Tulikivi

Interim Report Q2-2013

Tulikivi Corporation
Interim report, 1 January - 30 June 2013
8 August 2013, 10.00 a.m

- The Tulikivi Group's second-quarter net sales were EUR 10.6 million (EUR 13.2 million, Q2/2012), operating result EUR -0.8 (0.6) million and the result before taxes was EUR -1.0 (0.3) million.
- The Group's net sales for the January–June 2013 review period were EUR 19.8 million (EUR 23.9 million for Jan-Jun/2012), operating result EUR -2.5 (-0.8) million and the result before taxes was EUR -3.0 (-1.2) million.
- Earnings per share amounted to EUR -0.06 (-0.02) for the review period, and EUR -0.02 (0.01) for the second quarter.
- Net cash flow from operating activities in the review period was EUR -1.5 (-3.7) million.
- Order books at the end of the period were at EUR 7.2 million (EUR 7.3 million on 30 June 2012).
- Future outlook: The demand for Tulikivi products is dependent on consumer confidence. New products will allow us to increase our market share; however, the turnover is expected to be lower than in 2012. The company estimates that operating result in 2013 will be unprofitable.

Comments by Jouni Pitko, Managing Director:

Due to the weak state of low-rise housing construction and renovation projects in the domestic market, net sales for the review period were lower than in 2012 in the Fireplaces and Interior Stone businesses in Finland. This is in part a result of tighter lending by the banks and deteriorating consumer confidence.

Europe's persistent recession has led to lower export sales. Moreover uncertainty concerning changes to building regulations and the tax treatment of different modes of heating in certain countries has also reduced the demand for fireplaces. For these reasons sales have been weak since the start of the year. On the other hand, in its second largest export market, Russia, Tulikivi successfully increased its net sales in the Fireplaces business. There are also signs of sales picking up in Central Europe, especially Germany, in comparison with the situation at the start of the year.

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The company's order books have become stronger following the weak situation earlier in the year and now correspond to the situation a year ago. Working capital has developed more favourably during the review period compared to the same period a year earlier. To improve profitability, production capacity has been adjusted to the market situation.

Tulikivi Corporation's adjustment measures undertaken in 2011 and 2012 as a consequence of the decline in sales have not had a sufficient impact, and so the company has started to plan a new performance improvement programme. The performance improvement programme is part of the company's strategy to focus on its core business and competence in order to ensure profitable future growth.

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Interim report

Operating environment
The reduced level of low-rise housing construction and renovation projects has weakened the demand for fireplaces in Finland, which is in part also a result of tighter lending by the banks and deteriorating consumer confidence.

Europe's persistent recession has led to lower export sales. Moreover, uncertainty concerning changes to building regulations and the tax treatment of different modes of heating in certain countries has also had an impact on sales. For these reasons both sales and profit performance have been weak.

After a weak start to the year, the company's order books returned to the level of a year earlier, amounting to EUR 7.2 million (EUR 7.3 million on 30 June 2012) at the end of the period.

Net sales and result
The Group's net sales were EUR 19.8 million (EUR 23.9 million, Jan-Jun/2012). The net sales of the Fireplaces Business were EUR 17.8 (21.6) million and of the Interior Stone Business EUR 2.0 (2.3) million.

Net sales in Finland accounted for EUR 10.0 (12.2) million, or 50.5 (51.2) per cent, of total net sales. Exports amounted to EUR 9.8 (11.7) million in net sales. The principal export countries were France, Russia, Germany, Belgium and Sweden.

The consolidated operating result was EUR -2.5(-0.8) million. In the segment reporting, the corresponding operating result for the Fireplaces Business was EUR -2.4 (-0.7) million, and for the Interior Stone Business EUR -0.1 (-0.1) million. The consolidated result before taxes was EUR -3.0 (-1.2) million, and the result for the reporting period was EUR -2.3 (-0.9) million. Earnings per share amounted to EUR -0.06 (-0.02).

The Group's second-quarter net sales were EUR 10.6 million (EUR 13.2 million for 1 April–30 June 2012), the operating result was EUR -0.8 (0.6) million and profit before taxes was EUR -1.0 (0.3) million.

Financing and investments
Cash flow from operating activities before investments was EUR -1.5 (-3.7) million. Working capital increased by EUR 0.5 (4.5) million in the period and came to EUR 10.4 million (EUR 10.0 million on 30 June 2012). Interest-bearing debt was EUR 27.1 (26.8) million. Financial income was EUR 0.0 (0.1) million and financial expenses EUR 0.6 (0.5) million. The equity ratio was 30.2

per cent (32.2 per cent on 30 June 2012). The ratio of interest-bearing net debt to equity, or gearing, was 143.6 (126.3) per cent. The current ratio was 1.5 (1.6). Equity per share was EUR 0.43 (0.48).

At the end of the reporting period, the Group's cash and other liquid assets were EUR 4.3 (3.8) million. The total of undrawn credit facilities and unused credit limits amounted to EUR 0.0 (0.0) million.

The Group's interest-bearing debt includes covenants which are tied to the Group's equity. The covenant conditions were met at the close of the reporting period. In addition, the Group has a covenant concerning the relation of net debt to EBITDA, the review of which was transferred from the end of the second quarter to the end of the fourth quarter, in accordance with an agreement reached with the financiers.

The Group's investments in production, quarrying and development were EUR 0.9 (1.5) million in the reporting period. Research and development expenditure was EUR 0.8 (0.8) million, i.e. 4.0 (3.3) per cent of net sales. EUR 0.2 (0.2) million of this was capitalised in the balance sheet.

In product development, the Group focused on improving the new modular hybrid fireplaces of the Hiisi product family to better meet the new needs of the export market. New fireplace and sauna heater products were also launched.

Personnel
The Group employed an average of 290 (370) people during the reporting period.

Salaries and bonuses during the period totalled EUR 6.4 (7.4) million. The 2012 comparison figure is reduced by the cancellation of a restructuring provision.

The Tulikivi Group has an incentive pay scheme for all personnel. The incentive pay scheme is based on the Group's 2013 result.

Annual General Meeting
Tulikivi Corporation's Annual General Meeting, held on 16 April 2013, resolved not to distribute a dividend on the 2012 financial year. The other resolutions of the AGM can be found in the relevant release published on the date of the 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 A shares, corresponding to 0.3 per cent of the company's share capital and 0.1 per cent of all voting rights.

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Near-term risks and uncertainties

A substantial decline in euro zone consumer confidence is the Group's most significant risk. If access to consumer credit weakens, it will reduce new construction and renovation, which could have an impact on the demand for fireplaces.

Maintaining the Group's current financial position will require improvements in profitability. On account of the weakening level of profitability, the company has begun to prepare a performance improvement programme for the years 2013-2015. The company is investigating options for reinforcing its financial position.

A more comprehensive explanation of the Tulikivi Group's other risks can be found under note 38 ('Major risks and their management') in the Consolidated Financial Statements of the Annual Report for 2012.

In the EU, construction legislation is currently being revised. New country-specific energy efficiency provisions that meet the EU's energy efficiency policies will come into force within 2013 and could influence the competition between different forms of heating and thus the demand for fireplaces in different markets.

Future outlook

The demand for Tulikivi products is dependent on consumer confidence. New products will allow us to increase our market share; however, the turnover is expected to be lower than in 2012. The company estimates that operating result in 2013 will be unprofitable.

Order books at the end of the reporting period amounted to EUR 7.2 million (EUR 7.3 million on 30 June 2012).

Segment reporting

The Group's operating segments are the Fireplaces segment and the Interior Stone Products segment. The Fireplaces segment includes soapstone and ceramic fireplaces sold under the Tulikivi and Kermansavi brands, their accessories, sauna heaters and fireplace lining stones. The Interior Stone Products segment consists of interior stone products for the home. In the reporting for 2013, all Group costs have been allocated to the segments. In previous years, other items, which included Group and financial administration costs, were presented separately in segment reporting. Comparison data has been adjusted to reflect the new practice.

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FINANCIAL STATEMENT Jan-June 2013. SUMMARY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Eur million	1-6/13	1-6/12	Change. %	1-12/12	4-6/13	4-6/12	Change. %
Sales	19.8	23.9	-17.2	51.2	10.6	13.2	-19.7
Other operating income	0.2	0.4		0.8	0.1	0.2	
Increase/decrease in inventories in finished goods and in work in progress	0.5	2.2		1.1	-0.1	1.4	
Production for own use	0.1	0.2		0.4	0.0	0.1	
Raw materials and consumables	-4.3	-5.8		-10.7	-2.2	-3.1	
External services	-2.9	-3.6		-7.7	-1.6	-2.0	
Personnel expenses	-7.9	-9.4		-17.6	-4.0	-4.9	
Depreciation and amortisation	-1.9	-2.0		-4.1	-1.0	-1.0	
Other operating expenses	-6.1	-6.8		-13.3	-2.7	-3.2	
Operating profit/loss	-2.5	-0.8	-212.5	0.1	-0.8	0.6	-233.3
Percentage of sales	-12.6	-3.3		0.2	-7.5	4.5	
Finance income	0.0	0.1		0.1	0.0	0.0	
Finance expense	-0.6	-0.5		-0.9	-0.3	-0.3	
Share of the profit of associated company	0.0	0.0		0.0	0.0	0.0	
Profit before tax	-3.0	-1.2	-150.0	-0.8	-1.0	0.3	-433.3
Percentage of sales	-15.2	-5.0		-1.6	-9.4	2.3	
Direct taxes	0.7	0.3		0.2	0.2	-0.1	
Profit/loss for the period	-2.3	-0.9	-155.6	-0.6	-0.8	0.3	-366.7
Other comprehensive income							
Items that may later have effect on profit or loss							
Interest rate swaps	0.0	0.0		0.0	0.1	0.0	
Translation difference	0.0	0.0		0.0	0.0	0.0	
Total comprehensive income for the period	-2.3	-0.9	-155.6	-0.6	-0.7	0.3	-333.3
Earnings per share attributable to the equity holders of the parent company, EUR, basic and diluted	-0.06	-0.02	-200.0	-0.02	-0.02	0.01	-300.0

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	6/13	6/12	12/12
Non-current assets			
Property, plant and equipment			
Land	0.9	1.0	1.0
Buildings	5.7	6.2	5.9
Machinery and equipment	4.2	4.7	4.4
Other tangible assets	1.4	1.5	1.5
Intangible assets			
Goodwill	4.2	4.2	4.2
Other intangible assets	11.9	12.7	12.4
Investment properties	0.2	0.2	0.2
Available-for sale-investments	0.0	0.0	0.0
Receivables			
Other receivables	0.1	0.0	0.1
Deferred tax assets	2.8	2.4	2.2
Total non-current assets	31.4	32.9	31.9
Current assets			
Inventories	11.5	12.4	11.4
Trade receivables	4.6	5.4	3.9
Current income tax receivables	0.0	0.0	0.0
Other receivables	1.0	1.1	1.2
Cash and cash equivalents	4.3	3.8	3.3
Total current assets	21.4	22.7	19.8
Total assets	52.8	55.6	51.7

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EQUITY AND LIABILITIES			
Equity			
Share capital	6.3	6.3	6.3
Treasury shares	-0.1	-0.1	-0.1
Translation difference	0.1	0.0	0.1
Revaluation reserve	-0.1	0.0	-0.1
The invested unstricted equity fund	7.3	7.3	7.3
Retained earnings	2.4	4.4	4.7
Total equity	15.9	17.9	18.2
Non-current liabilities			
Deffered income tax liabilities	1.3	1.4	1.4
Provisions	1.2	1.3	1.2
Interest-bearing debt	20.3	20.2	19.3
Other debt	0.0	0.2	0.0
Total non-current liabilities	22.8	23.1	21.9
Current liabilities			
Trade and other payables	7.2	8.1	7.1
Short-term interest bearing debt	0.1	0.0	0.0
Total current liabilities	6.8	6.5	4.5
Total liabilities	14.1	14.6	11.6
Total equity and liabilities	36.9	37.7	33.5
Total equity and liabilities	52.8	55.6	51.7

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CONSOLIDATED STATEMENT OF CASH FLOWS

	1-6/13	1-6/12	1-12/12
Cash flows from operating activities			
Profit for the period	-2.3	-0.9	-0.6
Adjustments			
Non-cash transactions	1.9	2.0	3.8
Interest expenses and interest income and taxes	-0.2	0.1	0.7
Change in working capital	-0.5	-4.5	-3.0
Interest paid and received and taxes paid	-0.4	-0.4	-0.8
Net cash flow from operating activities	-1.5	-3.7	0.1
Cash flows from investing activities			
Investment in property, plant and equipment and intangible assets	-0.9	-1.5	-2.9
Grants received for investments and sales of property, plant and equipment	0.1	0.5	0.6
Net cash flow from investing activities	-0.8	-1.0	-2.3
Cash flows from financing activities			
Proceeds from non-current and current borrowings	8.8	4.1	4.1
Repayment of non-current and current borrowings	-5.5	-2.3	-5.3
Dividends paid and treasury shares	0.0	0.0	0.0
Net cash flow from financing activities	3.3	1.8	-1.2
Change in cash and cash equivalents	1.0	-2.9	-3.4
Cash and cash equivalents at beginning of period	3.3	6.8	6.8
Cash and cash equivalents at end of period	4.3	3.9	3.3

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Consolidated statement of changes in equity

	Share capital	The invested unstricted equity fund	Revaluetion reserve	Treasury shares	Translations diff.	Retained earnings	Total
Equity Jan. 1, 2013	6.3	7.3	-0.1	-0.1	0.1	4.7	18.2
Total comprehensive income for the period			0.0		0.0	-2.3	-2.3
Transactions with the owners							
Dividends paid						0.0	0.0
Equity June 30, 2013	6.3	7.3	-0.1	-0.1	0.1	2.4	15.9
Equity Jan. 1, 2012	6.3	7.3	-0.1	-0.1	0.1	5.3	18.8
Total comprehensive income for the period			0.0		0.0	-0.9	-0.9
Transactions with the owners							
Dividends paid						0.0	0.0
Equity June 30, 2012	6.3	7.3	-0.1	-0.1	0.1	4.4	17.9

Segment reporting

Operating segments	1-6/2013	1-6/2012	1-12/2012
Sales	19.8	23.9	51.2
Fireplaces	17.8	21.6	47.1
Interior Stone	2.0	2.3	4.1
Operating profit/loss	-2.5	-0.8	0.1
Firepalces	-2.4	-0.7	0.2
Interior Stone	-0.1	-0.1	-0.1

Operating segments quarterly

Operating segments	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Sales	10.6	9.2	14.2	13.1	13.2	10.7
Fireplaces	9.5	8.3	13.3	12.2	12.0	9.6
Interior Stone	1.1	0.9	0.9	0.9	1.2	1.1
Operating profit/loss	-0.8	-1.7	0.5	0.4	0.6	-1.4
Fireplaces	-0.8	-1.6	0.5	0.4	0.5	-1.2
Interior Stone	0.0	-0.1	0.0	0.0	0.1	-0.2

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Key financial ratios and share ratios

	1-6/13	1-6/12	4-6/13	4-6/12	1-12/12
Earnings per share, EUR	-0.06	-0.02	-0.02	0.01	-0.02
Equity per share, EUR	0.43	0.48	0.43	0.48	0.49
Retrun on equity, %	-26.8	-9.9	-4.7	6.5	-3.4
Return on investments, %	-11.6	-3.4	-1.8	5.4	0.3
Equity ratio, %	30.2	32.2			35.2
Net debtness ratio, %	143.6	127.9			112.9
Current ratio	1.5	1.6			1.7
Gross investments, MEUR	0.9	1.5			2.7
Gross investments, % of sales	4.5	6.3			5.3
Research and development costs, MEUR	0.8	0.8			1.6
%/sales	4.0	3.3			3.1
Outstanding orders (30 June), MEUR	7.2	7.3			4.6
Average number of staff	290	370			351
Rate development of shares, EUR					
Lowest share price, EUR	0.44	0.49			0.47
Highest share price, EUR	0.63	0.92			0.92
Average share price, EUR	0.52	0.68			0.60
Closing price, EUR	0.46	0.50			0.57
Market capitalization at the end period, 1000 EUR	17 029	18 510			21 101
(Supposing that the market price of the K-share is the same as that of the A-share)					
Number of the shares traded, (1000 pcs)	2 240	1 354			4 051
% of total amount of A-shares	8.2	4.9			14.7
Number of shares average	37 019 770	37 019 770	37 019 770	37 019 770	37 019 770
Number of the shares at the end of period	37 019 770	37 019 770	37 019 770	37 019 770	37 019 770

Notes to the Consolidated Financial Statements

This financial statement release has been prepared in accordance with the IAS 34 Interim Financial Reporting standard. The IFRS accounting principles applied in preparation of these interim financial statements are the same as those applied by Tulikivi in its consolidated financial statements as at and for the year ended December 31, 2012, with the exception of the following new or amended standards and interpretations which have been applied from January 1, 2013. This has not had a significant impact on the consolidated financial statements. The key performance ratios and share ratios are calculated using the same methods as for the consolidated financial statements for 2012. The calculations rules can be found in the 2012 annual report, page 90.

· Amendments to IAS 1 Presentation of Financial Statements: The major change is the requirement to group items of other comprehensive income as to whether or not they will be reclassified subsequently to profit or loss when specific conditions are met.

· Amendment to IAS 19 Employee Benefits: The amendments of IAS 19 related to defined benefit pension plan accounting have not had an impact on the consolidated financial statements as all Group's pension plans are defined contribution plans. The other amendments made to the standard relate to termination benefits, among others.
· IFRS 13 Fair Value Measurement: IFRS 13 establishes a single source for all fair value measurements and disclosure requirements for use across IFRSs. The new standard also provides a precise definition of fair value. IFRS 13 does not extend the use of fair value accounting, but it provides guidance on how to measure fair value under IFRSs when fair value is required or permitted. IFRS 13 will expand the disclosures to be provided for non-financial assets measured at fair value.
· Annual Improvements to IFRSs 2009-2011: The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments cover in total five standards.
· IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine: The interpretation provides guidance to the accounting treatment of stripping costs in the production phase of a surface mine, when benefit from the stripping activity is realized in two ways: in the form of mineral ores to the production of inventory, and on the other hand in the form of improved access to further quantities of material that will be mined in future periods.

Income taxes

EUR million	1-6/13	1-6/12	1-12/12
Taxes for current and previous reporting periods	0.0	0.0	0.0
Deferred taxes	0.7	0.3	0.2
Total	0.7	0.3	0.2

Commitments

EUR million	6/13	6/12	12/12
Loans from credit institutions and other long term debts and loan guarantees, with related mortgages and pledges	27.1	26.7	23.8
Mortgages granted and collaterals pledged	34.0	29.8	29.3
Other given guarantees and pledges on behalf of own liabilities	0.5	0.7	0.5
Derivates			
Interest rate swpas: nominal value	8.0	2.7	2.3
Interest rate swaps; fair value	-0.1	-0.1	-0.1
Foreign exchange forward contracts; nominal value	0.3	0.3	0.4
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. Financial assets for sale are investments in unlisted companies. They are valued at acquisition cost because their fair value cannot be reliably determined.

Provisions

	Environmental provision	Warranty provision	Restructuring Provision
	6/13	6/13	6/13
Provisions January 1.	0.7	0.3	0.3
Increase in provisions	0.0	0.0	0.1
Used Provisions	0.0	0.0	0.1
Discharge on reserves	0.0	0.0	0.0
Provisions June 30.	0.7	0.3	0.3

	6/13
Non-current provisions	1.2
Current provisions	0.1
Total	1.3

Changes in tangible assets are classified as follows:

EUR million	6/13	6/12	12/12
Acquisition costs	0.5	0.6	1.2
Proceeds from sale	-0.0	-0.2	-0.2
Total	0.5	0.4	1.0

Changes in intangible assets are classifies as follows:

EUR million	6/13	6/12	1-12/12
Acquisition costs, net	0.3	0.6	1.5
Amortisation loss	0.0	0.0	0.0
Total	0.3	0.6	1.5

Share capital

Share capital by share series

	Number of shares	% of shares	% of voting rights	Share, EUR of share capital
K shares (10 votes)	9 540 000	25.7	77.6	1 621 800
A shares (1 vote)	27 603 970	74.3	22.4	4 692 675
Total 30 June, 2013	37 143 970	100.0	100.0	6 314 475

There have been no changes in Tulikivi Corporation´s share capital during the period. According to the articles of association the dividend paid for Series A shares shall be 0.0017 EUR higher than

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the dividend paid on Series K shares. The Series A share is listed on the NASDAQ OMX Helsinki Ltd. No flagging notifications were made to the company during the review period.
The number of the shares in the company´s possession at the end of period was 124 000 series A shares.

Board authorizations

The Annual General Meeting of April 16, 2013 authorized the Board of Directors to acquire the company's own shares. A maximum of 2 760 397 Series A shares in the company and 954 000 Series K shares in the company can be bought back. The authorization is valid until the Annual General Meeting 2014.

The Board of Directors has further an authorization to decide on share issues and the conveyance of the company's own shares in the possession of the company.
New shares can be issued or own shares held by the company conveyed amounting to a maximum of 5 520 794 Series A shares and 1 908 000 Series K shares. The authorization is valid until the Annual General Meeting 2014.

Related party transactions
The following transactions with related parties took place:

EUR 1000	6/13	6/12	12/12
Sales of goods and services to associated companies and related parties	4	4	5
Purchases related companies	40	250	303
Leases from related parties	54	54	108
Sales of goods and services to related parties	-	-	2
Outstanding receivables from related parties	-	1	1
Sales to related parties	-	-	1
Debts owed to related parties	4	1	-

Transactions with other related parties
Tulikivi Corporation is a founder member of the Finnish Stone Research Foundation.
The company has leased offices and storages from the property owned by the Foundation and North Karelia Educational Federation of Municipalities. The rent paid for these facilities was EUR 118 (116) thousand in the period. The rent corresponds with the market rents.. The service charges from the Foundation were 2(7) thousand Euros. Outstanding receivables from the Foundation amounted EUR 5 (0) thousand.

Key management compensation
EUR 1000

	6/13	6/12	12/12
Salaries and other short-term employee benefits of the Board of Directors and Managing Directors	199	173	430
Other long term employee benefits	82	35	62

Largest shareholders on June 30, 2013

Name of shareholder	Shares	Proportion of total vote
Vauhkonen Reijo	4 195 477	24.3 %
Vauhkonen Heikki	3 035 353	24.1 %
Elo Eliisa	2 957 020	5.9 %
Virtaala Matti	2 450 516	12.7 %
Mutual Pension Insurance Ilmarinen	1 902 380	1.5 %
Mutanen Susanna	1 643 800	7.2 %
Vauhkonen Mikko	769 310	3.5 %
Paatero Ilkka	718 430	0.6 %
Nuutinen Tarja	674 540	3.5 %
Investment Fond Phoebus	585 690	0.5 %
Other shareholders	18 211 454	16.3 %

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

The companies included in the Group are the parent company Tulikivi Corporation, AWL-Marmori Oy, Tulikivi U.S. Inc. and OOO Tulikivi. Group companies also include The New Alberene Stone Company Inc., which no longer has any business activities. The parent company has a fixed place of business in Germany, Tulikivi Oyj Niederlassung Deutschland. The Group has interests in associated companies Stone Pole Oy and Rakentamisen MALL Oy. (Stone Pole Oy has had no business activities during 2013; liquidation proceedings have begun).

TULIKIVI CORPORATION

Board of Directors

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