were no other transactions with associated companies or related parties during the review period.

## 7. Auditing

The auditor is elected at the Annual General Meeting for a term ending at the conclusion of the subsequent Annual General Meeting. The Tulikivi Corporation Annual General Meeting of 24 April 2019 appointed KPMG Oy Ab, Authorised Public Accountants, as auditor, with Kirsi Jantunen, APA, as chief auditor. In 2019, the auditor was paid EUR 51,000 for the audit and EUR 11,000 for services not associated with the audit.

