Annual Report 1998

TULIKIVI

Tulikivi Oyj

Business concept

The operation of Tulikivi Group is based on processing of soapstone, a material having unique heat-retaining and heat resistance abilities. The Group is a leading manufactured of soapstone products in the western countries, measured in terms of turnover, and its parent company controls a major part of all known processable soapstone deposits.

Above all, soapstone is used in the manufacture of heat-retaining fireplaces which are sold under the Tulikivi and Mittakivi brands. Soapstone is also used as building material and as stove liners.

This document is the English translation of the original Finnish annual report 1998 of Tulikivi Oyj.

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Tulikivi Group

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Juha Sivonen

Marketing, exports
Timo Vuorinen

Board of Directors
Reijo Vauhkonen, chairman
Bishop Ambrosius, vice chairman
Markku Laakso
Teppo Taberman
Mikko Vauhkonen
Matti Virtaala
Salli Hara-Haikkala, secretary

Production
Kyösti Nuutinen

Financing and Administration
Arja Lehikoinen

Product development
Reijo Svanborg

Executive Secretary
Kaisa Toivanen

Raw material
Timo Rossi

Managing Director
Reijo Svanborg

Accounting
Jouko Toivanen

Design Manager
Eliisa Vauhkonen

Information systems
Paavo Tuononen

Communication Services
Anu Vauhkonen

Tulikivi Corporation
Reijo Svanborg

Mittakivi Oy
Kyösti Nuutinen

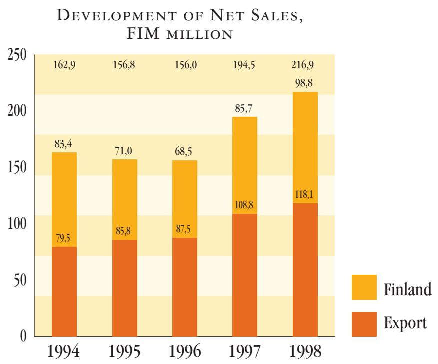
Auditors
Price Waterhouse Oy
Hannele Selesvuo, authorized public accountant

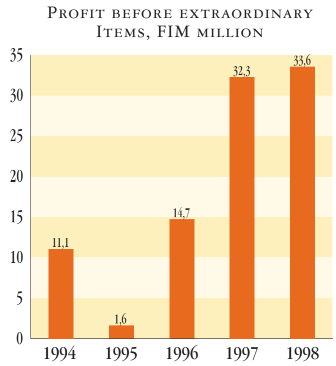
Suomussalmen Vuolukivi Oy
Kalle Huusko

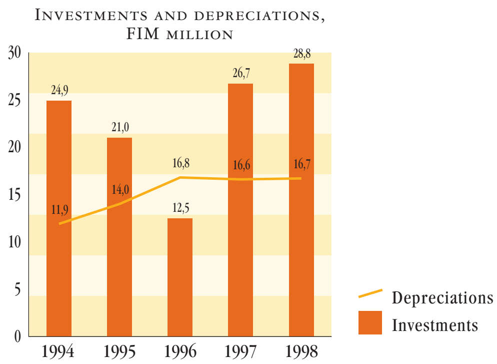
Tulikivi U.S., Inc.
Heikki Vauhkonen

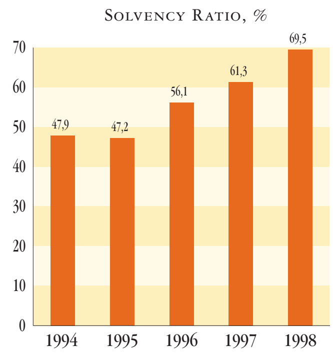
Tulipuu Oy
Aki Nevalainen

The Year 1998 in Brief









		1998	1997	Change, %
Net Sales, FIM million		216,9	194,5	11,5
Profit before extraordinary Items, FIM million		33,6	32,3	4,0
Return on Capital Employed, %		28,1	29,2	
Solvency Ratio, %		69,5	61,3	
Earnings per share, FIM		13,22	13,19	0,2
Equity per share, FIM		62,75	54,56	15,0
Payment of dividend on	A-share	5,20	5,00	4,0
	K-share	5,00	4,80	4,2

Calculation of key ratios, page 32

The companies included in Tulikivi group: Tulikivi Oyj, Mittakivi Oy, Suomussalmen Vuolukivi Oy, Tulikivi U.S. Inc. and Tulipuu Oy. Group companies are also Tulikivi Vertriebs GmbH and The New Alberene Stone Company Inc., which do not have significant business any more.

Stovemodel Sirius, in the picture above made of Suomussalmi stone, belongs to the Forma Europa collection.

New expression for the products

For many years Tulikivi has been surveying the qualities and magnitude of the stone reserves of the quarry at Suomussalmi. The patterned, hue coloured stone yielded by the new quarry is well suited for modern design and living requirements. This stone material can be used for stove models, stove coatings and construction projects.

Opinion surveys carried out in Europe suggest that Tulikivi will gain a marketing benefit by the new range of stone materials. The popularity of soapstone, especially in the stove market place, is rising continuously. This is mainly due to the excellent heat storing capacity and appearance that suit modern homes with harmony and elegance.

An increasing number of stove manufacturers are now able to find a colour tone suited for their products.

New plant and production technology

The magnitude of the stone reserves and the excellent qualities of the material suited for the products of the business areas of Tulikivi led to the final decision of building a production plant at the immediate vicinity of the Suomussalmi quarry. The production lines of the plant to be built represent the state of the art in stone processing. The production lines enable manufacturing complex pieces in accordance with strict dimensioning requirements. In addition to this, stone material can be used optimally efficiently.

The new plant will employ some 35 to 60 persons. This investment will increase the capacity enabling an annual turnover of FIM 40 million. The total floor area of the new plant will be 4,000 square meters. The estimated time of completion is the beginning of the year 2000.

The general manager of the Geologic Research Institute Raimo Matikainen lectured on the history of soapstone formation.

The Geologic Research Institute and Tulikivi have been co-operating in studying stone reserves for a substantial period of time.

The colour tones of Suomussalmi stone can be well combined in tile surfaces and wall structures.

Two great strategic decisions Virginia behind, Suomussalmi ahead

The year 1998 witnessed two great strategic decisions; to sell the production facilities in the USA and to build a plant at Suomussalmi. When the investment decisions were made for the plant in Virginia, the Finnish economic situation was radically different from the situation today. At the end of the 1980s the Finnish economy was experiencing an upsurge. One of the greatest concerns was getting enough of skilled work force. The US dollar was cheap against the Finnish mark. Also, the USA was a difficult export target bearing in mind the country's history of protectionism and customs barriers. When the 90s were here, the situation was rather different - almost opposite to the expectations of the 1980s. The economic boom turned into a downward spiral of economic depression. Selling the production facilities in Virginia means an end point for one track of development. The plant was sold with all its related liabilities to a US entrepreneur who will continue small-scale operations in co-operation with us. Production operations in Virginia were unprofitable. However, the Virginia operations helped us to gain a better market share in the enormous heater market place of the USA.

Our sales company Tulikivi U.S., Inc. will boost the marketing efforts that have been initiated. Tulikivi stoves have gained a lot favourable publicity and customer feedback has been excellent.

The inauguration of the Suomussalmi plant in 2000

The soapstone reserves have been test drilled and studied for a decade. The recent test drillings have given very positive results. The investment decision pertaining to the first phase of the Suomussalmi venture is strategically significant. It will increase production capacity - something that we have been hoping to do for quite some time now. The Juuka plant has been performing at its full capacity applying a three shift system for a long period of time.

The Suomussalmi project will also ensure that we have enough of raw material for many decades ahead. The total value of this investment is some FIM 40 million. Suomussalmi municipality will be responsible for building operations. Tulikivi will invest some FIM 20 million in machinery and equipment. The quarry and production operations at Suomussalmi have been centrally organized under Suomussalmen Vuolukivi Oy. The company will offer employment opportunities for some 35 to 60 people. We have set the turnover target at FIM 40 million. Building will start during the spring of 1999 and the plant will be taken into production use in the beginning of 2000.

20 Years of Tulikivi

This year will also mark the 20th anniversary of our acquisition of Suomen Vuolukivi Oy. The operations of this legendary company had been at stand-still for over ten years at that time. The soapstone industry was going down in Sweden and Norway at the same time. The consequences of restarting the operations have been massive. Today, over 1000 Finnish men and women are working within the soapstone industry and it covers about a third of the entire stone processing industry in Finland. Finnish stoves made of soapstone are also strong and successful export articles in Central Europe where especially Tulikivi enjoys a good corporate image. The brand is becoming better known all the time. Twenty years is a short period of time when proportioned with the 2.7 billion year history of soapstone of Northern Karelia. It has been our privilege to let the world know of the exceptional qualities of soapstone. Today, virtually all the major European stove manufacturers use soapstone coating in their stoves for heat storing.

The power of continuity

The roots of our corporation lie deep in the tradition of family entrepreneurship. Our entire operations model, especially in the export market, is based on forming networks and co-operating with local family businesses. They all share the same keys to success: continuity of operations, strong commitment to work, close human relations and a shared value base.

To ensure the continuity of our own tradition of family entrepreneurship, we have founded a family council which is chaired by an outside member, doctor of economics Ahti Hirvonen. The purpose of the council is to strengthen the co-operational relationship between the shareholders, the board and the operational management and to support the development of the corporation.

We welcome the 21st Century

As I am writing this, the entire house is bustling. Many development projects are under way. Unfortunately, I cannot reveal all the secrets quite yet. There are many novelties coming up, including new design models seeking inspiration in the European language of design and product development solutions which have taken the combustion technology of stoves and efficiency ratios to new levels. A new Tulikivi full-house heating solution will be launched shortly. This system will use renewable bioenergy. Our Tulipuu chain will continue to develop economical distribution and production solutions for small wood.

The past winter with its merciless subzero temperatures showed that a Tulikivi stove is like an insurance policy. A wood heated house will never get cold even if an electric blackout occurs. Even The New York Times has commented on this as follows: Many people in the Northern states fear that the Y2K “end of the world of computers” will cause disturbances in the distribution of electric power thus leaving houses cold when the cold breaks again in January next year. Thus the old means of heating have reclaimed their position. Tulikivi was merited as ”the Rolls Royce of stoves” in The New York Times article. I dare claim that Tulikivi stoves are prepared for the next millennium. We are waiting for the next millennium with excitement and with strong business position.

Juuka, 28 February 1999

With warm regards

Reijo Vauhkonen
Chairman of the board

AIM SET AT STRENGTHENING THE MARKET LEADER POSITION

The busines plan of Tulikivi is based on profitable growth within the current business areas. The main target of the corporation is to strengthen the market leader position the corporation is enjoying as a manufacturer of soapstone products. In connection with various training schemes, the entire staff was able to participate in process in developing the new business plan. The business plan, in its turn, mainly focuses on the principles outlined in the technology strategy, the purpose of which is to guarantee growth and profitable operation.

More marketing efforts

The domestic and foreign sales organizations were developed the further together with adding to overall marketing efforts.

Tulikivi and Mittakivi brand names were introduced in Finland in the beginning of 1998. The distribution network solution developed for these novel brand names started to perform according to plans during the latter half of the year. The overall customer service and customer satisfaction was improved through strengthening co-operation with hardware store chains functioning as distribution channels, with the authorized stove "masters" responsible for stove installations and with district directors responsible for sales co-ordination.

The export sector experienced organizational reformations. These reformations were limited mainly to the main export country, Germany, where the district importer network was reorganized. The aim was to centralize the sales of Tulikivi products under some twenty strong district importers who can be expected to have the potential for investing in sales promotion of Tulikivi products. Due to this organizational change, Germany failed to reach its sales volume target. Once the operational environment clears up, the conditions for reaching the target are good.

The corporation gave up production operations in the USA. Increasing and developing the sales of stoves by strengthening market presence and sales organisation during the latter half of the year was the main operation in this potential market area.

The year 1998 witnessed an extensive literature survey concerning the beneficial effects of radiant heat generated by heat storing stoves, such as Tulikivi stoves, on the quality of indoor climate, house structures and the human body. The positive results the research yielded were adopted as a tool for marketing communications.

Production capacity increased

In February 1998, a new Mittakivi production line was taken into use. The new production line was needed to meet the increased demand. The production operations of the corporation are mainly based on a system of three work shifts. The new production line had no effect on this. The numerically controlled stone processing machinery of the new plant has had a positive effect on the competitive edge of the corporation by enabling processing accurate and complex pieces fulfilling strict dimensioning requirements.

The corporation started to use chiefly the stone material produced at the new quarry. At the same time, a quarry was opened at Suomussalmi where the company owns substantial stone material reserves. The more expressive and light pigmented soapstone yielded by the new quarry means a valuable addition to the current product range. A new production plant is to be built at Suomussalmi. The estimated time of inauguration is the beginning of the year 2000. Extra capacity will be needed to meet increased demand.

The range of stoves produced by the corporation was standardized in the effort of increasing the sizes of production series. This modification enables levelling out capacity peaks at the two plants.

The sales of tailored, customer specific stoves increased.

Turnover increased

Domestically, both reparations and new construction projects increased in comparison with the previous year. In the export countries, the building volumes remained at the level of 1997. The total annual turnover of the corporation was FIM 216.9 million. This means a growth of 11.5% in comparison with 1997.

The domestic part of the corporation's total turnover was FIM 98.9 million. The comparable growth was 3.6 per cent.

The part of export of the total turnover was FIM 118.1 million. Growth was 8.5 per cent. The majority of growth is attributable to favourable development in stone processing operations. The most important export countries were Germany, Switzerland, Sweden, Denmark, Belgium, Italy, Austria, the USA, France, and the Netherlands. Growth was experienced mainly in Denmark, Belgium, Italy and the USA. Test marketing initiated in Russia did not yield very good results due to the unstable situation in the country.

Stone processing generated FIM 37.2 million in turnover. The most significant part of this business operation was deliveries of heat storing coating stone for stove industry.

Improved results

The corporation made a good result even though the budget was not met. The profit prior to extraordinary items was FIM 33.6 million.

The result is negatively impacted by the loss on the sale of the US plant and costs incurred by the test quarrying and test production at Suomussalmi. These nonrecurring costs were some FIM 2 million in total.

The increase in costs was mainly attributable to marketing efforts, personnel training and production costs exceeding the budget.

Personnel involved

Personnel training was at focal point. In the effort of further developing customer service, training for stove "masters", sales personnel and hardware store chains was continued and developed. The same training schemes were extended to the partners operating in the export countries.

Business coaching pertaining to the entire personnel included specifying the overall business plan. Training will continue during 1999 and its aim is to achieve measures for meeting the sub aims.

In December 1998, 17 corporate employees received the first vocational degree diplomas for qualified stone workers. The degree was designed in co-operation with Aikuiskoulutuskeskus (the Institute for adult training).

The corporation perceives a responsible and motivated personnel as the most central resource. I would like to extend my warm thanks to the entire personnel and all interest groups.

Future prospects

Reparation activity and the level of new construction projects is expected to stay at the same level with the previous year. Should there be any major changes in the world economy, these will be reflected in the investment behaviour of consumers. The strategy of favouring bio energy adopted by the EC commission and the upsurge in ecological values will create natural demand for heat storing Tulikivi stoves.

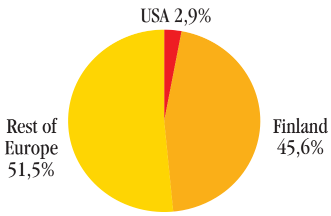
Focusing on marketing and training the personnel and sales network participants together with the on-going development projects make it possible to maintain profitability during 1999.

Juuka, 27 February 1999

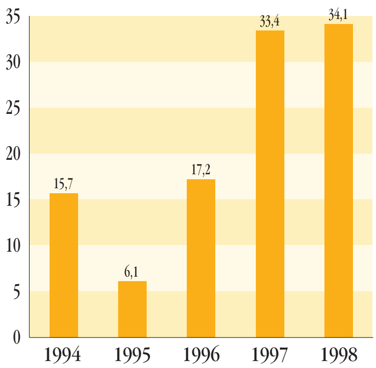
Reijo Svanborg

The report of the board for the financial year 1998

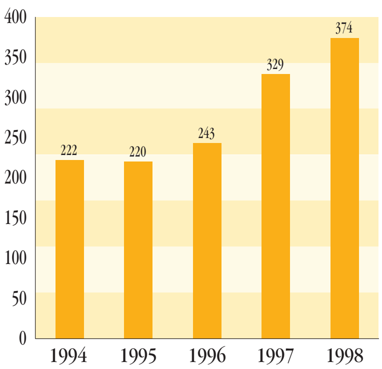
Breakdown of Net Sales by Market Area



Operating profit, FIM million



Personnel



Overview

The year 1998 was favourable for the building industry. The sales of interior decoration and hardware products increased domestically by 6 percent. A majority of the construction projects were completed at the end of the year and in the beginning of 1999. This was reflected in an increase in the demand of stoves towards the end of the year. In exports, the levels of building activity remained on a par with the previous year. The uncertainties experienced in the global economy at the end of the year caused some decline in demand development.

Net sales

Net sales of the group increased by 11.5 percent, resulting in a total of FIM 216.9 million (FIM 194.5 million in 1997). The comparable increase in net sales was 6.3 percent.

Export and other foreign operations' share of net sales was FIM 118.1 (108.8) million, i.e.54.4 (55.9) percent. There was an 8.5 percent increase in exports, mainly attributable to an increased demand in the stone processing product sector. The most significant export countries were Germany, Switzerland, Denmark and Sweden. The distribution network underwent a reorganisation in Germany, which is the most significant of the export countries.

Domestic sales FIM 98,9 (87,5) million includes inconsistently with the prior year FIM 10,1 million stove installation work having been invoiced through the company. The comparable increase in the domestic sales was 3.6 percent. The distribution network was streamlined by separating the sales of Tulikivi and Mittakivi products into two separate distribution networks.

The stove business share of the total corporate turnover was FIM 179.7 (162.8) million, whereas stone processing generated FIM 37.2 (31.7) million.

Result

The profit for the financial year 1998 was FIM 33.6 (32.3) million before extraordinary items. The result can be characterised as good even though the profit target was not achieved.

The growth in the income statement under the category of Materials and External charges is due to stove installation work invoiced by the company. Personnel expenses increased due to expanding production and the inauguration of the new quarry. Test-quarrying and production at Suomussalmi incurred one-time costs of FIM 0.6 million.

Depreciation and other operating expenses include one-time costs of FIM 1.4 million, resulting from the sale of the production plant in the U.S. Otherwise, the increase in other operating expenses is attributable to special efforts put on marketing, training, and development operations. Marketing expenses without personnel-related expenses were FIM 16.7 (14.2) million. Research and product development expenses amounted to FIM 5.9 (4.0) million.

Net financing costs were FIM 0.5 (1.1) million. Earnings per share were FIM 13.22 (13.19). The return on capital employed was 28.1 (29.2) percent.

Investments and development schemes

The group's investments in fixed assets amounted to FIM 28,8 (26,7) million.

The expansion project of Mittakivi Oy, total value of FIM 28 million, was completed in February 1998. The costs for the fiscal year of 1998 were FIM 12.2 million. Also, the past financial year witnessed an extensive IT investment valued at FIM 3.1 million. The new system enables use of the Euro currency and is Y2K compliant. The system was implemented on 1 January 1999. Other substantial investments include new social facilities for production personnel (FIM 4.2 million) and the costs incurred by the new quarry opening as well as the purchase price of new mining machinery (FIM 3.3 million).

In the autumn of 1998, a decision was made at Suomussalmen Vuolukivi Oy to implement a substantial production investment for the purpose of processing soapstone. The estimated costs for the entire investment is FIM 40 million. The corporation will be responsible for FIM 20 million of the total costs out of which occured FIM 2,4 million in 1998.

The most essential development schemes include renewal of the product range, radiant heat research, and product tests to ensure that our emission rates will fall below the new, stricter emission standards.

Year 2000 compliance

A corporation-wide survey project was carried out for the purpose of charting the potential consequences of Y2K on information management, production machinery, and product engineering systems. It was found that the effect of the transition from 1999 to 2000 will not be great. The corporation will reach full Y2K compliance during the summer of 1999.

Financing

The financial position of the corporation has remained strong. All investments were covered financed with corporation revenues. In addition, the corporation was able to decrease the proportion of liabilities. The solvency ratio of the corporation rose up to 69.5 (61.3) percent. Total amount of liquid assets exceeded the amount of interest bearing liabilities. In effect, the net indebtedness ratio was negative when calculated on the basis of interest bearing liabilities. The net indebtedness ratio was -0.1 (2.3) percent; The current ratio was 1.6 (1.6).

Personnel

The average number of personnel working for the group was 374 (329) during the fiscal year 1998. At the end of the fiscal year, the total number of personnel was 383 (351).

All group personnel participated in an extensive training programme. The training programme also included clarifying the business plan of the corporation. One of the overall aims of the training scheme was to strengthen the readiness of the personnel to manage operations on the international level. The total costs of training, including personnel related costs, were FIM 4 million.

Exchange and rating development of the A share

Total exchange value of the Tulikivi Oyj A share was FIM 61.9 million on the Helsinki Stock Exchange. The number of shares exchanged was 543,377, which is 42.0 percent of the total number of A shares. The top rating of the share was FIM 145.00 and the lowest rating was FIM 82.10. The rating of the day of closing the books was FIM 114.90.

The proportion of A shares registered in the shareholders' voting record was 14.4 percent of the total number of A shares.

Decisions made at the annual shareholders' meeting

In the annual shareholders' meeting on 2 April 1998, a decision was made to register the parent company as a publicly registered corporation. The new Finnish name is Tulikivi Oyj. The English name of the corporation is the Tulikivi Corporation. In addition to this, it was decided to update the corporate by-laws in accordance with the current corporate legislation of Finland.

The Board

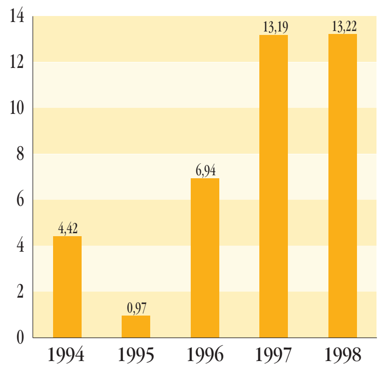
In the annual shareholders' meeting of Tulikivi Oy on 2 April 1998, the corporation board was elected. The new board is comprised of the following members: Bishop Ambrosius, Markku Laakso, Teppo Taberman, Mikko Vauhkonen, Reijo Vauhkonen, and Matti Virtaala. The board elected Reijo Vauhkonen as the chairman of the board and Bishop Ambrosius as the vice-chairman of the board.

The board members of the parent company will also function as board members on the respective affiliate boards. The board is responsible for nominating the managing director for the company and the entire group. Reijo Svanborg has been serving as the managing director since 1 July 1997.

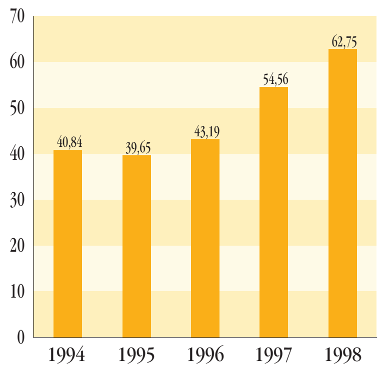
Future prospects

The levels of new construction projects and reparation building is expected to stay on a par with that of 1998. The marketing and training efforts the corporation has undergone assist in maintaining profitability for 1999.

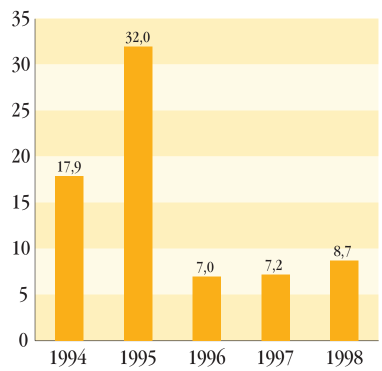
Earnings per share, FIM



Equity per share, FIM



P/E Ratio



Capital stock, shares and management ownership

The company's capital stock entered in the Trade Register amounted to FIM 35453040,00 on December 31, 1998, and was broken down as follows:

Type	Number of Shares	Nominal value FIM	Proportion % of Shares	Proportion, % of Votes	Capital Stock
K-shares (10 votes)	477000	20	26,91	78,64	9540000
A-shares (1 vote)	1295277	20	73,09	21,36	25905540 *)
Total	1772277		100,00	100,00	35453040

*) The company has purchased a share with the nominal value of FIM 7,500 at the moment of purchase.

According to the articles of association, the dividend paid on A–shares must be at least one percentage point higher than the dividend paid on K–shares. A-share is quoted at Helsinki Exchanges. The Board of Directors has no outstanding authorizations to issue new shares or a debenture loan or option loan.

10 Major shareholders according to number of shares	**K-shares**	**A-shares**	**Proportion (%)**
1. Vauhkonen Reijo	282625	226723	28,74
2. Merita Bank Oy /nominee registered	8000	165822	9,81
3. Vauhkonen Heikki	44875	4518	2,79
4. Vauhkonen Mikko	19875	20260	2,26
5. Mutanen Susanna	39875		2,25
6. Investment Fund Fim Forte		37534	2,12
7. Placeringsfonden Gyllenberg Small Firm		32100	1,81
8. Royal Skandia Life Assurance Limited		31300	1,77
9. Virtaala Matti	10000	20000	1,69
10. Nuutinen Kyösti	19875	5300	1,42

10 Major shareholders according to number of votes	**K-shares**	**A-shares**	**Proportion (%)**
1. Vauhkonen Reijo	282625	226223	50,34
2. Vauhkonen Heikki	44875	4518	7,47
3. Mutanen Susanna	39875		6,57
4. Merita Bank Oy /nominee registered	8000	165822	4,05
5. Vauhkonen Mikko	19875	20260	3,61
6. Nuutinen Kyösti	19875	5300	3,36
7. Vauhkonen Eliisa	19875	3976	3,34
8. Virtaala Matti	10000	20000	1,98
9. Svanborg Reijo	10000		1,65
10. insurance institution Nova	8000	9200	1,47

The members of the Board, the managing director and the vice president together control 342375 K-shares and 273599 A-shares or 61,0 % of votes. On the basis of the issued bonds with warrants management can subscribe for 49000 A-shares, corresponding to 2,8 % of total shares and 0,8 % of votes.

Breakdown of share ownership

Number of Shares	**Shareholders psc**	**Proportion %**	**Shares pcs**	**Proportion %**
1 -100	1007	56,60	56141	3,17
101 -1000	617	34,69	231182	13,04
1001 - 5000	121	6,80	267288	15,08
5001 - 10000	18	1,01	1079314	7,32
10001 -	16	0,88	1142497	64,46
Total	1779	100,00	1766230*)	99,66

*) As per the company's list of shareholders December 31.1998. A total of 5087 shares had not been transferred to the book entry register.

On 31 December, 1998 the company's shareholders were broken down by sector as follow:

Sector	**Holding, %**	**Votes, %**
Enterprises	6,69	2,40
Financial and insurance institutions	19,20	7,98
Public organizations	2,76	0,81
Non-profit organizations	2,47	1,46
Households	67,79	86,88
Foreign	0,80	0,24
In joint accounts	0,29	0,23
Total	100,00	100,00

Shares registered in the name of a nominee are included in the category Finance and insurance institutions.

INCOME STATEMENT 1.1.–31.12.

	Note	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
Net sales	1.1.	216912	194479	185175	169355
Increase (+)/decrease(-) in inventories in finished goods and in work in progress		2338	-103	762	-301
Production for own use		2913	3602	2733	2778
Other operating income		1726	1474	3301	1999
Materials and external charges	1.2.	56973	49618	71539	60861
Personnel expenses	1.3.	66559	58595	45671	41571
Depreciations and value adjustments	1.4.	16724	16580	12165	14252
Other operating expenses		49504	41267	40019	32331
Operating profit		34129	33392	22577	24816
Financial income and expenses	1.5.	-494	-1079	2933	18
Profit before extraordinary items		33635	32313	25510	24834
Extraordinary items	1.6.		1173	-1116	
Profit before closing entries and income taxes		33635	33486	24394	24834
Untaxed reserves	1.7.			1346	2083
Income taxes	1.8.	-10197	-8943	-7100	-7160
Minority interest			7		
Profit for the year		23438	24550	18640	19757

Figures in FIM thousands

Balance sheet 31.12.

	Note	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
Assets					
Fixed assets and other non-current investments					
Intangible assets	2.1.	12652	12463	11044	10991
Goodwill			10		
Tangible assets	2.2.	90090	80401	53284	51547
Shares in group companies	2.4.			7839	7824
Receivables of group companies	2.5.			300	150
Other investments	2.6.	346	339	346	339
Fixed assets and other non-current investments total		**103088**	93213	**72813**	70851
Current assets					
Inventories	2.7.	17958	13501	11690	10530
Non-current receivables	2.8.	526	9	5211	3942
Current receivables	2.9.	23897	28454	20488	22751
Cash in hand and at banks		14495	22530	11820	20246
Total current assets		56876	64494	49209	57469
Total assets		**159964**	157707	**122022**	128320

	Note	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
Liabilities					
Shareholders´ equity					
Capital stock	2.10.	35453	35453	35453	35453
Share premium fund	2.10.	29475	29475	29475	29475
Revaluation reserve	2.10.	225	225	225	225
Retained earnings	2.11.	22627	6994	12426	1412
Net profit for the year	2.11.	23438	24550	18640	19757
Total shareholders´ equity		**111218**	96697	**96219**	86322
Accumulated untaxed reserves				**380**	1726
Creditors					
Deferred tax liability		3253	2980		
Non-current liabilities	2.13.	10231	16574	2182	8557
Current liabilities	2.14.	35262	41456	23241	31715
Total creditors		48746	61010	**25423**	40272
Total liabilities		**159964**	157707	**122022**	128320

Figures in FIM thousands

CASH FLOW STATEMENT 1.1.–31.12.

	Note	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
Business operations					
Operating profit		34129	33392	22577	24816
Reversal of postings with no effect on cash flow		16666	16557	12148	14186
Change in net working capital	3.1.	-1222	-1323	-1636	334
Interests (net)		-576	-898	133	-610
Dividends received		173	185	2997	685
Other financing items		-91	-366	-197	-56
Received and paid group contributions				-500	
Extraordinary items			1173	-616	
Income taxes		-10197	-8943	-7100	-7160
Net cash flow from business operations		**38882**	39777	**27806**	32195
Investments					
Acquisitions of shares		-7		-21	
Acquisitions of other fixed assets		-28781	-26677	-14161	-9912
Sales of other fixed assets		822	202	17	113
Contributions		1200	4039	205	
Increase in other long-term investments				-150	-150
Decrease in other long-term investments			292		292
Total cash flow from investments		**-26766**	-22144	**-14110**	-9657
Cash flow before financing		**12116**	17633	**13696**	22538
Financing					
Received new long-term loans		3000	5049		49
Repayments of long-term loans		-9070	-8909	-6374	-7095
Increase (-) /decrease (+) in long-term receivables		-518	5	-1269	-603
Increase (+) /decrease (-) in short-term financing		-4871	-4342	-5736	-3922
Dividends paid		-8743	-4906	-8743	-4921
Others		51	-35		
Cash flow from financing activities		**-20151**	-13138	**-22122**	-16492
Increase (+) /decrease (-) in liquid assets		-8035	4495	-8426	6046
Liquid assets 1.1.		22530	18035	20246	14200
Liquid assets 31.12.		**14495**	22530	**11820**	20246

Figures in FIM thousands.

Accounting principles

Valuation of fixed assets

Fixed assets have been disclosed in the balance sheet at acquisition cost net of received investment grants and depreciations according to plan. The value of fixed assets includes revaluation made on buildings. Depreciations according to plan have been calculated on straight-line method based on the economic lifetime of the assets as follows:

Depreciation period	
Intangible rights and other long-term expenditure	5 to 10 years
Buildings	25 to 30 years
Constructions	5 years
Process machinery	3 to 10 years
IT equipment	6 years

The acquisition cost of equipment is depreciated applying the maximum depreciation rates allowed by the corporate tax law, starting from the time of acquisition.

Valuation of inventories

Inventories are valued at cost by using the FIFO method. The cost value of inventories includes in all group companies direct costs and their proportion of indirect manufacturing and acquisition costs.

Research and development costs

Research and development costs have been recorded as costs when incurred.

Pensios

Pension costs are entered for the period when earned. In Finland, pension security has been arranged by means of TAEL, TEL and LEL insurance policies. Pension schemes for personnel outside Finland follow the local practices.

Comparability of the prior year's financial data

The financial statements have been prepared in accordance with the accounting law revised to comply with the 4th and 7th EU directive. The comparatives for the prior year have been restated to comply with the revised law.

Income taxes

Income taxes include the income taxes pertaining to the profits of the financial year of the group companies as well as the change in deferred fax liabilities.

Dividends

The financial statements do not include the dividend proposed by the board of directors to the annual shareholders' meeting. Dividends are recorded on the basis of the decision made by the annual shareholders' meeting.

Foreign currency receivables and payables

Foreign currency receivables and payables have been started by using the rate quoted by the Bank of Finland at the year end.

Consolidation

The parent company of the Tulikivi group is Tulikivi Oyj domiciled in Juuka, Finland. The consolidated financial statements include all the group companies. More detailed information pertaining to the subsidiaries is given later in the section "Subsidiaries and representative office".

Share holdings between consolidated companies has been eliminated by using the purchase method. The difference between the acquisition cost of the subsidiay shares and the acquired portion of their shareholders' equity has been presented as goodwill which has been amortized by the end of financial year 1998.

Business transactions between consolidated companies, intercompany receivables and liabilities and internal profit distribution have been eliminated.

The income statements of the foreign group companies have been translated into Finnish marks using the average exchange rates of the financial period. Balance sheets have been translated using the exchange rates ruling at the year end. Translation differences arising from the translation and the elinimation of the shareholders' equity of foreign subsidiaries have been treated as an audjustment to the Group's retained earnings.

NOTES TO THE FINANCIAL STATEMENTS

(Figures in FIM thousands)

Notes to the income statement

1.1. Net sales per marketing area

	Group		Parent Company	
	1998	1997	**1998**	1997
Finland	98857	85705	69701	63292
Rest of Europe	111788	103058	111788	102869
USA	6267	5716	3686	3194
Total net sales	**216912**	194479	**185175**	169355

Net sales represents sales after deducting discounts, indirect taxes and exhange differences on trade receivables.

1.2. Materials and external charges

	Group		Parent Company	
	1998	1997	**1998**	1997
Materials and supplies (goods)				
Purchases during the fiscal year	29762	28953	50291	42053
Increase(-) or decrease(+) in inventories	-2119	676	-399	884
External charges	29330	19989	21647	17924
Total materials and external charges	**56973**	49618	**71539**	60861

1.3. Personnel expenses and number of employees

1.3.1. Personnel expenses

	Group		Parent Company	
	1998	1997	**1998**	1997
Salaries and wages		52653	46284	3601132843
Pension costs	7838	6720	5385	4799
Other social security costs	6068	5591	4275	3929
Total personnel espenses	**66559**	58595	**45671**	41571

1.3.2. Salaries and fees paid to the directors

The members of the board of directors were paid fees amounting to 404546 (397546 in 1997) FIM in the Group and to 316371 (326395 in 1997) FIM in the Parent Company. The managing directors were paid salaries and fees 1232408 (993460 in 1997) FIM in the Group.

1.3.3. Number of employees during the fiscal year on average

	Group		Parent Company	
	1998	1997	**1998**	1997
Clerical employees	79	70	60	54
Workers	295	259	191	182
Total	**374**	329	**251**	236

1.4. Depreciation according to plan

	Group		Parent company	
	1998	1997	**1998**	1997
Intangible rights	242	756	240	736
Other long-term expenditure	3794	3436	3601	3257
Buildings and constructions	2904	1847	1733	1384
Machinery and equipment	9677	10410	6564	8848
Other tangible assets	95	87	27	27
Adjustment of valuation items		21		
Goodwill	12	23		
Depreciation according to plan in total	**16724**	16580	**12165**	14252

1.5. Financial income and expenses

	Group		Parent company	
	1998	1997	**1998**	1997
Dividend income				
From group companies			2824	500
From others	173	185	173	185
Interests income				
From group companies			305	
From others	497	391	478	368
Interest expenses	1073	1289	649	979
Other financial expenses	91	366	198	56
Financial income and expenses in total	**-494**	-1079	**2933**	18

1.6. Extraordinary items

	Group		Parent company	
	1998	1997	**1998**	1997
Extraordinary income		1173		
Extraordinary expenses				
Group contribution			500	
Write down of receivables from subsidiaries			616	
Extraordinary items in total		1173	**1116**	

1.7. Untaxed reserves

	Parent company	
	1998	1997
Change in accelerated depreciation	**1346**	2083

1.8. Income taxes

	Group		Parent company	
	1998	1997	**1998**	1997
Income taxes on extraordinary items			-312	
Income taxes on ordinary operations	9892	8589	7412	7160
Change in deferred tax liabilities	305	353		
Total	**10197**	8942	**7100**	7160

Notes to the balance sheet

Fixed assets and other non-current investments

2.1. Intangible assets

2.1.1. Intangible rights

	Group	Parent company
Acquisition cost January 1	7989	7939
Additions	38	37
Disposals	6048	6048
Acquisition cost December 31	1979	1928
Accrued depreciation according to plan January 1	6999	6980
Accrued depreciation on disposals	6048	6048
Depreciation for the financial year	242	240
Accrued depreciation December 31	1193	1172
Balance sheet value December 31	786	756

2.1.2. Other long term expenditure

	Group	Parent company
Acquisition cost January 1	28267	26257
Additions	4187	3856
Disposals	4101	4101
Adjusting entries	83	
Acquisition cost December 31	28436	26012
Accrued depreciation according to plan January 1	16877	16224
Accrued depreciation on disposals	4101	4101
Depreciation for the financial year	3794	3601
Accrued depreciation December 31	16570	15724
Balance sheet value December 31	11866	10288

2.1.3. Goodwill

	Group	
Acquisition cost January 1	149	
Accrued depreciation according to plan January 1	137	
Depreciation for the financial year	12	
Accrued depreciation December 31	149	
Balance sheet value December 31	0	
Total Intangible assets	12652	**11044**

2.2. Tangible assets

2.2.1. Land

Acquisition cost January 1	5946	4527
Additions	136	7
Disposals	256	
Balance sheet value December 31	5826	4534

2.2.2. Buildings and constructions

	Group	Parent company
Acquisition cost January 1	49282	33247
Additions	7406	4009
Disposals	255	
Acquisition cost December 31	56433	37256
Accrued depreciation according to plan January 1	17666	15827
Depreciation for the financial year	2904	1733
Accrued depreciation December 31	20570	17560
Revaluations January 1 and December 31	9585	9585
Balance sheet value December 31	45448	29281

2.2.3. Machinery and equipment

	Group	Parent company
Acquisition cost January 1	100085	81386
Additions	17885	5850
Disposals	385	
Acquisition cost December 31	117585	87236
Accrued depreciation according to plan January 1	70984	61606
Depreciation for the financial year	9677	6564
Accrued depreciation December 31	80661	68170
Balance sheet value December 31	36924	19066

2.2.4. Other tangible assets

	Group	Parent company
Acquisition cost January 1	864	311
Additions	135	8
Acquisition cost December 31	999	319
Accrued depreciation according to plan January 1	158	77
Depreciation for the financial year	95	27
Accrued depreciation December 31	253	104
Balance sheet value December 31	746	215

	Group	Parent company
2.2.5. Advance payments	188	188
2.2.6. Work in progress	958	
Total tangible assets	**90090**	**53284**
Value of machinery and equipment included in balance sheet value	25954	14421

2.3. Revaluations

The value of the buildings was revalued in 1985 and 1987 based on an estimation document of the market value of the buildings given by an independent expert. The revaluation was FIM 9585 thousand. The deferred tax liability relating to the revaluation amounts to FIM 2684 thousand.

2.4. Shares in group companies

	Ownership, %	
	Group	Parent company
Mittakivi Oy, Juuka, Finland	100	100
Tulikivi U.S. Inc., USA	100	100
Suomussalmen Vuolukivi Oy, Juuka, Finland	100	100
Tulipuu Oy, Juuka, Finland	100	100
The New Alberene Stone Company Inc., USA	100	90
Tulikivi Vertriebs GmbH, Germany	100	100

2.5. Receivables from the group companies

Receivables from the group companies include capital loans granted to Suomussalmen Vuolukivi Oy in 1997 and 1998. The total value of these loans is FIM 300 000. The interest of the capital loan is the basic rate of interest (as defined by the Bank of Finland) + percentage point. Loan and interest payment terms and conditions are in accordance with Finnish companies Act chapter 5, section 1.

2.6. Other investments

	Book value
HEX, Helsinki Exhanges	150
Others	196
Total	346

2.7. Inventories

	Group		Parent company	
	1998	1997	**1998**	1997
Raw materials and consumables	10259	8145	6333	5933
Work in progress		45		45
Finished products / goods	7699	5311	5358	4552
Total inventories	**17958**	13501	**11691**	10530

2.8. Non-current receivables

	Group		Parent company	
	1998	1997	**1998**	1997
Receivables from group companies				
Trade receivables			3020	1763
Loan receivables			1980	2170
Prepayments and accrued income			195	—
			5195	3933
Receivables from others				
Trade receivables	510			
Loan receivables	16	9	16	9
Total non-current receivables	**526**	9	**5211**	3942

2.9 Current receivables

	Group 1998	Group 1997	Parent company 1998	Parent company 1997
Receivables from group companies				
Trade receivables			2297	1237
Loan receivables				2000
Prepayments and accrued income				1
			2297	3238
Receivables from others				
Trade receivables	20070	20091	14946	15564
Other receivables	1978	2833	1656	2569
Prepayments and accrued income	1849	5530	1589	1380
	23897	28454	18191	19513
Total current receivables	**23897**	28454	**20488**	22751

2.10. Shareholders' equity

	Group 1998	Group 1997	Parent company 1998	Parent company 1997
Capital stock January 1 and December 31	35453	35453	35453	35453
Share premium fund January 1 and December 31	29475	29475	29475	29475
Revaluation reserve January 1 and December 31	225	225	225	225
Retained earning January 1 and December 31	31545	11387	21169	6333
Dividends paid	-8743	-4906	-8743	-4921
Change in translation differences	-175	513		
Retained earnings December 31	22627	6994	12426	1412
Net profit for the year	23438	24550	18640	19757
Total shareholders' equity	**111218**	96697	**96219**	86322

2.11. Statement of distributable earnings

	Group 1998	Group 1997	Parent company 1998	Parent company 1997
Profit for the previous years	22627	6994	12426	1412
Net profit for the year	23438	24550	18640	19757
Translation difference	-907	-985		
The proportion of untaxed reserves included in shareholders' equity	-4887	-4186		
In total	**40271**	26373	**31066**	21169

2.12. Untaxed reserves

Untaxed reserves in the parent company comprise of accelerated depreciation.

2.13. Non-current liabilities

	Group		Parent company	
	1998	1997	**1998**	1997
Loans from credit institutions	9803	14968	2133	8358
Pension loans		114		86
Other non-current liabilities	428	1491	49	112
Total non-current liabilities	**10231**	16573	**2182**	8556

2.13.1. Loans becoming due after 5 years

	Group	
	1998	1997
Loans from credit institutions	**1000**	2000

2.14. Current liabilities

	Group		Parent company	
	1998	**1997**	**1998**	**1997**
Liabilities to group companies				
Trade payables			1503	642
Liabilities to others				
Loans from credit institutions	3123	7833	1183	6760
Pension loans		9		7
Trade payables	7751	6749	4331	3114
Other current liabilities	3165	2426	1487	1906
Accrued liabilities				
Salaries, wages and other social security costs	11402	10514	8011	7611
Other accrued liabilities	9821	13925	6726	11675
Total current liabilities	**35262**	41456	**23241**	31715

2.15. Option loan

Salli Hara-Haikkala, Master of Law, has served as secretary of the board since 1996.
The annual General Meeting of Shareholders decided in 1997 to issue an option loan directed at certain persons belonging to the management of group companies. Each FIM 1000 bond includes 1000 warrants, each of which can be used to subscribe for one Tulikivi A-share at a subscription price of FIM 71.50 per share. Loan subscriptions amounted to FIM 49000. No interest will be paid on the loan. If all the loan options are converted into shares, share capital will increase by FIM 980000. As a result of the subscriptions, subscribers' holding can rise from about 2 % to about 5 % of share capital and from about 5 % to about 6 % of votes. The subscription period is March 1-15, 2000 and March 1-15, 2001.

Shares will be entitled to a dividend for the year in which they are subscribed.

2.16. Given quarantees, contingent liabilities and other commitments

	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
2.16.1. Debts with related mortgages				
Loans from credit institutions for which mortgages have been given	12927	12832	3316	5120
Given mortgages				
Real estate mortgages	11874	13938	5374	8938
Company mortgages	9217	21530	2817	16630
Pension loans for which mortgages have been given		93		93
Company mortgages		3000		3000
Instalment liabilities with related pledges	1364	2395		
2.16.2. Other quarantees given on behalf of the company				
Real estate mortgages	200	200	200	200
Pledges	19	271	19	271
Given mortgages in total	**22674**	41334	**8410**	29039

2.16.3. Leasings commitments

	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
Due during the financial year 1999	228	528	166	449
Due later	103	204		204
In total	**331**	732	**166**	653

The leasing contracts have been made for a period of three to six years and do not include redemption clauses.

2.16.4. Off-balance sheet financial instruments

The group does not have any off-balance sheet financial instruments.

Notes to the cast-flow statement

3.1. Change in net working capital

	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
Increase (-) /decrease (+) in inventories	-4457	716	-1161	1185
Short-term receivables, increase (-) /decrease (+)	4557	-11346	2263	-8484
Short term liabilities, increase (+) / decrease (-)	-1322	9307	-2738	7633
In total	**-1222**	-1323	**-1636**	334

Subsidiaries and representative office

Mittakivi Oy, Juuka

Tulikivi Oyj has a 100 % holding in this company. Mittakivi Oy manufactures tailor-made stoves. They also have their own product range which is manufactured using stone material quarried by Tulikivi Oyj. Also, Mittakivi Oy produces stone processing products using various stone types. The expansion investment completed in February 1998 meant additional capacity for manufacturing tailor-made stoves and stone processing products. About half of the total production volume was exported through the parent company. Net sales of the company was FIM 72.8 million in 1998 (51.5) and profit before extraordinary items was FIM 12.0 million (8.3)

Tulikivi U.S. Inc., New York (place of registration Virginia), USA

Tulikivi Oyj has a 100 % holding in this company. The company is responsible for marketing Tulikivi products in North America. The operational centre of the company was moved to New York in the autumn of 1998. In connection with the move, more personnel was recruited. The objective of Tulikivi U.S., Inc. is to further develop the network of retail outlets. Net sales of the company was USD 1.0 million (0.9). The result was profitable and better than the year before.

Suomussalmen Vuolukivi Oy, Juuka

Tulikivi Oyj has a 100 % holding in this company. The company was founded in 1988 with the purpose of utilising the soapstone reserves in Suomussalmi. During the past financial year, a decision was reached to build a stone processing plant at Suomussalmi and initiate stone processing operations when the plant is finished in the beginning of the year 2000. The company did not have any business operations in 1998.

Tulipuu Oy, Juuka

Tulikivi Oyj has a 100 % holding in this company. The purpose of this company is to create a system for producing fire wood and develope a distribution network for it thus supporting the growth of stove heating. The company co-operates with individual fire wood entrepreneurs. Tulipuu Oy products are sold in bulk directly from the producers to the end customers. Smaller quantities are sold through co-operating hardware stores and service stations. In terms of overall group performance, the sales volume of the company is not significant.

Tulikivi Oyj Niederlassung, Frankfurt a.M., Germany

This representative office is responsible for marketing efforts of export to Germany.

The New Alberene Stone Company Inc., Virginia, USA

The group has a 100 % holding in this company. The fixed assets of the company were sold during the past financial year. This company does no longer have any business operations.

Tulikivi Vertriebs GmbH, Frankfurt a.M., Germany

Tulikivi Oyj has a 100 % holding in this dormant company.

Key figures of profit development 1994–1998

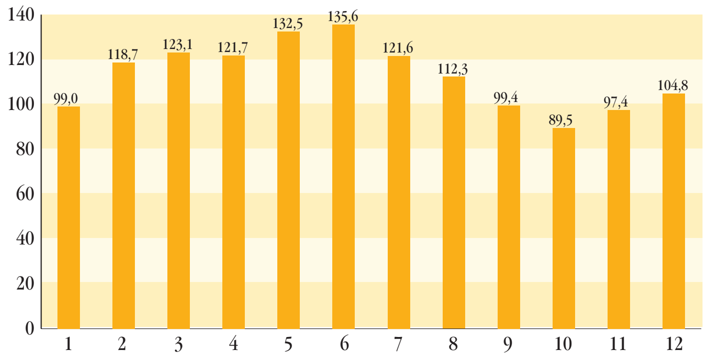
Income statement (FIM, thousands)

	1994	1995	1996	1997	1998
Net sales	162903	156771	156004	194479	216912
Change (%)	17.6	-3.8	-0.5	24.7	11.5
Operating profit	15710	6108	17157	33392	34129
(%) of net sales	10.5	3.9	11.0	17.2	15.7
Financial items	-4652	-4478	-2429	-1079	-494
Profit before extraordinary items	11057	1630	14728	32313	33635
(%) of net sales	6.8	1.0	9.4	16.6	15.5
Profit before taxes	-8798	1630	12335	33486	33635
(%) of net sales	-5.4	1.0	7.9	17.2	15.5
Income taxes	-1321	433	3360	8943	10197
Minority interest	-230	330	-3	7	
Profit/loss for the year	-7707	1527	8972	24550	23438

Consolidated balance sheet (FIM thousands)

	1994	1995	1996	1997	1998
Assets					
Fixed assets	79365	84304	87076	93213	103088
Inventories	14616	12560	14217	13501	17958
Financial assets	40059	35786	35158	50993	38918
Liabilities					
Shareholders' equity	64207	62346	76539	96697	111218
Other items	99	210	7		
Interest bearing liabilities	40362	46256	33306	24769	14364
Non-interest bearing liabilities	29371	23837	26599	36241	34382
Total assets	134039	132650	136451	157707	159964

Monthly Development of the Average Price of A-shares (FIM)



Ratios

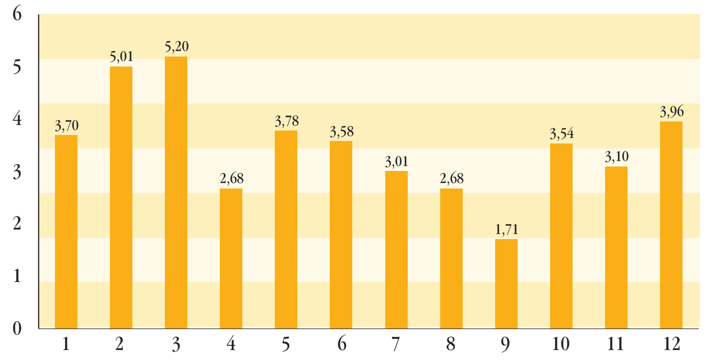
	1994	1995	1996	1997	1998
Return on equity, %	10,4	1,9	12,9	27,0	22,5
Return on capital employed, %	13,7	5,7	16,1	29,2	28,1
Net indebtness ratio, %	37,8	58,4	19,9	2,3	-0,1
Solvency ratio, %	47,9	47,2	56,1	61,3	69,5
Current ratio	1,2	1,3	1,4	1,6	1,6
Investments , FIM thousands	24871	20956	12530	26677	28788
Investments / net sales, %	15,3	13,4	8,0	13,7	13,3
Own capital investment ratio	0,8	0,8	2,2	1,9	1,5
Research and Development expenditures, FIM thousands	5998	5637	4281	4016	5913
Research and Development/net sales, %	3,7	3,6	2,7	2,1	2,7
Personnel, on average	222	220	243	329	374

Key indicators per share

	1994	1995	1996	1997	1998
Earnings per share, FIM	4,42	0,97	6,94	13,19	13,22
Equity/share, FIM					
without soapstone resources	40,84	39,65	43,19	54,56	62,75
Nominal dividend/ share, FIM					
A-share	2,00	1,00	3,00	5,00	5,20 *)
K-share	1,80	0,80	2,80	4,80	5,00 *)
Dividend/ earnings, %	43,9	96,7	43,3	37,5	38,9
Effective dividend yield, %					
A-serie	2,5	3,2	6,2	5,3	4,5
P/E ratio	17,9	32,0	7,0	7,2	8,7
Issue-adjusted share prices of the A-share, FIM					
- average	89,15	48,15	41,12	81,74	114,00
- lowest	76,50	28,60	31,00	48,00	82,10
- highest	99,00	77,00	53,00	110,00	145,00
- issue-adjusted share price December 31	79,00	31,10	48,55	95,00	114,90
Market capitalization, FIM thousands (supposing that the market price of the K-share is the same as that of the A-share)	124210	48898	86044	168366	203634
Number of A-shares traded (1000 pcs)	274,5	148,7	505,2	1149,1	543,4
- % of the total amount	25,1	13,6	46,1	88,7	42,0
The average issue-adjusted number of all the shares	1572277	1572277	1638578	1772277	1772277
The issue-adjusted number of all the shares at the end of the year	1572277	1572277	1772277	1772277	1772277

*) According to the proposal of the board of directors.

Monthly Development of the Exchange of A-shares (FIM)



KEY FIGURES OF PROFIT DEVELOPMENT 1994-1998, IN EURO

Income statement (1000 €)	**1994**	**1995**	**1996**	**1997**	**1998**
Net sales	27398	26367	26238	32709	36482
Change %	17,6	-3,8	-0,5	24,7	11,5
Operating profit	2642	1027	2886	5616	5740
% of net sales	10,5	3,9	11,0	17,2	15,7
Financial items	-782	-753	-409	-181	-83
Profit before extraordinary items	1860	274	2477	5435	5657
(%) of net sales	6,8	1,0	9,4	16,6	15,5
Profit before taxes	-1480	274	2075	5632	5657
(%) of net sales	-5,4	1,0	7,9	17,2	15,5
Income taxes	-222	73	565	1504	1715
Minority interest	-39	56	-1	1	
Profit/loss for the year	-1296	257	1509	4129	3942

Consolidated balance sheet (1000 €)					
Assets					
Fixed assets	13348	14179	14645	15677	17338
Inventories	2458	2112	2391	2271	3020
Financial assets	6738	6019	5913	8576	6546
Liabilities					
Shareholders' equity	10799	10486	12873	16263	18705
Other items	17	35	1		
Interest bearing liabilities	6788	7780	5602	4166	2416
Non-interest bearing liabilities	4940	4009	4473	6095	5783
Total assets	22544	22310	22949	26524	26904

Sums in FIM hage been converted into euros using the approximate values given in the table.

Ratios

	1994	1995	1996	1997	1998
Return on equity, %	10,4	1,9	12,9	27,0	22,5
Return on capital employed, %	13,7	5,7	16,1	29,2	28,1
Net indebtness ratio, %	37,8	58,4	19,9	2,3	-0,1
Solvency ratio, %	47,9	47,2	56,1	61,3	69,5
Current ratio	1,2	1,3	1,4	1,6	1,6
Investments, 1000 €	4183	3525	2107	4487	4842
Investments/ net sales, %	15,3	13,4	8,0	13,7	13,3
Own capital investment ratio	0,8	0,8	2,2	1,9	1,5
Research and Development expenditures, 1000 €	1009	948	720	675	994
Research and Development /net sales, %	3,7	3,6	2,7	2,1	2,7
Personnel, on average	222	220	243	329	374

Key indicators per share

	1994	1995	1996	1997	1998
Earnings per share, €	0,74	0,16	1,17	2,22	2,22
Equity/ share, €					
without soapstone resources	6,87	6,67	7,26	9,18	10,55
Norminal dividend/ share, €					
A-share	0,34	0,17	0,50	0,84	0,87 *)
K-share	0,30	0,13	0,47	0,81	0,84 *)
Dividend/ earnings, %	43,9	96,7	43,3	37,5	38,9
Effective dividend yield, %					
A-serie	2,5	3,2	6,2	5,3	4,5
P/E ratio	17,9	32,0	7,0	7,2	8,7
Issue-adjusted share prices of the A-share, €					
- average	14,99	8,10	6,92	13,75	19,17
- lowest	12,87	4,81	5,21	8,07	13,81
- highest	16,65	12,95	8,91	18,50	24,39
- issue-adjusted share price December 31	13,29	5,23	8,17	15,98	19,32
Market capitalization, 1000 €					
(supposing that the market price of the					
K-share is the same as that of the A-share)	20891	8224	14472	28317	34249
Number of A-shares traded (1000 pcs)	274,5	148,7	505,2	1149,1	543,4
- % of the total amount	25,1	13,6	46,1	88,7	42,0
The average issue-adjusted number					
of all the shares	1572277	1572277	1638578	1772277	1772277
The issue-adjusted number of all					
the shares at the end of the year	1572277	1572277	1772277	1772277	1772277

*) According to the proposal of the board of directors.

Calculation of key ratios

Ratios

$$\text{Return on equity (ROE)} = 100 \times \frac{\text{profit before extraordinary items- income taxes}}{\text{shareholders' equity (average during the financial year)}}$$

$$\text{Return on capital employed (ROI)} = 100 \times \frac{\text{profit before extraordinary items + interest expenses and other financial costs}}{\text{balance sheet total-non-interest bearing liabilities (average during the financial year)}}$$

$$\text{Equity ratio, \%} = 100 \times \frac{\text{shareholders' equity}}{\text{balance sheet total- advances received}}$$

$$\text{Net indebtness ratio, \%} = 100 \times \frac{\text{interest-bearing net debt}}{\text{shareholders' equity}}$$

$$\text{Current ratio} = \frac{\text{financial assets+inventories}}{\text{current liabilities}}$$

$$\text{Own capital investment ratio} = \frac{\text{net cash flow from operating activities+ change in net working capital}}{\text{net investments}}$$

Key Ratios Per Share

$$\text{Earning/share} = \frac{\text{profit before extraordinary items-income taxes for the financial year}}{\text{average issue-adjusted number of shares for the financial year}}$$

$$\text{Equity/share} = \frac{\text{shareholders' equity}}{\text{issue-adjusted number of shares at December 31}}$$

$$\text{Dividend/share, \%} = \frac{\text{dividend paid for the year}}{\text{the issue-adjusted number of shares at the end of the year}}$$

$$\text{Dividend/earnings, \%} = 100 \times \frac{\text{dividend/share}}{\text{earnings/share}}$$

$$\text{Effective dividend yield} = 100 \times \frac{\text{issue-adjusted dividend/share}}{\text{issue-adjusted share price December 31}}$$

$$\text{P/E} = \frac{\text{issue-adjusted share price December 31}}{\text{earnings/share}}$$

The board proposal for distribution of the dividend

The profit of the parent company eligible for distribution as dividend is FIM 31.1 million, and that of the Group, FIM 40,3 million. The board of directors shall propose at the shareholders' meeting that the dividend per A share be FIM 5.20 and FIM 5.00 per K-share, totalling FIM 9.1 million.

Nunnanlahti, 23 February 1999

Reijo Vauhkonen   Bishop Ambrosius   Markku Laakso

Teppo Taberman   Mikko Vauhkonen   Matti Virtaala

Reijo Svanborg
Managing Director

Board members

Reijo Vauhkonen (59), Construction Engineer, Industrial Alderman, founder of the company. Member of the board of Kiviteollisuusliitto (the Finnish Natural Stone Association) and RTT (the Finnish Association of Construction Product Industries). Managing Director of the company 1980-1989 and chairman of the board since 1990. Fields of expertise include visions, company culture, finance and stock exchange matters, material resources.

Bishop Ambrosius (53), Bishop of the Orthodox Congregation of Oulu, Finland. Member of the board since 1992 and vice-chairman of the board since 1995. Fields of expertise include international affairs, enterprise ethics and culture.

Markku Laakso (50), Bachelor of Economics. General Manager of Oy Paletti Ltd. Board member since 1996. Fields of expertise include strategic planning, trends and distribution solutions.

Teppo Taberman (53) M.Sc., Economic Advisor, Vice Precident of Kansallis-Osake-Pankki from 1990 to 1994, numerous board memberships since 1982. Board member since 1996. Fields of expertise include new business, financing and stock market.

Mikko Vauhkonen (30), Officer at the Finnish Border Control Agency. Board member since 1998. Fields of expertise include personnel affairs.

Matti Virtaala (47), Engineer, General Manager of Abloy Oy. ASSA ABLOY AB Group Vice President. Board member since 1994. Fields of expertise include international affairs, product strategies and monitoring economic and administrative developments.

Auditors´ report

We have audited the accounting records, the financial statements and the corporate governance of Tulikivi Oyj for the financial period 1.1.-31.12.1998. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the Managing Director. Based on our audit we express an opinion on these financial statements and the corporate governance.

We have conducted our audit in accordance with the Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used as well as evaluating the overall financial statement presentation. The purpose of our audit of corporate governance is to examine that the members of the Board of Directors and the Managing Director have legally complied with the rules of the Companies' Act.

In our opinion the financial statements, which show a profit for the period of FIM 23,438,200.59 for the group, have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of the result of operations as well as the financial position of the group and the parent company. The financial statements including the consolidated financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the financial period audited by us. The proposal by the Board of Directors regarding the handling of the profit is in compliance with the Companies' Act.

We have examined the interim reports published during the financial period. In our opinion the interim reports have been prepared in accordance with the regulations in force.

Juuka, March 5, 1999

Price Waterhouse Oy
Authorized Accounting Firm

Hannele Selesvuo
Authorized Public Accountant

Information to the shareholders

Partial annual reports

Tulikivi Oyj will publish two partial annual reports in 1999: report on the period January-April on June 15 and report on the period January-August on October 6.

Share register

Tulikivi Oyj's shares have been transferred to a book-entry securities system. The shareholders' ledger is kept at the Finnish Central Securities Depository Ltd.

Annual General Meeting of Shareholders

Annual General Meeting of Shareholders of Tulikivi Oyj will be held in the Kivikylä auditorium at Nunnanlahti, Juuka on April 9, 1999, commencing at 9.00 a.m. The financial statement documents will be available for public inspection at the company's head office at Nunnanlahti as of March 24, 1999. Copies will be sent to shareholders upon request.

Any shareholder, who wishes to attend the Annual General Meeting of Shareholders, is requested to notify the company accordingly no later than 4 p.m. on April 4, 1999. Registration should be done by telephoning Ms Kaisa Toivanen or Ms Maija-Liisa Koivunen or by posting a written registration request to the company address 83900 Juuka. Any powers of attorney should be submitted at the time of advance registration.

Payment of Dividends

The Board of Directors proposes to the Annual General Meeting of Shareholders that dividend be paid for the fiscal year 1998 as follows:

on A-shares	FIM 5,20
on K-shares	FIM 5,00

Due to the transfer to a book-entry security system, dividend shall be paid to those shareholders who are, on the date of tallying, included in the shareholders' ledger kept at the Finnish Central Securities Depository Ltd. The Board has decided that tallying shall take place on April 14, 1999. The Board proposes to the Annual General Meeting of Shareholders that dividend be paid after the tallying period caused by the book-entry security system, i.e. on April 21, 1999.

The Germans have adopted Tulikivi as their own

The first phase of development
Germany is the oldest and most important export country for Tulikivi. Over the years, the quality aware Germans have grown to adopt Tulikivi as their own. A survey by Heinze suggests that Tulikivi is the third best known stove brand in Germany at the moment. This is quite an achievement when we bear in mind that Tulikivi entered the toughest market place in the whole of Europe with an unknown material and product.

In Germany, Tulikivi has an established and advanced sales and distribution organisation. Tulikivi has over one hundred outlets and twenty-one district importers in Germany. One of the district importers is Aichinger, established since 1978. The company used to focus primarily on the sales, design and professional building of tile stoves, fireplaces and open fireplaces, which were immensely popular at the time. Their own small showroom had a maximum of 15 stoves on display.

The company grew and developed all the time as sales volumes and brand coverage increased. The surging demand had to be met by hiring new employees and by expanding the showroom and production facilities of the company. Jürgen Aichinger sees producing nothing but top quality as the corner stone of the favourable development of the business.

Tulikivi and Aichinger

It was in 1987 when the Dutch partners of Tulikivi first visited Aichinger's and introduced some Tulikivi products. In 1991 after a brief testing phase, full-scale sales of Tulikivi products was launched at Aichinger's. The quality and efficiency of Tulikivi products are very well suited to the design and sales concepts adopted at Aichinger's. At the moment, Tulikivi stoves are the number one article at Aichinger's - something that goes to show how satisfied the end clients are with our products.

Tulikivi importer in Baden-Württemberg

Mr. Aichinger's company is the district importer for the whole of Baden-Württemberg region. To meet the importer requirements, Aichinger works in co-operation with several sales companies and uses the top experts in the industry to support trade fair operations and sales exhibition planning. In 1997 a new logistics solution was taken into use. The new system enables Mr Aichinger to provide his partnering companies with flexible and swift deliveries.

Computer Aided Design (CAD) has been one of the strengths at Aichinger's since the beginning of the nineties. Even the most demanding of the customers have appreciated design service provided by Aichinger and the order-to-fit service provided by Tulikivi which enable implementing unique stove solutions. Since October 1998 Aichinger has had their own Web site dedicated to sales promotion. Aichinger has successfully evolved to be a modern service company with the best possible readiness for the challenges of the next century.

Prospects

Jürgen Aichinger is the first to admit that intensive co-operation with Tulikivi required heavy investments in the past years. Tulikivi Oyj appreciates this kind of commitment on the part of its partners. We are sure that continuous, mutual co-operation gives good potential for increase in sales volumes and profit. Even though EC market area as a whole is stagnatory at the moment and the construction sector even declining, Jürgen Aichinger believes that sales of Tulikivi products will continue to increase.

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