# Annual Report 2005

Tulikivi Corporation

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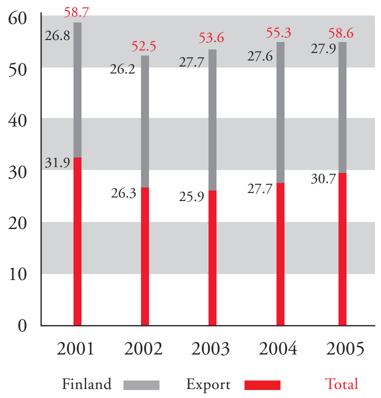
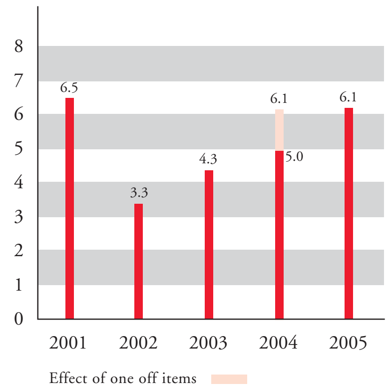
# The Year 2005 in Brief

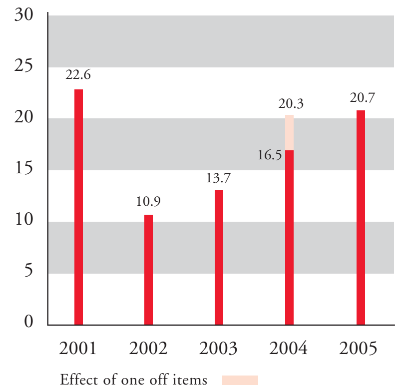
Development of Net Sales, MEUR



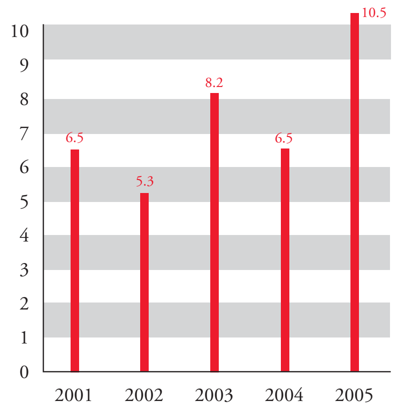

Profit before Income Tax, MEUR




Return on Investments, %




Net Cash Flow from Operating Activities, MEUR

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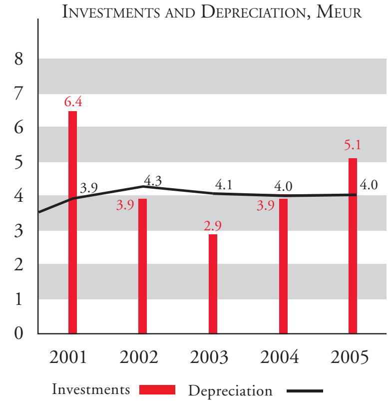


Solvency Ratio, %
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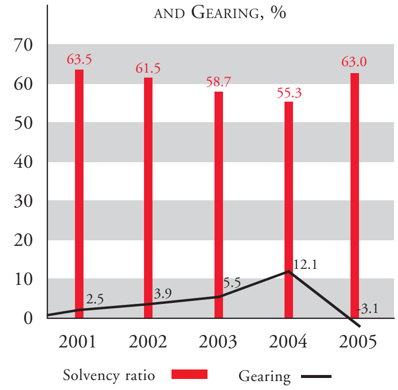
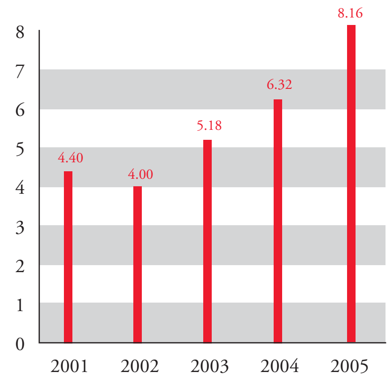
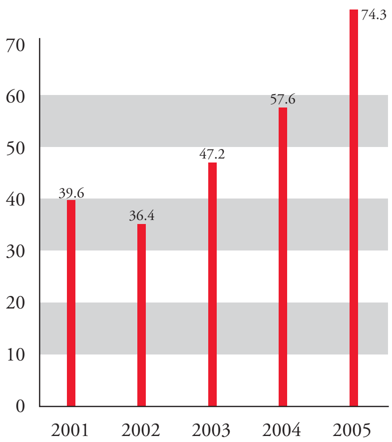



Share Price of the A share December 31, EUR




Market Capitalisation of Share Stock, MEUR




| | 2005 | 2004 | Change, % |
|---|---|---|---|
| Net Sales, MEUR | 58.6 | 55.3 | 6.1 |
| Profit before income tax, MEUR | 6.1 | 5.0 | 20.2 |
| Return on investments, % | 20.7 | 16.5 | |
| Net cash flow from operating activities, MEUR | 10.5 | 6.5 | 61.2 |
| Solvency ratio, % | 63.0 | 55.3 | |
| Earnings per share, EUR | 0.48 | 0.39 | 23.1 |
| Equity per share, EUR | 2.80 | 2.54 | 10.2 |
| Payment of dividend on | | | |
| A share, EUR | 0.280 | 0.230 | 21.7 |
| K share, EUR | 0.273 | 0.220 | 24.1 |

Calculation of key ratios, page 56

In the summary graph, the information for the year 2004 is comparable with the information for the year 2005. The difference compared to published figures is due to the non-recurring reduction of the disability pension obligation, amounting to EUR 1.2 million, due to the change in the pension system under the Employees' Pensions Act (TEL) (the effect is presented on pink in the graphs).

The information in the graphs for years 2004 and 2005 is presented in accordance with IFRS and the information for previous years in accordance with FAS.

The Tulikivi Group includes the parent company Tulikivi Corporation as well as Kivia Oy, AWL-Marmori Oy, Tulikivi U.S., Inc. and OOO Tulikivi Russia. Other Group companies are Tulikivi Vertriebs GmbH and The New Alberene Stone Company, Inc., which are no longer engaged in business operations. The Associate Company of Tulikivi Corporation is Stone Pole Oy.

# Tulikivi's Mission, Vision and Values

The world is changing. Companies need to be able to forecast the future with sufficient accuracy and react to signs according to the outlook. We have identified the following notable trends that will affect our success.

Heating energy is becoming more expensive and there is a growing need to be more economical with it. The price of oil remains high and emission limits raise the price of electricity. The use of bioenergy in heating will increase in the future, and society is supporting its use in a variety of forms.

Climate changes seem to be increasing the occurrence of extreme weather phenomena. In Europe, there have been breaks in energy distribution over large areas which have lasted for days. Fireplaces are not affected by disturbances in electricity distribution and therefore provide security.

More and more people value authenticity and the use of natural materials in construction is increasing. Thanks to its durability, natural stone has economical life cycle costs – another factor that supports its use.

People are focusing more than ever on home comforts. Interior decoration and landscaping are in fashion. People are prioritizing their free time and being with their families and friends.

End-to-end service is increasingly required and appreciated. Independent building is restricted by the way people use their time and a lack of expertise.

On the basis of this outlook, we have realigned the company's mission and vision. We also intend to think on a larger scale and harness greater business opportunities in the future.

## Our Mission

Tulikivi Corporation brings warmth and comfort to your home with high-quality branded products that sit well with your interior decoration. Our business areas are Fireplaces and Natural Stone Products.

We take environmental impacts into consideration in the design and manufacture of our products. Tulikivi seeks continuously to rack up good earnings, allowing investors to enjoy competitive dividends and increasing share value, and allowing employees to rest assured that their jobs are secure. What's more, their own earnings are linked to the company's financial result.

## Our Vision

Tulikivi's objective is to be the leading company specialized in branded heating products and natural stone products for homes in selected market areas. As they evolve, we will expand our operations into new product groups and new markets.

## Our Values

Tulikivi realizes its objectives by operating from a bedrock of values.

Courage is Tulikivi's most important value and is evident in the will and ability to make choices. We have the courage to believe in our own vision and face up to realities. We also have the courage to see things through.

Of all of Tulikivi's values, the one that most characterizes the company may well be entrepreneurship – consciously seeking to achieve results, committing to objectives and thinking with an eye on the future.

Tulikivi values its satisfied customers. We find out what our customers expect, listen to them, keep our promises and exceed their expectations.

Fair play is at the core of our operations. In practice, this means being honest to yourself and making sure that words are backed up by actions.

# Strategic Policies

## Strategic Objectives

The Tulikivi Group's aim is to achieve annual organic growth of five per cent. In addition, growth is sought through acquisitions. Another objective is to improve relative profitability by two percentage points per year such that return on investment is over twenty per cent.

The Tulikivi Group seeks sources of organic growth in the Fireplaces Business from new customer segments and new market areas. In the Natural Stone Products Business, growth is sought from consumer customers in Finland.

In the financial statement section of this Annual Report, the businesses are referred to as the Fireplace Business and the Architectural Stone Business, as those were the official names of the businesses in 2005. In the rest of the Annual Report, they are referred to as the Fireplace Business and the Natural Stone Products Business in accordance with Tulikivi's strategy for 2006. In other words, the Architectural Stone Business was renamed the Natural Stone Products Business as from the beginning of 2006.

## Tulikivi Brand

We bolster the Tulikivi brand. A strong brand establishes a good foundation for successful business. We focus on one brand in both the Fireplaces and Natural Stone Products businesses in all market areas. The Kivia brand was abolished in Finland at the end of 2005.

## New Customers

We expand systematically into new customer groups and markets. In addition, we employ segmentation to boost marketing effectiveness. In 2006, we will launch the first stage of the next generation of Tulikivi fireplaces. Product design caters more clearly to the needs and wishes of different customer segments. Of our new market areas, we will zero in on Russia and the Baltic countries during the next few years. In addition, we are assessing opportunities for venturing into countries that are as yet not Tulikivi territories.

## Leading Product and Service Concept

We develop a leading, customer-focused product design, technology and service concept. The appearance and functionalities of the next-generation fireplaces that will be unveiled in 2006 will meet the needs of even the most demanding customers. Natural Stone Products will make further outlays on developing a natural stone product service concept for consumers.

## Expanding the Distribution Network

We expand and improve our cooperation and distribution network. Stepping up distribution efficiency in our existing market areas is our constant challenge and the lifeblood of our competitiveness. To do this, we must maintain the professional skills of salespeople and seek new types of distribution solutions, to name but two of the necessary steps. In Finland, we work on building the natural stone product distribution channel for consumer customers and expanding our distribution operations as a whole with a view to operating across a number of channels. Setting up distribution in new areas plays a key role in exports, as does completing the re-building of distribution in Germany, one of our traditional market areas.

## Efficient Manufacturing

We hone competitiveness by improving our quality and manufacturing technology, and developing efficiency in productivity and sourcing. In order to maintain competitiveness, it is vital to continuously upgrade quality and production efficiency. All of Tulikivi's factories employ the ISO9001 certified quality system.

## More Value Added

We increase value added and commercialize leftover stone and small blocks to improve our stone supply. The Tulikivi Group does not sell stone as a raw material. Rather, we process the products to the highest degree possible. The optimal use of raw materials in production is a constant challenge. New cutting technology enables the more precise use of the quarried stone. In addition, the leftover stone from production is used to manufacture products such as paving stones.

## Ensuring Raw Material Reserves

Currently, Tulikivi possesses explored soapstone reserves that will last for about 65 years, the sufficiency being calculated in terms of the company's present production rate. Tulikivi's strategic objective is to further increase the reserves of high-quality soapstone. New deposits are sought and explored continuously.

## Management Expertise

We ensure that our personnel and partners are committed to carrying through our objectives. We hone our management skills and both the competence and motivation of our personnel. We have launched Tulikivi's Way of Working, which includes actively developing managerial work and committing personnel to our shared objective.

# Growth Momentum from New Market Areas and the Price of Energy

The year now ended was one of our all-time best thanks to surging growth and the development of our functions. Revenue and profitability developed in line with our objectives. A particular factor driving growth was the positive trend in new market areas. The upswing in sales in Germany also laid a foundation for growth. The fireplace industry in all of Europe benefited greatly from the rising price of energy.

## Thrust of Exports on Russia and Germany

In fireplace exports, Tulikivi's measures focused on Russia, where groundwork has been under way for several years. Russians are familiar with heat-retaining fireplaces, and the country's customer potential is on the rise on the heels of the fast-paced increase in affluence. We expanded our distribution network in St Petersburg, Moscow and other cities with over a million inhabitants. Sales doubled in Russia. The subsidiary OOO Tulikivi Russia was set up to attend to this developing business.

We overhauled our distribution system in Germany. At the beginning of the year, the two-tier importer model was dismantled and reorganized into a single tier, and we also started appointing our new partners in cooperation. During the report year, we gained close to 20 new sales outlets. At the same time, sales swung to growth after four years of decline. Moreover, in the report year the fireplace market in all of Germany recovered after many sedate years.

The French government included our fireplaces in the scope of its energy subsidies, kicking off buoyant sales growth. Our importer's long-term efforts in Belgium kept bearing fruit: rising sales. We continued to enjoy favourable and rapid development in Estonia, and opened a new store in Latvia with a new cooperation partner. The trend in sales was also favourable in Switzerland, Austria, Italy and North America. Only in Sweden and Norway did we underperform our budgetary objectives. Reorganization measures have already been started up in these countries.

## Both Businesses Boosted by the Market

Brisk construction of single-family houses and the high cost of heating energy increased the fireplace market in Finland. Tulikivi's growth followed that of the market. In our marketing, we zeroed in on the Tulikivi brand and successfully beefed up Tulikivi's image with the "It's Such a Cold, Cold World" television campaign.

In the Natural Stone Products Business, we have decided to concentrate on the domestic market. We focus on natural stone products for homes as well as the development of the service concept and distribution. We still supply stone products for construction sites, but no longer engage in contracting. Tulikivi is now the market leader in natural stone products for homes. Interior decoration stones saw growth of one-third and profitability improved significantly.

## Sustained Development Efforts Continue

The main thrust of product development was on the next generation of fireplaces. The new products will be unveiled at the international fireplace fair in Verona, Italy, in March 2006. During the year now ended, we launched a new Previo coating for our fireplaces, expanding the range of soapstone colours. Tulikivi holds proprietary rights to this concept.

In the Natural Stone Products business, we carried on with the development of the product concept. For instance, we created a colour planning guide to help consumers in their choice of stone. It shows how well different types of stone and

”THE YEAR 2005 WAS ONE OF OUR ALL-TIME BEST.”

wood go together, as well as which fixing and grouting pastes are suitable for each stone. The concept also includes natural stone cleaning and care products in the Tulikivi Care product family.

## Greater Capacity and More Precise Use of Raw Materials

At the turn of 2005 and 2006, Tulikivi Corporation's Board of Directors made a decision to invest in the construction of a new production plant in Juuka. The investment is geared towards the efficient and high-quality manufacture of new Tulikivi products. The production plant increases Tulikivi fireplace production capacity and will enable revenue growth of close to ten million euros over the next few years.

The new production plant will mainly use leftover small blocks that, due to their size or shape, cannot be used efficiently in the present production lines. The unused small blocks accumulated during the company's history can now be utilized. This will also have positive environmental effects.

## Permit for the Utilization of Soapstone in the Republic of Karelia

The Russian Federation and the Republic of Karelia granted OOO Tulikivi Russia a permit for the utilization of soapstone deposit in the Medvezhyegorsk area. In addition to prospecting rights, the permit covers the rights for industrial utilization and is valid until the end of 2030. The soapstone deposit in the Medvezhyegorsk area is expected to be of considerable size. Based on the results of further studies, Tulikivi Corporation will decide on the industrial utilization of the area's stone deposits.

## Focus Areas in 2006

In order to achieve our growth objective, we will continue to make outlays on the further development of operations and the distribution network in new market areas, especially Russia. The overhaul of our German business is ongoing, with the distribution network being expanded. The launch of the new Tulikivi collection and marketing concept in the summer represents one of our main measures in 2006.

In Natural Stone Products, we will continue to devote considerable efforts to the development of the interior decoration stone concept and the expansion of distribution in the domestic market. Paving stone products will be more prominently featured in our product range. Our main steps in the management of raw materials and production involve the factory investment decision and the exploration of new soapstone deposits.

I would like to extend my warmest thanks to all our customers, employees, partners and interest groups for making 2005 a good year.

Juuka January 10, 2006

Juha Sivonen
Managing Director

1. During the summer, custom-made Tulikivi fireplaces were on display to large audiences in several show homes at the Airisto Holiday Housing Fair 2005.

# Fireplaces

Tulikivi's Fireplaces Business comprises soapstone quarrying, production, design, sales and marketing. Our products are soapstone fireplaces, bakeovens, cook stoves, custom-made products and sauna stoves. In addition, we supply soapstone lining stones to European heater manufacturers. Our production plants and soapstone quarries are located in Juuka, Suomussalmi and Kuhmo. In 2005, Tulikivi was still the market leader in industrially produced heat-retaining fireplaces in Europe.

## Finnish Market

About half of fireplace sales are made for newly built houses and half for installation in renovation projects. Soapstone has maintained its position very well as a fireplace material in both renovation and holiday home construction. The rise in energy prices has supported demand for Tulikivi fireplaces in Finland during the year now ended.

In 2005, a new generation of single-family homebuilders has been inspired with the "It's Such a Cold, Cold World" advertising campaign. New products have also been launched for this customer segment, such as the Previo coated Stellaria Novus fireplace. In 2006, new products will also be launched with an eye to this segment.

Tulikivi continued its single-brand strategy by phasing out the Kivia brand at the end of 2005.

## Export Markets

Tulikivi's export countries are Germany, France, Belgium, Sweden, Russia, Estonia, the United States, Canada, Switzerland, Austria, Italy, Norway and the Netherlands.

During the present year, the company changed to single-stage distribution in Germany. Two new field sales representatives were also hired. The distribution channel upgrade has been a success, and the year's budget target was reached.

Tulikivi's total sales in continental Europe increased by about 15 per cent during the report year. In addition to Tulikivi's own operations, rising energy costs and the energy subsidies granted in some countries, like France, have also contributed to this increase. Subsidies have been granted to purchases that improve the energy efficiency of homes.

At the end of the year, Tulikivi established a wholly-owned subsidiary, OOO Tulikivi Russia, domiciled in St Petersburg in Russia. Proactive marketing and advertising were carried out in Russia, and work to build distribution channels will continue. Tulikivi's sales in Russia and CIS countries more than doubled during the report year.

## Lining Stones for Stove Businesses

Tulikivi makes lining stones for the largest European stove manufacturers. The markets of our lining stone customers are largely those segments in Germany and the Nordic countries in which there is no demand for heat-retaining fireplaces. Tulikivi has a more than 50 per cent share of the lining stone markets.

## It's Such a Cold, Cold World.

During the report year, Tulikivi focused on brand advertising in Finland with the "It's Such a Cold, Cold World" campaign. The campaign was seen on television and in print, and was also visible on the company's website and in its stores, as well as in other marketing materials. The campaign aimed to increase recognition of the Tulikivi brand and to make it stand out more clearly from other manufacturers in the industry. It also sought to strengthen the company's position as market leader. The brand's target image is one of warmth, quality and tenderness.

The advertising campaign was a huge success. The number of potential customers increased by over 40 per cent during the campaign and, according to an image survey, recognition of the Tulikivi brand had also grown.

## Cutting of Small Blocks Maximizes Supply

Tulikivi has invested in the new block cutter process for cutting small blocks at its custom-made products factory. The investment will increase flexibility in stone processing. With its help, blocks that could not previously be used due their size or shape can now be effectively turned into stone plates of different widths and thicknesses for further process-ing. Optimizing economical use of small blocks is part of Tulikivi's strategy for ensuring its raw material reserves over the long term.

## New-look White Soapstone Fireplace with the Previo Coating

In spring 2005, Tulikivi launched a product that breaks new aesthetic and technical ground – the Previo coated Stellaria Novus fireplace. The fireplace combines soapstone's superior heating properties with a broad and level white surface. Unlike tile-clad fireplaces, its design is not restricted by the sizes of tile available. The Previo coated fireplace caters to consumers who like their fireplace to be white. The Previo coating can also be used for custom-made fireplaces and will appear in other new products in the future.

## Product Development for 2006 Ready

Tulikivi's product development department has done extensive groundwork for a new collection to be launched in 2006. The first prototypes for the new collection will be presented at the Verona fair in spring 2006.

The new models are oriented towards different customer segments on the basis of extensive market research. The models with a more classic design are geared towards customers who see the heat-retaining and other technical aspects of a fireplace as most important. The more modern designs are meant for customers who focus more on interior decoration. Our custom-made service is for those consumers who want to express their individuality.



1. Soapstone mosaic tiles with a brick pattern liven up the floor. Soapstone is very suitable for moist areas, because it is not slippery when wet and retains heat well. On the walls: Cloudy Grey marble mosaic tiles.

2. The kitchen's Azul Cascais limestone countertop sits in stylish harmony with the Cloudy Grey marble mosaic tiles in the background.

# Natural Stone Products

Tulikivi Corporation's Natural Stone Products Business comprises household interior decoration stone products and deliveries of stone materials for construction sites, plus the procurement, sales, after-sales, marketing and commercialization of natural stone. Tulikivi sells household interior decoration stone products and makes deliveries of stone materials to construction sites. The products are made of soapstone, granite, marble, limestone and other natural stones. The interior decoration stone products are suitable for various household uses, such as for the kitchen, the bathroom, floors, stairs and wall tiling – and as architectural stones, too. For landscaping, we offer cladding of dry walls and plinth stones, garden benches and landscaping slabs. Tulikivi has its own production plants for natural stone products in Taivassalo and Vinkkilä as well as a stone works in Espoo. Soapstone products are manufactured in Juuka and Suomussalmi. The business area for Natural Stone Products is Finland.

## Finnish Market Leader in Interior Decoration Stones

During the year now ended, Tulikivi became the market leader in Finland in interior decoration stones. In terms of revenue, Tulikivi's sales of interior decoration stones have increased by over 40 per cent during the report year. The Finnish interior decoration stone market has grown by about 15 per cent in this time. The greatest growth has been achieved thanks to new products and new partners in cooperation. A strong emphasis on advertising has also done its bit to increase demand. Proactive efforts by interior designers and architects have also brought results, especially with single-family houses in the Greater Helsinki Area.

Tulikivi has devoted considerable efforts to forging an end-to-end concept for its consumer-oriented Natural Stone Products Business. The concept comprises proactive sales, measurement, manufacture, installation, punctual delivery times, after-sales marketing, high quality, a colour planning guide with stone samples, mounting and grouting mortars and cleaning and care products.

"IN TERMS OF REVENUE, TULIKIVI'S SALES OF INTERIOR DECORATION STONES HAVE INCREASED BY OVER 40 PER CENT DURING THE REPORT YEAR."

## Moving Forward with the Same Strategy

Natural Stone Products' main strategy is still to grow and improve profitability. Our greatest efforts are directed towards interior decoration stones, where we are continuing our consumer-driven commercialization. We are also continuing to develop our distribution channels for interior decoration stones by acquiring new partners in cooperation, such as kitchen and interior decoration stores, prefab house companies and professional architects. Production efficiency is also being raised by higher effectiveness in loading and balancing out seasonal variations. Soapstone is at the forefront of marketing.

# An End-to-end Concept – from a Colour Planning Guide to Care Product

Tulikivi is now serving its customers better than ever before when it comes to planning their interior decoration in its entirety. We give ideas on how to combine interior decoration stones with different types and shades of wood, and on which colour of grouting suits each stone the best. If you want to use more than one type of natural stone, the racks of interior decoration stones on show in the Tulikivi Showrooms and our colour planning guide will help you choose. The racks contain examples of stones that go well together. The showrooms also have grouting and wood examples, so you can try out different combinations yourself using the actual materials.

Architects and interior designers have also not been forgotten. For them, we have put together folders that conveniently go through the entire Tulikivi product range and the custom-made and special order options. Tulikivi now also has stone sample boxes used to market interior decoration stones to industry professionals.

Natural stone can conveniently be cared for and cleaned with the Tulikivi Care product family. The series was launched in autumn 2005 and includes four products. There are two protective products: Tulikivi Care Protectant 1 for polished and Tulikivi Care Protectant 2 for honed stone surfaces. There are also two cleaning products: Tulikivi Care Cleaning Agent 1 is suitable for regular cleaning and Tulikivi Care Cleaning Agent 2 is for surfaces that get very dirty.

# Product Range Extended to Include Paving Stones

In 2005, Tulikivi brought to market its own range of paving stones. The paving stones are suitable for a variety of uses – garden paths, plinths, walls, patios and terraces. Tulikivi's cobblestones and kerbstones have a natural-looking, rough surface. The granite cladding stands up well under hard wear and can be used for cladding dry walls, plinths and perimeter walls. The range comprises cladding and coping stones.

The rough-surfaced Tulikivi Classic soapstone has almost unlimited landscaping uses. The stone is suitable for terracing, fountains and steps, for example. Our range of paving stones includes a selection of six different soapstone landscaping slabs – from round stones to triangular ones. Classic grey is easy to combine with other colours. Proactive marketing of paving stones will start at the beginning of 2006.

# Construction Company Partner Invites Tulikivi into the Kamppi Project

Cooperation with the construction company SRV Viitoset Ltd brought Tulikivi an extensive contract for the interior decoration of the private apartments built in Kamppi, Helsinki. The contract covered the delivery of fireplaces and flues, as well as a large order for bathroom and kitchen countertops for a total of 99 apartments. The owners of the new apartments were able to choose either PG Black or Mäntsälä Aurora granite for their countertops. Tulikivi carried out all the installation work itself, and the company's representative participated in weekly construction site meetings.

The Kamppi project is a good example of Tulikivi's proactivity with partners in cooperation. Tulikivi seeks to further expand its network of partners with, for example, construction companies, and interior designers' and architects' offices.

1. Tulikivi puts the emphasis on quality in its products. The company is the only fireplace manufacturer in Finland to have been awarded the ISO9001 quality certificate. The countertops in the show kitchen are made from Kuru Grey granite. The Salla 2 fireplace is one of the new models for 2005.

# Corporate Responsibility

Tulikivi acts responsibly towards its interest groups and society at large. We consider expectations of Tulikivi and assess how we measure up to them. Our most important interest groups are our personnel, shareholders and partners in cooperation both in Finland and abroad.

Operations are guided by the company's code of values: satisfied customers, entrepreneurship, fair play and courage. Tulikivi complies with laws and statutes in its operations. Corporate responsibility comprises financial responsibility, environmental responsibility, social responsibility and community spirit.

## Financial Responsibility

Tulikivi's business strategy comprises controlled growth, efficiency and renewal, and thus good profitability, which jointly lay the foundation for responsibility.

As its financial objective, Tulikivi has its sights on growth and improved profitability. The sources of organic growth are new products, boosting distribution efficiency and expansion into new market areas. Acquisitions are carefully considered.

Capital management is enhanced by means such as increasing capital turnover rates. We seek to make investments that repay themselves quickly. Tulikivi's objective is to grow and evolve in a controlled manner to ensure the undisturbed continuity of business operations. The most important benchmarks of financial responsibility are the development of revenue and relative profitability. These, and other benchmarks of business profitability, are reported on in the financial statements and interim reports. The result of operations is reported on simultaneously, honestly, openly and in compliance with legislation.

Growth and good profitability also improve well-being and success amongst interest groups. By keeping the company's finances on a solid footing, Tulikivi can provide its shareholders with steady returns and fulfill its obligations as a responsible employer.

Tulikivi follows an active dividends policy. The cornerstones of the shareholder policy are growth, steadily rising share value and yield, and fostering our corporate image and individuality. In accordance with the shareholder policy, the company pays out a dividend equaling about one half of its annual earnings, while keeping its equity ratio at no less than 40 per cent.

Tulikivi generates financial well-being not only for its shareholders, but also its personnel. Financial stability and growth lay the foundation for creating and keeping jobs. Part of the profits is distributed to employees as incentive pay.

## Environmental Responsibility

Tulikivi is mindful of the environmental impacts of its business operations in both the sourcing of raw materials and production. A significant share of the company's environmental business supervision is based on environmental legislation. Quarrying has environmental impacts, and these are seen to in the manner set forth in, for instance, the Mining Act, environmental legislation and the operating permits granted to the company. In accordance with Tulikivi's environmental strategy,


2. One of Tulikivi's values is satisfied customers.

the economical use of natural resources is important, as is the management of quarrying and production processes.

In product design, we seek to develop products that are as environmentally friendly as possible. The products must be safe to use and place a minimal burden on the environment.

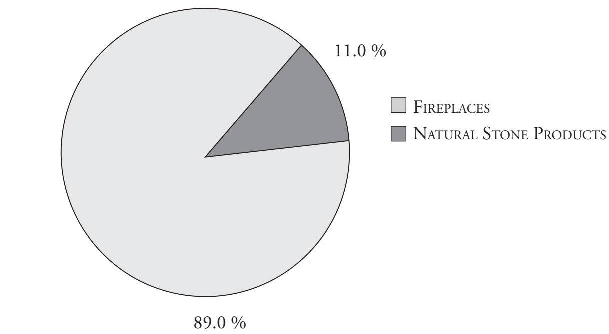
The materials used in the products are tested regularly. The emissions of Tulikivi fireplaces already fall below the world's strictest norms (Austria).

The safety and quality of both products and operations are specified in the company's quality policy. Tulikivi is the only fireplace manufacturer to have been granted an ISO9001 quality certificate.

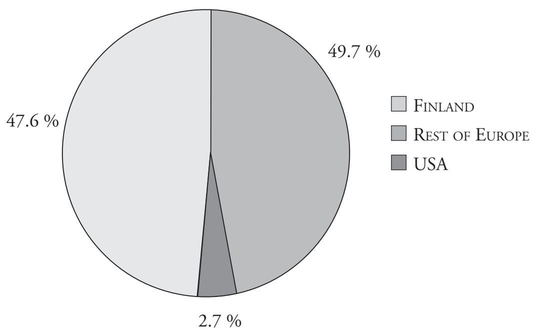
All of Tulikivi's business operations hinge on the possession of sufficient stone reserves. The company keeps pace with its continuous financial growth by seeking stone reserves and ensuring their adequacy. Currently, Tulikivi possesses explored soapstone reserves that will last for about 65 years, the sufficiency being calculated in terms of the company's present production rate. Tulikivi's strategic objective is to further increase the reserves of high-quality soap-stone. New deposits are sought and explored continuously.

Tulikivi seeks to minimize leftover stone in the utilization of its natural stone reserves. New products and more efficient methods are continuously under development for the utilization of small blocks and leftover stone. In 2006, Tulikivi Corporation will bild a new factory in Juuka that will use this state-of-the-art technology. Soapstone mosaics and paving stones are just two examples of the company's new products.

Net Sales per Business Area, %




Net Sales per Geographical Area, %




1. Tulikivi has worked hard with educational institutions to develop training in the stone industry.

## Social Responsibility

Social responsibility is founded on Tulikivi's values and ethical approach. Social responsibility is evident not only in the personnel strategy, but also the choice of partners. Tulikivi's distribution channel abroad primarily comprises family businesses whose operations are largely based on the same values as Tulikivi's. In our customer relations, we wish to engage in long-term and confidential cooperation with a view to achieving mutual satisfaction and success. It is important to uphold continuous dialogue between goods suppliers, customers and other interest groups. Training key interest groups – such as fireplace installers, importers and retailers – is an integral part of cooperation. This enables us to ensure that the chain of expertise is unbroken all the way to the end customer.

Tulikivi's personnel strategy is of heightened importance in its social responsibility. The management of human resources is geared towards the achievement of growth and success in line with the business strategy. Operations aim to create an inspiring workplace where employees can grow. To this end, and to foster personnel well-being, the company maintains an open and honest organizational culture. During the year now ended and the previous year, particular focus areas in personnel development have been supervisor coaching for management and honing expertise in the organization. One example of this is a vocational degree in stoneworking, which is the vocational basic education in the field. Tulikivi has participated strongly in developing the teaching of stoneworking in association with educational institutions.

In addition, an equality plan was drafted for Tulikivi in 2005. The plan aims to promote equal opportunity for men and women to enjoy self-improvement, have access to education and advance in their careers, as well as gender equality in their terms of employment, wages and salaries. We also wish to promote equal opportunities for men and women to harmonize working and family life and prevent discrimination on the basis of gender.

Employees' opinions on the organization's culture are assessed at regular intervals. Development steps are taken on the basis of the results. Other benchmarks of social responsibility are the amount of sick leave taken as well as the funds used for healthcare, occupational well-being, training and recreation.

## Community Spirit

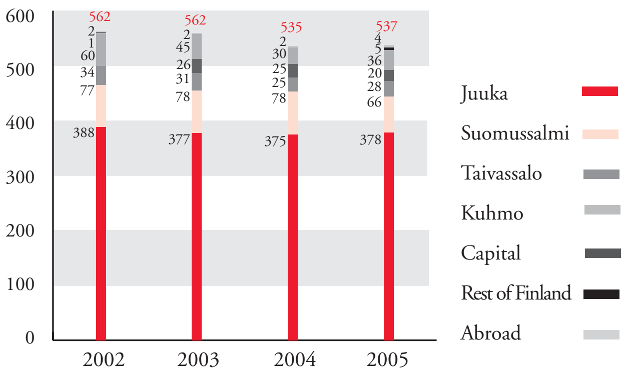
Tulikivi has strong roots in Northern Karelia and plays an active social role. Tulikivi employs over 500 people, primarily in distant regions, thereby fostering welfare in smaller municipalities. The company is a major employer and nurtures communities such as Juuka, Suomussalmi, Kainuu and Taivassalo. Being local is an important part of Tulikivi's identity.

As a leading stoneworking company, Tulikivi seeks to be actively involved in developing its field of business as a whole. Tulikivi is a member of the Finnish Natural Stone Association and participates in its joint projects. Tulikivi provides support for the Finnish Stone Centre, which aims to increase the use of stone and develop technical stoneworking expertise. The Stone Centre has four main missions: raising the profile of stone, stone research, teaching stone construction and encouraging entrepreneurship in the stone business.

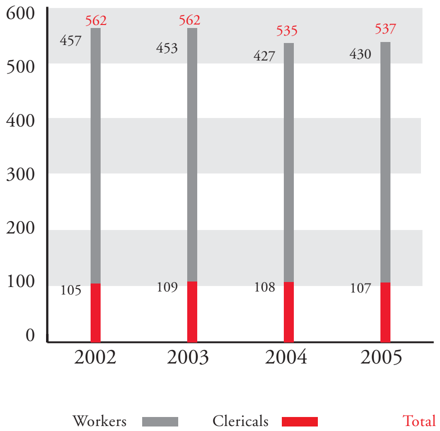
Tulikivi is also a member of numerous organizations such as: the Confederation of Finnish Construction Industries, the Federation of Finnish Enterprises, Finnbio – the Finnish Bioenergy Association, Family Business Network Finland, the Finnish Chamber of Commerce, Finnpro, TTS Institute (Work Efficiency Institute), North Karelia's Enterprise Agency, Sisäilmayhdistys (the Indoor Air Association of Finland), Kiviteollisuusliitto (Finnish Natural Stone Association) and Euroroc.


2. The Finnish Stone Centre, which is supported by Tulikivi, has four main missions: raising the profile of stone, stone research, teaching stone construction and encouraging entrepreneurship in the stone business.

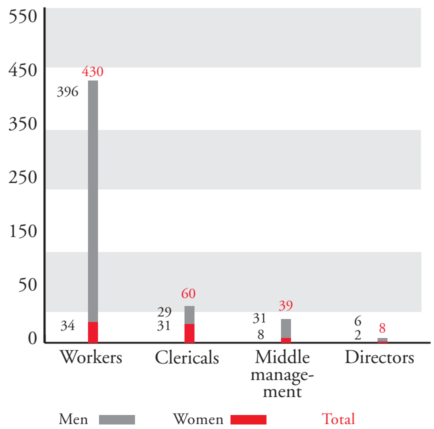
GEOGRAPHIC DISTRIBUTION, DECEMBER 31



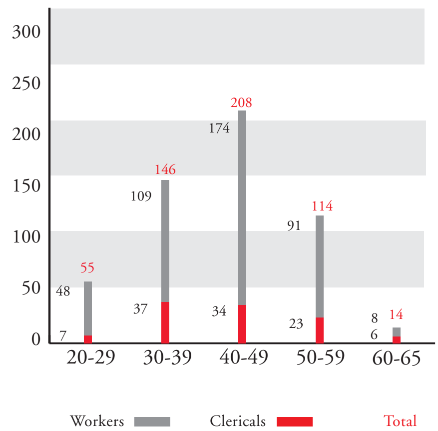

TOTAL PERSONNEL, DECEMBER 31




GENDER DISTRIBUTION 2005




AGE DISTRIBUTION 2005



1. The block cutter that was introduced at the custom-made plant in the year now ended boosts the efficiency of soapstone processing.

# Risk Management

At the Tulikivi Group, risk analysis and risk management are part of the strategic planning process. Tulikivi has assessed the major strategic and business risks in terms of their probability and potential impact. After their analysis, means of preventing and controlling risks have been overviewed on the basis of their impact and the cost-effectiveness of the measures taken. Risk analysis contributes to the strategic choices of our company and the annual action plans.

Tulikivi's Board of Directors is responsible for the Group's risk management. The Managing Director and the Management Team are responsible for establishing risk management procedures. They take risks into account in strategic planning. The business units are responsible for the management of their business risks.

## Strategic Risks

Strategic risks are related to the nature of business operations and concern, but are not limited to, raw material reserves, amendments to laws and decrees, and general changes in the economic and market situation.

**Risks of the Management of Soapstone Raw Materials**

Tulikivi manages extensive reserves of soapstone raw materials, which we process into high-quality end products for our customers. The raw materials are natural materials. Their texture and yield percentage vary by quarry. Risks are posed by potential competitors in raw materials on a global scale and soapstone deposits held by parties other than Tulikivi. Currently, Tulikivi possesses explored soapstone reserves that will last for about 65 years, the sufficiency being calculated in terms of the company's present production rate. Tulikivi's strategic objective is to further increase the reserves of high-quality soapstone. New deposits are sought and explored continuously, and the adequacy of the stone is increased by using the raw material as precisely as possible. Tulikivi also manages the competition risks of its raw materials with unbeatable, highly processed soapstone products as well as with its strong total concept and Tulikivi brand.

**Changes in Legislation**

About half of the fireplaces manufactured by Tulikivi are exported, primarily to continental Europe, Russia and the United States. Sudden changes in product approval in these countries, such as in the case of particulate emission limits, might affect the sales potential of Tulikivi products and restrict their use. Another legislative risk is the tightening of the requirements of environmental permits for quarrying.

We keep abreast of the development and preparation of regulations and exercise an influence on them both directly and through regional fireplace associations. In addition, our product development takes a long-term approach to ensuring that Tulikivi products measure up to local regulations. We secure product approval for our products in all our business countries.

**Changes in the Market Situation**

The fireplace cultures in Tulikivi's market areas range from countries where traditional heat-retaining fireplaces are preferred

2. A custom-made model designed for export. Tulikivi puts considerable effort into understanding its customers' needs and meeting them with, for example, the continuous development of products for new customer segments.

to countries with strong stove traditions. Globalization leads to a shift in the fireplace cultures of our business countries, too. In general, this is quite a slow process. Tulikivi focuses on understanding the needs of customers and meets them by, for instance, continuously developing products for new customer segments. Engaging in business in close to 20 countries balances out possible sales risks due to cyclical variations in the economy.

If it so happens that a competitor acts unethically, this may lead to a change in the market situation – which Tulikivi can influence through the openness, honesty and timeliness of its own communications.

## Business Risks

Business risks are connected to products and processes in line operations.

### Product Liability Risks

We reduce potential product liability risks by developing the products for optimal user safety. We ensure that the product and service chain spanning from Tulikivi to the customer is hitch-free and knowledgeable, such as by providing training for retailers and installers as well as ensuring that the terms and conditions of sale are precise. We also seek to protect ourselves against product liability risks by taking out product and business liability insurance policies.

### Operational Risks

Operational risks are related to the consequences of human activities, failures in internal company processes or external events. The operational risks of factory operations are minimized by means such as compliance with the company's operating manual and systematic development efforts. Boosting operational efficiency, controlled change and effective internal communications serve as means of managing both these risks and information management risks.

## Financial Risk Management

Financial risk management is presented on page 48 of the notes to the consolidated financial statements.

Tulikivi's Board of Directors from left to right: Matti Virtaala, Aimo Paukkonen, Eero Makkonen, Heikki Vauhkonen, Reijo Vauhkonen, Bishop Ambrosius and Juhani Erma.

# Tulikivi Corporation's Board of Directors

## Matti Virtaala

Chairman of the Board (b. 1951).
B.Sc. (Eng.), Managing Director of Abloy Oy. Member of the Board of Directors of Tulikivi Corporation since 1994, Chairman of the Board since 2003.
Other key positions of trust: Board Member of Etteplan Oyj, Board Member of Exel Oyj.
Tulikivi Corporation share ownership:
Series K shares 340 000
Series A shares 264 723

## Reijo Vauhkonen

Vice Chairman of the Board (b. 1939).
M.Sc. (Civil Eng.), founder of the company. Managing Director of Tulikivi Corporation from 1980 to 1989. Full-time Chairman of the Board from 1990 to 2002.
Other key positions of trust: Member of the Supervisory Board of Fennia Mutual Insurance Company, Chairman of the Board of Directors of the Juuka Stone Museum and Stone Village Foundation, Member of the Board of Directors of the Finnish Natural Stone Association, Board Member of the Product Industry Division of the Confederation of Finnish Construction Industries RT, Vice Chairman of the Board of Stone Pole Oy, President of Euroroc, the European and International Federation of Natural Stone Industries, during Finland's presidency from 2004-2005.
Tulikivi Corporation share ownership:
Series K shares 713 125
Series A shares 326 548

## Bishop Ambrosius

(b. 1945).
Bishop for the City of Helsinki Orthodox Diocese. Member of the Board of Directors of Tulikivi Corporation since 1992.
Other key positions of trust: Chairman of the Board of the Banking Sector Customer Advisory Office.
Tulikivi Corporation share ownership:
Series A shares 2 973

## Juhani Erma

(b. 1946).
LL.Lic. (trained on the Bench), Senior Advisor for law firm Borenius & Kemppinen. Member of the Board of Directors of Tulikivi Corporation since 2000. Secretary of the Board of Tulikivi Corporation since 2003.
Other key positions of trust: Vice Chairman of the Board of Turvatiimi Oyj, Vice Chairman of the Board of Endero Plc, Chairman of the Board of Stromsdal Oyj, Chairman of the Board of Atine Corporation, Secretary and Vice Chairman of the Board of Directors of the Juuka Stone Museum and Stone Village Foundation, Vice Chairman of the Board of Directors of Silmäsäätiö (the Finnish Eye Foundation), Member of the Supervisory Board of the Mortgage Society of Finland, Member of Hallitusammattilaiset ry (the Finnish Association of Professional Board Members).
Tulikivi Corporation share ownership:
Series A shares 5 973

## Eero Makkonen

(b. 1946).
B.Sc. (Eng.). Member of the Board of Directors of Tulikivi Corporation since 2002.
Other key positions of trust: Chairman of the Board of Rapala VMC Corporation.
Tulikivi Corporation share ownership:
Series A shares 2 973

## Aimo Paukkonen

(b. 1941).
B.Sc. (Eng.). Managing Director, Chairman of the Board of Olena Oy. Member of the Board of Directors of Tulikivi Corporation since 1999.
Other key positions of trust: Member of the Board of Lujatalo Oy, Member of the Board of Lujabetoni Oy, Member of the Board of Fodesco Oy.
Tulikivi Corporation share ownership:
Series A shares 8 973

## Heikki Vauhkonen

(b. 1970).
LLB and BBA. Marketing Director of Tulikivi's Fireplace Business. Member of the Board of Directors of Tulikivi Corporation since 2001.
Tulikivi Corporation share ownership:
Series K shares 724 375
Series A shares 25 563

Tulikivi Corporation and its subsidiaries comply with the recommendations on the Corporate Governance of listed companies that were released by the Helsinki Stock Exchange, the Central Chamber of Commerce and the Finnish Confederation of Industry and Employers TT and which came into force on July 1, 2004.

## Annual General Meeting

The Annual General Meeting is held each year no later than by the end of June on the day set by the Board of Directors. The tasks of the Annual General Meeting are set forth in the Companies Act and the Articles of Association. According to the Articles of Association, the Board of Directors shall issue the invitation to the meeting by publishing a Notice of Meeting in a wide circulation newspaper selected by the Board of Directors no earlier than two months and no later than 17 days before the Annual General Meeting. The Notice of Meeting shall also be published as a stock exchange bulletin and on the company's Internet site.

The proposal on the composition of the Board of Directors and the name of the nominated auditor will be published once the company has been made aware of them and the candidates have given their consent to being elected.

## Board of Directors

The Board of Directors' task is to guide the company's operations such that operations in the long run yield substantial added value on the capital employed, while simultaneously taking different interest groups into consideration. The Board of Directors adheres to written rules of procedure, which describe the tasks of the Board of Directors and the Chairman of the Board as well as the planning and evaluation of the Board's activities.

The Board is responsible for the company's administration and the due organization of operations. The Board directs and supervises the company's operational management; appoints and dismisses the Managing Director; approves the company's organization model; approves the company's strategic objectives, budget, total investments and their allocation, and the reward systems employed; decides on agreements that are of far-reaching consequence and the principles of risk management; and ensures that the management system is operational. The Board of Directors ratifies the company's vision and the values that are to be followed in its operations.

The Board of Directors shall have no less than five and no more than seven members. The Annual General Meeting elects the members for terms of one year. The members of the Board of Directors of the Group's parent company also serve as members of the Boards of the Group's business subsidiaries. Due to the size of the Group and the nature of its operations, the Board of Directors has determined that there is no need to form committees other than a Nomination Committee.

At Tulikivi Corporation's Annual General Meeting held on March 31, 2005, the following Board members were elected: Bishop Ambrosius, Juhani Erma, Eero Makkonen, Aimo Paukkonen, Heikki Vauhkonen, Reijo Vauhkonen and Matti Virtaala. The Board of Directors elected from amongst its members Matti Virtaala as Chairman and Reijo Vauhkonen as Vice Chairman. The Board members who are independent of the company are Bishop Ambrosius, Juhani Erma, Eero Makkonen, Aimo Paukkonen, Reijo Vauhkonen and Matti Virtaala. The Board members who are independent of the company's major shareholders are Bishop Ambrosius, Juhani Erma, Eero Makkonen and Aimo Paukkonen.

In 2005, the annual remuneration of Board members was EUR 11 360, of which 60 per cent was paid in cash and 40 per cent in the form of Series A shares in Tulikivi Corporation. Each Board member received 696 Series A shares. In addition, the Chairman of the Board of Directors was paid an EUR 5 410 monthly fee, the Vice Chairman an EUR 2 640 monthly fee and the director serving as secretary to the Board of Directors an EUR 540 monthly fee.

Board members who perfom non-Board assignments for the company shall be reimbursed on the basis of time rates and bills approved by the Board of Directors.

In 2005, the company's Board of Directors convened 13 times. The average participation rate of Board members in these meetings was 89 per cent.

## Managing Director

The Managing Director attends to the day-to-day management of the company as specified in the statutes of the Companies Act and the instructions and regulations laid down by the Board of Directors. The Managing Director is responsible for line operations, the implementation of the budget, the company's financial result, the activities of his subordinates, the legality of the company's operations and accounting, the reliable organization of funding and keeping the Board of Directors fully informed of the company's situation and operating environment. A written agreement on the terms and conditions of the Managing Director's employment is drafted with his participation and then approved by the Board of Directors.

As from November 1, 2001, the company's Managing Director has been Juha Sivonen. The Managing Director's age of retirement is 63. His pension is based on the statutory pension system. The Managing Director's period of notice is three months. If the company terminates his employment contract, the period of notice is 12 months. In 2005, the Managing Director's salary, including bonuses, was EUR 173 630.

In the management and planning of line operations, the Managing Director is assisted by the Management Team, whose members are the Purchasing Director, the Marketing Director, the Financing Director, the Financial Director, the Production Manager, the Product Development Director and the Corporate Communications Director.

## Reward System

Tulikivi has a reward system whose principles are applicable not only to the company's Managing Director and members of the Management Team, but also to all salaried employees. The payment of rewards hinges on surpassing the previous year's financial result. The criteria and recipients of the rewards are decided annually by the company's Board of Directors.

## Insiders

Tulikivi Corporation complies with the Guidelines for Insiders of the Helsinki Stock Exchange, which came into force on January 1, 2006. The Board has defined the organization and procedures applicable to Tulikivi's insider administration. The company's insider register is maintained by Finnish Central Securities Depository Ltd.

## Internal Auditing and Risk Management

The Board of Directors sees to it that the company has defined operating principles for internal auditing and that the company monitors the effectiveness of supervision. The company's internal audit, covering the areas determined by the Board of Directors, is handled by the external auditors PricewaterhouseCoopers Oy. Risk management is part of the supervision system. The company has defined risk management principles. The company assesses risks at regular intervals. On the basis of these assessments, the Board of Directors and the Managing Director decide on what measures are necessary.

## Audit

The auditor is elected at the Annual General Meeting for a term ending at the conclusion of the subsequent Annual General Meeting. The auditor proposed by the Board of Directors is reported in the Notice of Meeting, if known at that time, or separately after the actual Notice has been sent.

At the Annual General Meeting of March 31, 2005, PricewaterhouseCoopers Oy, Authorized Public Accountants, was appointed as the company's auditor. In 2005, PricewaterhouseCoopers Oy received a total of EUR 107 084 in remunerations. The audit accounts for EUR 47 225 of this figure.

## Environmental Policy

Tulikivi's environmental strategy is geared towards systematic progress in environmental efforts in specified subareas. Key issues in the management of Tulikivi's environmental policy are guiding production processes such that stone is used with optimal efficiency, meeting legislative requirements in mining operations and forecasting product-related emission norms as a subarea of effective product design.

## Communications

Key information about the company's administration is published on the Tulikivi Group's Internet site (www.tulikivi.com). The company's stock exchange bulletins are posted on the site immediately after their publication.

The members of the Management Team from left to right: Heikki Vauhkonen, Arja Lehikoinen, Pentti Kähkölä, Anu Vauhkonen, Juha Sivonen, Pekka Horttanainen, Salli Hara-Haikkala (a member of the management team until August 30, 2005), Teemu Voutilainen and Jouko Toivanen.

# Tulikivi Group's Management Team

## Juha Sivonen

(b. 1962).

M.Sc. (Civil Eng.). Managing Director of Tulikivi Corporation. Member of the Management Team since 1987. Chairman of the Management Team as from November 1, 2001. Has worked for Tulikivi since 1987.

Positions of trust: Chairman of the Board of Directors of North Karelia's Enterprise Agency. Member of the Board of Directors of the Finnish Natural Stone Association.

Tulikivi Corporation share ownership:

Series K shares 25 000

## Heikki Vauhkonen

(b. 1970).

LLB and BBA. Marketing Director of the Fireplace Business. Member of the Management Team since 2001. Has worked for Tulikivi since 1997.

Positions of trust: Member of the Board of Directors of Tulikivi Corporation since 2001.

Tulikivi Corporation share ownership:

Series K shares 724 375
Series A shares 25 563

## Arja Lehikoinen

(b. 1954).

M.Sc. (Econ.), MBA. Financing Director. Member of the Management Team since 1984. Has worked for Tulikivi since 1984.

Positions of trust: Member of the Board of Directors of the Juuka Stone Museum and Stone Village Foundation.

Tulikivi Corporation share ownership:

Series A shares 17 330

## Jouko Toivanen

(b. 1967).

D.Sc. (Tech.). Financial Director and Director of Natural Stone Products. Member of the Management Team since 1995. Has worked for Tulikivi since 1993. No other positions of trust.

Tulikivi Corporation share ownership:

Series A shares 500

## Pentti Kähkölä

(b. 1948).

M.Sc. (Eng.). Purchasing Director. Member of the Management Team as from August 1, 2005. Has worked for Tulikivi since 1997. No other positions of trust.

Does not own shares in Tulikivi Corporation.

## Anu Vauhkonen

(b. 1972).

M.A. Corporate Communications Director. Member of the Management Team since 2001. Has worked for Tulikivi since 1997.

Positions of trust: Chairman of the PR work group at Family Business Network Finland. Member of the editorial committee for the journal of the Finnish Natural Stone Association.

Does not own shares in Tulikivi Corporation.

## Pekka Horttanainen

(b. 1963).

M.Sc. (Eng.). Product Development Director. Member of the Management Team since 2003. Has worked for Tulikivi since 2001.

No other positions of trust.

Does not own shares in Tulikivi Corporation.

## Teemu Voutilainen

(b. 1953).

B.Sc. (Eng.). Production Management Team Director. Member of the Management Team since 2003. Has worked for Tulikivi since 1999.

No other positions of trust.

Does not own shares in Tulikivi Corporation.

# Information for Shareholders

## Annual General Meeting

The Annual General Meeting of Tulikivi Corporation will be held in the Kivikylä auditorium in Nunnanlahti, Juuka, on April 6, 2006, starting at 12:00. Financial statement documents will be available for inspection at the company's head office in Nunnanlahti as from February 27, 2006. Copies of these documents will be sent to shareholders upon request. The right to participate in the Annual General Meeting rests with a shareholder who by March 27, 2006 at the latest has been registered in the company's shareholder list that is maintained by Finnish Central Securities Depository Ltd. Shareholders who wish to attend the Annual General Meeting must notify the company thereof by March 27, 2006, either by telephoning Kaisa Toivanen at +358 207 636 251, by emailing kaisa.toivanen@tulikivi.fi or by writing to the address Tulikivi Corporation / Annual General Meeting, FI-83900 Juuka.

## Payment of Dividends

The Board of Directors proposes to the Annual General Meeting that the following dividends be paid for the fiscal year 2005:

On Series A shares EUR 0.280 / share
On Series K shares EUR 0.273 / share

Dividends decided by the Annual General Meeting will be paid on shares that have been recorded on the record date in the shareholder list that is maintained by Finnish Central Securities Depository Ltd. The record date for the dividend payout is April 11, 2006. The Board of Directors proposes to the Annual General Meeting that the dividend payout date be April 20, 2006.

## Share Register

We request shareholders to report any changes in their personal details, address and share ownership to the book-entry register in which the shareholder has a book-entry securities account.

## Financial Reports

Tulikivi Corporation will publish the following financial reports in 2006:

| | |
|---|---|
| Financial statement bulletin for 2005 | February 7, 2006 |
| Annual Report for 2005 | week 12 |
| Interim Report for January-March | April 21, 2006 |
| Interim Report for January-June | July 21, 2006 |
| Interim Report for January-September | October 20, 2006 |

The Annual Report, Interim Reports and the company's stock exchange bulletins are published in Finnish and English. The Annual Report is mailed to all shareholders. Financial reports are posted on the company's site, www.tulikivi.com, on their day of publication. Reports may also be ordered by emailing tulikivi@tulikivi.fi, by writing to the address Tulikivi Corporation / Financial Reports, FI-83900 Juuka, or by telephoning +358 207 636 260. If you have questions concerning investor relations, please contact the company's Financing Director Arja Lehikoinen at tel. +358 207 636 260.

# Annual Summary of Information Released in the 2005 Financial Year

| | |
|---|---|
| 18 January | Tulikivi Corporation Concentrates on One Brand |
| 7 February | Financial Statement Bulletin, Jan.-Dec./2004 |
| 7 February | Annual General Meeting |
| 16 February | Invitation to the Annual General Meeting of Tulikivi Corporation |
| 3 March | Adoption of IFRS Reporting by Tulikivi Corporation |
| 8 March | Kuru Gives the Crowning Touch to a Modern Home |
| 15 March | Annual Report |
| 31 March | Resolutions of Tulikivi Corporation's Annual General Meeting |
| 5 April | Stellaria Novus – a White Soapstone Fireplace |
| 21 April | Interim Report for January-March/2005 |
| 21 July | Interim Report for January-June/2005 |
| 8 August | Tulikivi Corporation Expands Its ISO 9001 Quality System |
| 7 September | Appointments at the Tulikivi Group |
| 3 October | Tulikivi's New Fireplace for the Fall: Salla 2 – a Lightweight Fireplace Featuring Streamlined Design |
| 21 October | Interim Report for January-September/2005 |
| 25 October | Natural Forms for Homes with River Stone Mosaic |
| 25 October | With Tulikivi Care Products, It's Even Easier to Care for and Clean Natural Stone |
| 25 October | Stone, Wood and Grouting – Tulikivi's World of Colours Harmonizes Natural Stone Interior Decoration in Homes |
| 10 November | A Stone Bridge That Connects Tulikivi with a Design Exhibition |
| 14 December | Tulikivi Corporation's Financial Reporting in 2006 |

# Financial Statements of Tulikivi Corporation for Year 2005



These are the first financial statements of Tulikivi Group, that have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and in compliance with the IAS and IFRS standards as well as the SIC and IFRIC interpretations upon force as at December 31, 2005. The term IFRS refers to the standards and interpretations that are approved for adaption in the Finnish Accounting Act and regulations issued by virtue to it and endorsed in the EU in accordance with the procedure defined in the EU Regulation (EY) No 1606/2002. The notes to the consolidated financial statements also conform with Finnish Accounting and Corporate Legislation.

The information in the graphs and in the tables for years 2004 and 2005 is presented in accordance with IFRS and the information for previous years in accordance with FAS.

The consolidated financial statements are presented in thousands of euros.

# Board of Directors' Report

## Business Environment

Economic growth in Finland and the main export areas improved during the second half of the year. Demand for Tulikivi products already swung to growth in the spring, and then gathered momentum in the summer and autumn. The rising price of energy supported demand for fireplaces in all market areas. In addition, the EU's decision to increase the use of bioenergy manifold in the next few years has sparked off discussions about tax credit in different member states. The French decision to grant energy subsidies increased demand for Tulikivi fireplaces significantly. Demand for lining stones also picked up in the autumn. Shifting the main focus of the Architectural Stone Business to deliveries of interior decoration stones has turned out to be the right decision.

## Transition to IFRS

The financial statements have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRS). The Tulikivi Group has applied IFRS standards in its reporting as from January 1, 2005. A release on the transition was published on March 3, 2005. The comparative figures presented in the financial statements are the IFRS figures for 2004 published in the release.

## Sales and Result

In 2005, the Tulikivi Group's sales increased by 6.1 per cent to EUR 58.6 million (EUR 55.3 million in 2004). The sales of the Fireplace Business amounted to EUR 52.2 (49.0) million, up 6.5 per cent. Virtually all growth was generated by fireplace exports. The Architectural Stone Business posted sales of EUR 6.4 (6.3) million.

The share of sales accounted for by exports was EUR 30.7 (27.7) million, or 52.4 (50.0) per cent. The main export countries were Germany and Sweden. The greatest relative growth was achieved in France, Russia and the Baltic countries. Finland accounted for EUR 27.9 (27.6) million of the sales.

Profit before taxes amounted to EUR 6.1 million, or 10.3 per cent of sales. The comparable result for 2004 was EUR 5.0 million. The difference with the published result, which was EUR 6.1 million, is due to the non-recurring reduction of the disability pension obligation, amounting to EUR 1.2 million, in the final quarter of 2004 due to the change in the pension system under the Employees' Pensions Act (TEL). The comparable result improved by 20.2 per cent.

The Group's operating profit was EUR 6.3 (published: 6.3, comparable: 5.1) million. The Fireplace Business posted operating profit of EUR 8.8 (7.5) million and the Architectural Stone Business EUR 0.2 (0.2) million. Unallocated expenses amounted to EUR 2.7 million (EUR 1.5 million including the non-recurring reduction of the disability pension obligation).

The Group's return on investment was 20.7 (published: 20.3, comparable: 16.5) per cent. Earnings per share were EUR 0.48 (published: 0.48, comparable: 0.39).

## Cash Flow and Financing

The Group's financing position remained good. Net cash flow from operating activities before investments was EUR 10.5 (6.5) million. The working capital of the Group declined by EUR 1.8 million during the financial year. The current ratio was 1.6 (1.9). The equity ratio was 63.0 (55.3) per cent. The ratio of interest-bearing net liabilities to equity (gearing) was –3.1 (12.1) per cent. Equity per share was EUR 2.80 (2.54). Financial income during the financial year amounted to EUR 0.1 million and financial expenses to EUR 0.3 million. The share of associated company losses was EUR 0.1 million negative.

## Investments and Development

The Group invested EUR 4.8 (3.9) million in production and quarries. The major investments were earmarked for a machinery line that will promote the use of smaller blocks of stone as well as machinery to upgrade productivity and product finishing.

R&D expenditure totalled EUR 1.7 (1.5) million. The main thrust of product development was on the next generation of products. The new products will be unveiled in March 2006. During the financial year we brought to market fireplaces representing the latest design as well as a coated white soapstone fireplace. The product concept of the Architectural Stone Business was expanded by rounding out the range of interior decoration stones and launching paving stones.

## Personnel

During the financial year, the Group employed an average of 514 (513) persons and at the end of the year, the Group's personnel numbered 537 (535) persons. Of these employees, 487 (490) worked for the Fireplace Business and 50 (45) for the Architectural Stone Business. 93.1 per cent were employed on a permanent and 6.9 per cent on a temporary basis. Incentive pay will be paid to employees from the Group's result for 2005, which had an impact on earnings of EUR 0.7 million including social expenses.

## Board of Directors, Managing Director and Auditors

At Tulikivi Corporation's Annual General Meeting, held on March 31, 2005, Bishop Ambrosius, Mr. Juhani Erma, Mr. Eero Makkonen, Mr. Aimo Paukkonen, Mr. Heikki Vauhkonen, Mr. Reijo Vauhkonen and Mr. Matti Virtaala were elected to serve on the Board of Directors. From amongst its number, the Board of Directors appointed Mr. Matti Virtaala as Chairman and Mr. Reijo Vauhkonen as Vice Chairman. The Managing Director of Tulikivi Corporation is Mr. Juha Sivonen. The regular auditor is PricewaterhouseCoopers Oy, Authorized Public Accountants.

## Own Shares

The Board of Directors of Tulikivi Corporation has an authorization from the Annual General Meeting to both buy back and transfer a maximum of 336 069 of the company's Series A shares and a maximum of 119 250 of the company's Series K shares. The company did not possess any of its own shares on December 31, 2005.

## Major Business Risks

The company has evaluated its key risks. They are related to the nature of business operations and concern, but are not limited to, amendments to laws and changes in the business environment, raw material reserves and their management, as well as product liability. Means of controlling risks have been identified. Risk analysis contributes to the strategic choices of the Group and the annual action plans.

**Financial Risks**

The Group's financial risks consist of liquidity risks, credit risks and the market risks of financial instruments. In order to avoid liquidity risks, the Group seeks continuously to keep track of the amount of funding required in business operations. The Group seeks to reduce credit risks through customer credit insurance and by monitoring the trend in the profitability of customers. The Group's market risk related to financial instruments is slight.

## Environmental Obligations

On the basis of the Mining Act and environmental legislation, Tulikivi Corporation has landscaping obligations that must be met when quarries are eventually shut down. In accordance with the operating principles of the Group, the actions required under these landscaping obligations are carried out continuously. Thus, they do not result in significant additional costs.

## Major Events after the End of Financial Year

A factory investment valued at about EUR 5 million has been started up in Juuka. The production process harnesses cutting-edge technology and boasts efficient material flows and precise use of raw materials. The investment will be completed in the autumn 2006. The new production plant will enable sales growth of close to EUR 10 million over the next few years.

The exploration of stone reserves has been expanded into Russia as well. In January 2006, we were granted a license for the prospecting and industrial utilization of soapstone in Russia. The financial effects of the project can be assessed once the research results have been completed.

## Outlook for the Future

Tulikivi's sales are still rising in both its main and new markets. The company is making further outlays on the development of distribution channels and product marketing. Uncertainties regarding the distribution of energy and its rising price increase the demand for fireplaces. The trend in the Group's sales and earnings is positive at the annual level.

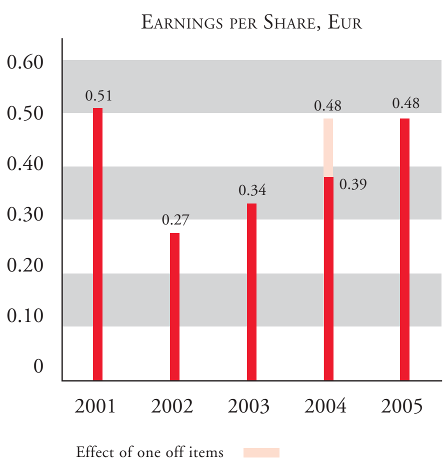
The Tulikivi Group has set annual organic growth of over 5 per cent in the long term as its strategic objective. In addition, growth is sought through acquisitions. Another objective is to improve relative profitability. In accordance with the company's dividends policy, the company distributes approximately half of its annual earnings as dividends. The equity ratio remains over 40 per cent even after the dividend payout.

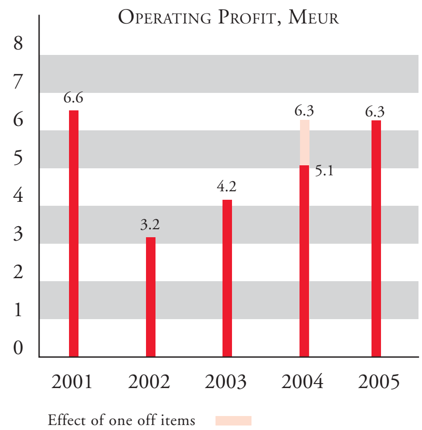
## Group Structure

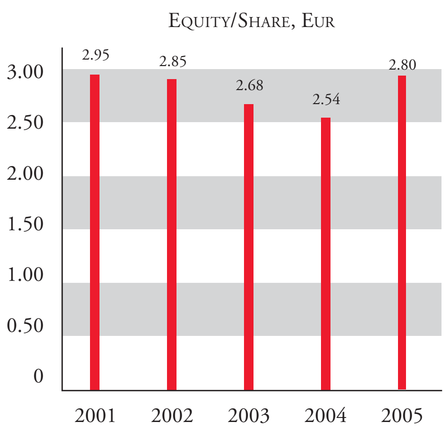
The companies included in the Group are the parent company Tulikivi Corporation, its fixed establishment in Germany, Tulikivi Oyj Niederlassung Deutschland, and the subsidiaries Kivia Oy, AWL-Marmori Oy, Tulikivi U.S., Inc. and OOO Tulikivi Russia, which was set up in Russia during the financial year. The stone business development company Stone Pole Oy is an associated company of Tulikivi Corporation. Group companies also include Tulikivi Vertriebs GmbH and The New Alberene Stone Company, Inc.

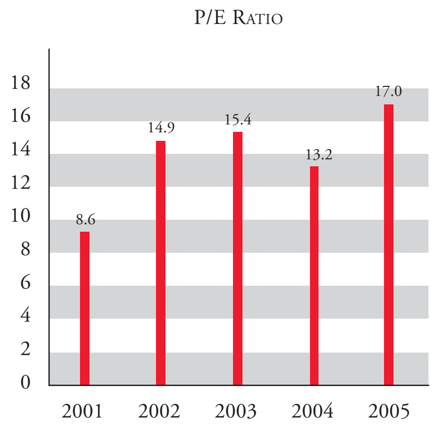
## The Board's Dividend Proposal

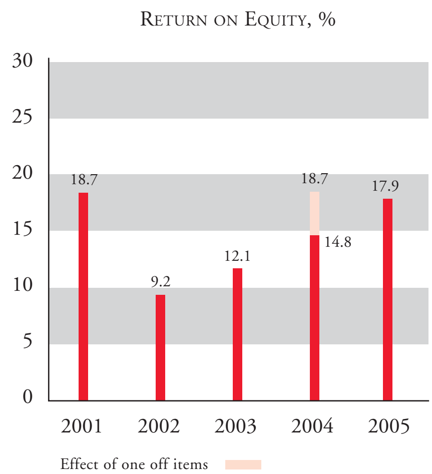
The Group's distributable equity amount to EUR 11.3 million and the parent company's to EUR 9.8 million. The Board of Directors will propose to the Annual General Meeting that will convene on April 6, 2006 that a dividend of EUR 0.280 per share be paid for the Series A shares and EUR 0.273 per share for the Series K shares, to a total of EUR 2.5 million. In addition, the Board of Directors will propose to the Annual General Meeting that it donate EUR 50 000 from distributable funds to the Juuka Stone Museum and Stone Village Foundation to support scientific research.



# Consolidated Financial Statements, IFRS
## Consolidated Income Statement

| EUR 1 000 | Note | Jan. 1 - Dec. 31, 2005 | Jan. 1 - Dec. 31, 2004 |
|---|---|---|---|
| Sales | 2 | 58 642 | 55 291 |
| Other operating income | 4 | 330 | 525 |
| Increase / decrease in inventories of finished goods and in work in progress | | -952 | 476 |
| Production for own use | | 1 197 | 843 |
| Raw materials and consumables | | 9 706 | 8 894 |
| External services | | 6 658 | 6 995 |
| Personnel expenses | 5 | 21 027 | 19 200 |
| Depreciation and amortisation | 6 | 3 987 | 3 973 |
| Other operating expences | 7 | 11 553 | 11 790 |
| Operating profit | | 6 286 | 6 283 |
| Financial income | 8 | 134 | 185 |
| Financial expenses | 9 | -269 | -346 |
| Share of loss (-) / profit (+) profit of associates | | -88 | |
| Profit before income tax | | 6 063 | 6 122 |
| Income tax expense | 10 | 1 697 | 1 772 |
| Profit for the year | | 4 366 | 4 350 |
| Calculated from profit attributable to equity holders of the parent company | | | |
| Basic/diluted earnings per share, EUR | 11 | 0.48 | 0.48 |

# Consolidated Balance Sheet

| EUR 1 000 | Note | Dec. 31, 2005 | Dec. 31, 2004 |
|---|---|---|---|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 12 | 16 261 | 16 251 |
| Goodwill | 13 | 632 | 632 |
| Other intangible assets | 13 | 4 088 | 3 094 |
| Investment properties | 14 | 238 | 242 |
| Other financial assets | 17 | 37 | 69 |
| Trade and other receivables | 20 | 158 | 173 |
| Deferred tax assets | 18 | 532 | 693 |
| | | 21 946 | 21 154 |
| Current assets | | | |
| Inventories | 19 | 7 015 | 7 455 |
| Trade and other receivables | 20 | 7 447 | 7 088 |
| Current income | | | |
| tax receivables | 20 | 39 | 116 |
| Prepaid expenses | 20 | | 271 |
| Financial assets at fair value | | | |
| through profit and loss | 21 | | 752 |
| Cash and cash equivalents | 22 | 4 141 | 5 086 |
| | | 18 642 | 20 768 |
| TOTAL ASSETS | | 40 588 | 41 922 |
| EQUITY AND LIABILITIES | | | |
| Capital and reserves attributable to equity holders of the Company | | | |
| Share capital | 23 | 6 192 | 6 192 |
| Share premium | | 5 351 | 5 351 |
| Translation differences | 23 | 31 | -22 |
| Retained earnings | 24 | 13 943 | 11 645 |
| TOTAL EQUITY | | 25 517 | 23 166 |
| Non-current liabilities | | | |
| Deferred income tax liabilities | 18 | 792 | 704 |
| Pension obligations | 25 | | 70 |
| Provisions | 26 | 322 | 215 |
| Interest-bearing liabilities | 27 | 1 811 | 6 143 |
| Other liabilities | 28 | 347 | 347 |
| | | 3 272 | 7 479 |
| Current liabilities | | | |
| Trade and other payables | 28 | 10 205 | 8 773 |
| Current income tax liabilities | | 58 | |
| Short-term interest-bearing liabilities | 27 | 1 536 | 2 504 |
| | | 11 799 | 11 277 |
| TOTAL LIABILITIES | | 15 071 | 18 756 |
| TOTAL EQUITY AND LIABILITIES | | 40 588 | 41 922 |

# Consolidated Cash Flow Statement

| EUR 1 000 | Note | Jan. 1 - Dec. 31, 2005 | Jan. 1 - Dec. 31, 2004 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Profit for the period | | 4 366 | 4 350 |
| Adjustments: | | | |
| Non-cash transactions | 30 | 4 068 | 2 800 |
| Interest expense and finance costs | | 264 | 340 |
| Interest income | | -128 | -140 |
| Dividend income | | -6 | -45 |
| Income taxes | 10 | 1 697 | 1 772 |
| Changes in working capital: | | | |
| Change in trade and other receivables | | 93 | -376 |
| Change in inventories | | 440 | -607 |
| Change in trade and other payables | | 1 129 | 291 |
| Change in provisions | | 107 | 155 |
| Interest paid | | -278 | -333 |
| Interest received | | 105 | 119 |
| Dividends received | | 4 | 31 |
| Income tax paid | | -1 314 | -1 811 |
| Net cash flow from operating activities | | 10 547 | 6 546 |
| Cash flows from investing activities | | | |
| Acquisition of subsidiary, net of cash acquired | | | -88 |
| Acquisition of associates | | -13 | |
| Purchases of property, plant and equipment (PPE) | | -3 221 | -2 046 |
| Grants received for PPE | | | 2 |
| Purchases of intangible assets | | -1 854 | -1 440 |
| Grants received for intangible assets | | 174 | 141 |
| Proceeds from sale of PPE | | 1 | 42 |
| Proceeds from sale of intangible assets | | 94 | |
| Investments in financial assets at fair value through profit or loss | | | -737 |
| Disposals on financial assets at fair value through profit or loss | | 756 | 742 |
| Loans granted to associates | | -75 | |
| Net cash flow from investing activities | | -4 138 | -3 384 |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | | | 5 600 |
| Repayments of borrowings | | -5 299 | -4 789 |
| Dividends paid | | -2 071 | -4 645 |
| Net cash flow from financing activities | | -7 370 | -3 834 |
| Net decrease (-) / increase (+) in cash and cash equivalents | | -961 | -672 |
| Cash and cash equivalents at the beginning of the year | | 5 086 | 5 764 |
| Exchange gains (+) / losses (-) | | 16 | -6 |
| Cash and cash equivalents at the end of the year | 22 | 4 141 | 5 086 |

# Consolidated Statement of Changes in Equity

Attributable to equity holders of the Company

| EUR 1 000 | Share capital | Share premium fund | Translation diff. | Retained earnings | Total equity |
|---|---|---|---|---|---|
| Balance at December 31, 2003 | 6 192 | 5 351 | | 12 840 | 24 383 |
| Effect of IFRS adaptation | | | | -927 | -927 |
| Adjusted balance at January 1, 2004 | 6 192 | 5 351 | | 11 913 | 23 456 |
| Translation differences | | | -22 | | -22 |
| Profit for the year | | | | 4 350 | 4 350 |
| Total recognised income for 2004 | | | -22 | 4 350 | 4 328 |
| Dividends paid | | | | -4 618 | -4 618 |
| Balance at December 31, 2004 | 6 192 | 5 351 | -22 | 11 645 | 23 166 |
| Translation differences | | | 53 | | 53 |
| Profit for the year | | | | 4 366 | 4 366 |
| Total recognised income for 2005 | | | 53 | 4 366 | 4 419 |
| Dividends paid | | | | -2 068 | -2 068 |
| Balance at December 31, 2005 | 6 192 | 5 351 | 31 | 13 943 | 25 517 |

# Notes to the Consolidated Financial Statements

Tulikivi Group focuses on stone processing as well as the customer-oriented development and production of related products and services. The Group comprehensively manages its soapstone reserves. The business areas of the Group are divided into the fireplace business and the architectural stone business. The fireplace business comprises soapstone quarrying, production, design, sales, and marketing. The products are soapstone fireplaces and lining stones for stoves. The architectural stone business comprises household interior decoration stone products and deliveries of stone material, stone material purchases, and sales and marketing. The Group exports its products to almost 20 countries.

The parent company is Tulikivi Corporation and it is domiciled in Juuka. The postal address is FI-83900 Juuka.

A copy of the consolidated financial statements is available on the Internet under www.tulikivi.com or at the parent company principal executive offices in the abovementioned address.

## 1. Accounting principles

### 1.1. Basis of Preparation

These are the first financial statements of the Group, that have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and in compliance with the IAS and IFRS standards as well as the SIC and IFRIC interpretations in force as at December 31, 2005. The term IFRS refers to the standards and interpretations that are approved for adaptation in the Finnish Accounting Act and regulations issued by virtue to it and endorsed in the EU in accordance with the procedure defined in the EU Regulation (EY) No 1606/2002. The notes to the consolidated financial statements also conform with Finnish Accounting and Corporate Legislation.

In 2005, the Group adopted International Financial Reporting Standards (IFRS) by applying IFRS 1 (First-time Adoption of International Financial Reporting Standards). The transition date is January 1, 2004. Reconciliations and descriptions of the effects of the transition to IFRS are presented in Note 37. The comparative figures in respect of 2004 have been restated to comply with IFRS. The consolidated financial statements have been prepared under the historical cost convention except for financial assets and liabilities carried at fair value through profit or loss.

The consolidated financial statements are presented in thousands of euros.

The following new standards, interpretations and amendments to existing standards have been published by December 31, 2005:

- IFRIC 8, Scope of IFRS 2
- 21 (Amendment), Net Investment in a Foreign Operation (effective January 1, 2006)
- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective March 1, 2006)
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective December 1, 2005)
- IFRS 7, Financial Instruments: Disclosures, and a Complementary Amendment to IAS 1 (effective January 1, 2007)
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective January 1, 2006)
- IFRS 1 (Amendment), First-time Adoption of IFRS and IFRS 6 (Amendment), Exploration for the Evaluation of Mineral Resources
- 39 (Amendment), The Fair Value Option (effective January 1, 2006)
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective January 1, 2006)
- IAS 19 (Amendment), Employee Benefits (effective January 1, 2006)
- IFRS 6, Exploration for and Evaluation of Mineral Resources (effective January 1, 2006)
- IFRIC 4, Determining whether an Arrangement contains a Lease (effective January 1, 2006)
- 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective January 1, 2006)

The Group has not early adopted these standards and interpretations in the financials statements of 2005. Management's assessment is that adaptation of the above mentioned new and improved standards will not have significant effects on the consolidated financial statements of 2006.

### Use of Estimates

The preparation of the consolidated financial statements in conformity with IFRS requires the management use of certain estimates and exercise of judgment in the process of applying the Company's accounting policies. Information about the areas where the management has exercised judgment in the application of the Group accounting principles is presented under "Critical Accounting Judgments in applying the Entity's Accounting Principles".

### 1.2. Consolidation Principles

**Subsidiaries**

The consolidated financial statements include the parent company Tulikivi Corporation and all its subsidiaries. Subsidiaries are companies, over which the Group has control. All subsidiaries are fully owned by Tulikivi Corporation. Intragroup share holding has been eliminated according to the purchase method. Subsidiaries are consolidated from the date on which control is transferred to the Group. Intragroup transactions, balances and unrealized gains on transactions between group companies, and intragroup distribution are eliminated. Unrealized losses are also eliminated unless the loss is due to impairment.

**Associated Companies**

Associated companies are all entities over which the Group has significant influence. Significant influence is realized when the Group holds over 20 per cent of the voting rights or otherwise has significant influence, but no control. Investments in associates are accounted for using the equity method. When the Group's proportionate share of the associated company's result exceeds the book value, the investment is recognized in the balance sheet to zero value and the exceeding losses are not recognised unless the Group has incurred obligations or made payments on behalf of the associate company.

**Foreign Currency Translation**

The results and financial positions of subsidiaries are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in euros, which is the parent Company's functional and presentation currency.

Transactions in foreign currencies are translated into functional currency using the exchange rates prevailing at the transaction date. Monetary items are translated into functional currency using the exchange rates prevailing at the balance sheet date. Non-monetary items are translated into functional currency at the exchange rates prevailing at the transaction date. Exchange differences of transactions in foreign currencies and translation of monetary items are recognized in the income statement under finance income and expenses. Exchange differences resulting from operations are recognized in the income statement as part of the operating profit.

The income statements of subsidiaries are translated into the Group reporting currency using the average exchange rates for the year and the balance sheets are translated using the exchange rates at the balance sheet date. Exchange differences arising from the translation of the income statement and the balance sheet with different exchange rates results in translation difference that is recognized in equity. Translation differences arising from the elimination of the acquisition cost of foreign subsidiaries and the accumulated equity are recognized in equity. Translation differences that have arisen before January 1, 2004 were recognized in retained earnings on transition to IFRS-standards according to the exemption of IFRS 1. Translation differences arising after January 1, 2004 are presented in equity as separate item.

**Property, Plant and Equipment**

Tangible assets have been recorded in the balance sheet at cost less accumulated depreciation and impairment charges.

When the asset consists of several items with different useful lives, each item will be dealt as a separate asset. In this case the replacement costs of the item are capitalized. Otherwise subsequent costs are included in the book value of property, plant and equipment only when it is probable that the future economic benefits associated with the item will flow to the Group and that the cost can be measured reliably. Other repair and maintenance costs are charged to the income statement when they occur.

Depreciation has been calculated using the straight-line method based on the useful lives of the assets. Land is not depreciated, except for quarrying areas, on which substance depreciations based on the usage of the stone material are made. The useful lives are as follows:

| | |
|---|---|
| Buildings | 25 to 30 years |
| Constructions | 5 years |
| Process machinery | 3 to10 years |
| Motor vehicles | 5 to 8 years |
| Other property, plant and equipment | 3 to 5 years |

The acquisition cost of the equipment is amortised by 25 per cent outlay residue write-offs. Investment property buildings have a depreciation period of 10 to 20 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposal of property, plant and equipment are included in either other operating profits or losses.

**Borrowing Costs**

Borrowing costs are expensed as occurred.

**Public Grants**

Government or other public grants related to the purchase of property, plant and equipment or intangible assets are deducted from the carrying amount of the asset. The grants are recognized in the income statement during the useful life of the asset in the form of lower depreciation on the asset in question. Other grants are recognized as income in the income statement in the periods when the related costs are expensed.

**Investment Properties**

Investment properties are properties held in order to obtain rental revenues or capital appreciation. Investment properties are valued at cost less accumulated depreciation.

**Intangible Assets**

The goodwill arisen from business combinations involves acquisitions made before January 1, 2004 and corresponds to the book value under previous GAAP used as deemed cost on transition. Classification of these acquisitions has not been adjusted in the opening IFRS balance sheet.

Goodwill is not amortised but tested annually for impairment. For this purpose the goodwill has been allocated to cash generating units. The goodwill is valued at historical acquisition cost less impairment.

Research costs are recognized as expenses in the income statement. Development costs arising from planning of new or improved products are capitalized as intangible assets in the balance sheet when the entity can demonstrate the technological and commercial feasibility of the product and the costs can be measured reliably. Development costs previously expensed cannot be capitalised later. Depreciations of an asset are started when the asset is available for use. Assets not available for use are annually tested for impairment. The useful life of the capitalized development costs is 5 to 10 years during which the capitalized assets are recognized as expenses using the straight-line method.

Intangible assets should be recognized in the balance sheet only if the cost of the item can be measured reliably and it is probable that the future economic benefits associated with the asset will flow to the entity. Patents, trade marks and licenses with a definite useful life are recorded in the balance sheet at cost and expensed using the straight-line method under their known or expected useful lives.

Costs related to the research of the stone reserves are capitalized and depreciated during the following 5 to 10 years. Costs arising from establishing the quarries and construction of roads, dams and other site facilities related to the quarry are also capitalised. It can take years to establish a quarry. The depreciation of the quarrying areas is started when the quarry is ready for production use and depreciations are made over its useful life, though 10 years at it's most. The depreciation of construction expenses of roads and dams is started in the construction year.

Except for goodwill intangible assets have definite useful lives and are depreciated as follows:

| | |
|---|---|
| Patents | 5 to 10 years |
| Development costs | 5 to 10 years |
| Research costs of stone reserves | 5 to 10 years |
| Quarrying areas | 5 to 10 years |
| Quarrying area roads and dams | 5 years |
| Computer software | 3 to 5 years |
| Others | 5 years |

**Inventories**

Inventories are valued at cost or at lower probable net realisable value. The cost is determined using the weighted average cost method. The acquisition cost of quarried boulders is affected by the stone yield percentage. The cost of finished goods and work in progress consists of raw materials, direct labor, other direct costs and related variable and fixed production overheads allocated on a reasonable basis on a normal capacity of the production facilities. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated selling expenses.

**Leases**

**Group as Lessee**

The lease agreements of the Group are agreements under which substantially all the risks and rewards incident to the leased assets is retained by the lessor and the agreements are therefore classified as operating leases. Payments made under operating leases are charged to the income statement as rental expenses on a straight-line basis over the period of the lease.

**Group as Lessor**

Assets leased out by the Group are leased under operating lease agreements. The assets are included in property, plant and equipment or investment property in the balance sheet. They are depreciated over their economic useful lives consistent with the

Croup's normal depreciation policy. Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

**Impairment**

It is assessed at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is assessed. The recoverable amount is annually tested for impairment for the following assets independent of the existence of indicators of impairment: goodwill and intangible assets in progress. For the purpose of assessing impairment assets are grouped at the lowest levels for which there are separately identifiable cash generating units with separately identifiable cash flows.

The recoverable amount is defined as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. The impairment loss is recognized when the carrying amount exceeds the recoverable amount. The impairment loss is immediately recognized in the income statement. A previously recognized impairment loss is reversed if there has been a change in conditions and the recoverable amount has changed since the date of recognition of the impairment loss. The increased carrying amount must not, however, exceed the carrying amount that would have been determined if no impairment loss had been recognized in prior years. Previously recognised impairment loss of goodwill is not reversed under any conditions. As required in IFRS 1 goodwill has been tested for impairment according to IAS 36 on the transition date January 1, 2004.

**Employment Benefits**

**Pension Obligations**

The Group has pension plans in Finland and some in Germany. The pension schemes are defined contribution plans. Under defined contribution plans the payments made to the plan are expensed in the period for which the payment is made.

The disability component of the Finnish statutory pension scheme was accounted for as defined benefit plan in the opening IFRS balance sheet of 1, January 2004. The disability obligation was calculated based on actuarial valuation methods and recognised in equity according to IFRS 1.

**Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made. A warranty provision is recognized when the product subject to the warranty is sold. The amount of the warranty provision relies on the statistical information of historical warranty realization. A provision of onerous contracts is recognized when the incremental costs exceed the benefits received from the contract.

**Income Taxes**

Tax expense is the aggregate amount included in the determination of profit and loss for the period in respect of current tax and deferred tax. Current tax is the amount of income taxes payable in respect of the taxable profit for the period and is calculated on the basis of the local tax legislation. Current tax is adjusted by possible tax items related to previous periods.

Deferred taxes are calculated on all temporary differences between the carrying amounts of balance sheet items and their taxable values. The most significant temporary differences arise from the amortizations of property, plant and equipment, from tax losses carried forward and from defined-benefit pension arrangements of the transition in year 2004. Deferred taxes on retained earnings of subsidiaries are not recognized to the extent that they are not likely to occur in the foreseeable future. Deferred tax is determined using tax rates that have been enacted by the balance sheet date. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

**Revenue Recognition**

**Sold Goods and Produced Services**

Revenues of sold goods are recognized when the risks and rewards of ownership of the goods have been transferred to the buyer. The domestic installations of fireplaces are outsourced to subcontractors. The profits and losses from these installations are recognized when the good is delivered.

**Construction Contracts**

Construction contract revenues and costs are recognized based on the percentage of completion method when the amount of revenue can be measured reliably. Construction contracts are defined as contracts with a total turnover exceeding EUR 90 thousand.

The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Costs incurred in the year in connection with future activity on a contract are presented as inventories of contracts in progress. For contracts in progress where costs incurred plus recognised profits exceed progress billings the gross amount due from customers is presented in “trade and other receivables”. For contracts in progress for which progress billing exceed costs incurred plus recognised profit the gross amount due to customers is presented in “trade and other payables”.

**Interest and Dividends**

Interest income is recognized according to the effective interest method and dividends when the right to the dividend is arisen.

**Financial Assets and Liabilities**

The Group’s financial assets and liabilities are classified in the following categories: available-for-sale financial assets, financial assets measured at fair value through profit or loss, and loans and other receivables. The classification depends on the purpose for which the financial asset was acquired and is made at initial acquisition. Sales and purchases of financial assets are accounted for at trade date. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

The financial assets available for sale are non-derivative financial assets, that are specifically defined to this group of assets or that are not classified into any other category. They are recognized as non-current assets in the balance sheet. These assets include shares and they are assessed at fair value. Fair value of only a small portion of assets classified in this group is estimated based on active markets. Changes in the fair value of investments classified as available for sale are recognised in fair value reserve in equity deducted by tax effect. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

The financial assets measured at fair value through profit or loss includes the financial assets held-for-sale. The financial assets held-for-sale are acquired in order to achieve short-term market gains and are included in the current assets. The items are measured at fair value and the value of all investments is measured based on market quotations, which is the bid price on the balance sheet date. Unrealized and realized gains and profits from changes in fair value are recognized in the income statement in the active period.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. This category includes financial assets acquired by the Group by handing over cash, goods or services to a debtor. They are measured at amortised cost using the effective interest rate method and are included in current and non-current financial assets, to the latter if they have a maturity of more than 12 months.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Financial liabilities are initially recognized at fair value on the basis of the consideration received. Subsequently, all financial liabilities are measured at amortized cost using the effective interest rate method. Financial liabilities may comprise of current and non-current, and interest-bearing and non-interest-bearing items.

**Derivative Contracts and Hedge Accounting**

The Group establishes currency derivative contacts to hedge against the exchange rate risks of the sales contracts. Hedge accounting, as set out in IAS 39 is not applied in the Group. At initial recognition, derivatives are measured at their acquisition cost, which corresponds to their fair value. Afterwards derivatives are measured at fair value. Changes in the fair value of derivatives are recognized directly to the finance income and expenses. The fair value of the derivative is disclosed in the balance sheet in the current receivables or liabilities depending of its positive or negative value. The fair value of the currency derivative is obtained by assessing the forward contract at the balance sheet date using the forward rate and comparing it with the counter value calculated from the forward rate of the forward contract on the contact date.

**Operating Profit**

The IAS 1 Presentation of financial statements does not define the concept of operating profit. The Group has defined it as following: The operating profit is the net amount attained when the sales are added by other operating income, deducted by costs of goods sold and costs of production for own use, by employee benefit expenses, by depreciations, by possible impairment charges and by other operating expenses. All other items are presented below operating profit in the income statement. Exchange rate differences are included in operating profit if they result from operations, otherwise they are recognised in the financial items.

**Critical Accounting Judgments in Applying the Entity's Accounting Principles**

In preparing the consolidated financial statements critical assumptions and judgments are made, the actual outcome of which might differ from the assumptions and estimates made previously. In addition, judgment is exercised in applying the accounting principles.

**Impairment Testing**

At each reporting date the Group tests goodwill and intangible assets under progress for potential impairment and estimates the indicators of impairment according to the abovementioned accounting policies. The recoverable amounts of cash generating units are assessed based to their value in use. The assessment of these values requires the use of estimates.

EUR 1 000

## 2. Segment reporting

Segment information is presented for the group's business segments and geographical segments. The Group's primary reporting format is business segments. Business segments are based on the Group's internal organisational structure and internal financial reporting. Pricing between segments is according to normal commercial terms. Segment assets and liabilities are operative items, which are used in segment operations and can be reasonably allocated to segments. Unallocated items include tax and financing items and items common to the whole of the company. Capital expenditure consists of additions to tangible and intangible assets, that are used in more than one financial period.

Business segments
- Fireplace business
- Architectural stone business

Geographical segments
- Finland
- Rest of Europe
- USA

| 2.1. Business segments 2005 | Fireplace business | Architectural stone business | Unallocated | Group |
|---|---|---|---|---|
| Sales | 52 184 | 6 458 | | 58 642 |
| Operating profit | 9 066 | -70 | -2 710 | 6 286 |
| Finance income / expense, share of profit of associates and income taxes | | | -1 920 | -1 920 |
| Profit for the year | | | | 4 366 |
| Assets by segment | 31 026 | 4 712 | 4 850 | 40 588 |
| Liabilities by segment | 9 742 | 710 | 4 619 | 15 071 |
| Capital expenditure | 4 654 | 194 | 302 | 5 150 |
| Depreciation and amortisation expenses | 3 501 | 248 | 207 | 3 956 |
| Impairments | 31 | | | 31 |

| 2.2. Business segments 2004 | Fireplace business | Architectural stone business | Unallocated | Group |
|---|---|---|---|---|
| Sales | 49 007 | 6 284 | | 55 291 |
| Operating profit by segment | 7 631 | 151 | -1 499 | 6 283 |
| Finance income / expense and income taxes | | | -1 933 | -1 933 |
| Profit for the year | | | | 4 350 |
| Assets by segment | 29 984 | 5 332 | 6 605 | 41 921 |
| Liabilities by segment | 7 977 | 946 | 9 833 | 18 756 |
| Capital expenditure | 3 558 | 80 | 299 | 3 937 |
| Depreciation and amortisation expenses | 3 559 | 231 | 183 | 3 973 |

| Geographical segments 2005 | Finland | Rest of Europe | USA | Group |
|---|---|---|---|---|
| Sales | 27 902 | 29 143 | 1 597 | 58 642 |
| Assets by segment | 40 019 | 86 | 483 | 40 588 |
| Capital expenditure | 5 090 | 60 | | 5 150 |

| Geographical segments 2004 | Finland | Rest of Europe | USA | Group |
|---|---|---|---|---|
| Sales | 27 629 | 26 247 | 1 415 | 55 291 |
| Assets by segment | 41 397 | 79 | 445 | 41 921 |
| Capital expenditure | 3 937 | | | 3 937 |

Geographical segment sales are presented based on the country in which the customer is located and assets are presented based on location of the assets.

| EUR 1 000 | 2005 | 2004 |
|---|---|---|
| 3. Construction contracts | | |

Group's revenue for 2005 includes EUR 0.2 million revenue from construction contracts. (EUR 0.7 million in 2004).

| | | |
|---|---|---|
| 4. Other operating income | | |
| Proceeds from sale of PPE | 6 | 20 |
| Rental income from investment properties | 29 | 45 |
| Public grants | 90 | 304 |
| Other income | 205 | 156 |
| Other operating income, total | 330 | 525 |
| 5. Employee benefit expense | | |
| Wages and salaries | 16 720 | 16 001 |
| Pension costs - defined contribution plans | 2 648 | 2 746 |
| Pension costs - defined benefit plans *) | 0 | -1 137 |
| Other social security expenses | 1 659 | 1 590 |
| Employee benefit expense, total | 21 027 | 19 200 |

*) The year 2004 expense includes a one off recognition of EUR 1.2 million related to defined benefit plans resulting from change in basis of accounting for the disability component of the Finnish statutory pension system.

| | | |
|---|---|---|
| 5.1. Group's average number of personnel for the financial period | | |
| Fireplace business | 444 | 442 |
| Architectural stone business | 48 | 47 |
| Unallocated | 22 | 24 |
| Personnel, total | 514 | 513 |
| 6. Depreciation, amortisation and impairment | | |
| Depreciation and amortisation by class of assets | | |
| Intangible assets | | |
| Capitalised development costs | 8 | |
| Other intangible assets | 875 | 1 063 |
| Depreciationof intangible assets, Total | 883 | 1 063 |
| Tangible assets | | |
| Buildings | 441 | 425 |
| Machinery and equipment | 2 168 | 2 103 |
| Motor vehicles | 244 | 255 |
| Land areas | 15 | 15 |
| Other tangible assets | 201 | 108 |
| Depreciationof tangible assets, Total | 3 069 | 2 906 |
| Investment property | | |
| Buildings | 4 | 4 |
| Impairment by class of assets | | |
| Investments | 31 | |
| Total depreciation, amortisation and impairment | 3 987 | 3 973 |

| EUR 1 000 | 2005 | 2004 |
|---|---|---|
| **7. Other operating expenses** | | |
| Losses on sales of tangible assets | 15 | 4 |
| Research and development expenses | 122 | 95 |
| Rental expenses | 660 | 704 |
| External services | 104 | 75 |
| Marketing expenses | 3 702 | 3 159 |
| Other expenses | 6 950 | 7 753 |
| Other operating expenses, total | 11 553 | 11 790 |

7.1. Research and development expenditure

Research and development costs expensed in 2005 totalled EUR 1 308 thousand (EUR 1 358 thousand in 2004).

| 8. Finance income | 2005 | 2004 |
|---|---|---|
| Interest income | 72 | 120 |
| Dividend income | 4 | |
| Gain on sale of investments in available-for-sale assets | 2 | 45 |
| Foreign exchange transaction gains | 54 | 20 |
| Change in fair value of assets recognised at fair value through profit or loss | 2 | |
| Finance income, total | 134 | 185 |

| 9. Finance expense | 2005 | 2004 |
|---|---|---|
| Interest expenses | 216 | 290 |
| Foreign exchange transactions losses | 40 | 37 |
| Profit and loss of assets recognised at fair value through profit and loss | | 14 |
| Other finance expense | 13 | 5 |
| Finance expense, total | 269 | 346 |

| 10. Income taxes | 2005 | 2004 |
|---|---|---|
| Current tax | 1 426 | 1 484 |
| Tax carried from previous years | 22 | 3 |
| Deferred tax | 249 | 285 |
| Income taxes, total | 1 697 | 1 772 |

The reconciliation between Income statement tax expense and tax calculated based on Group’s domestic tax base (26% in 2005, 29% in 2004).

| | 2005 | 2004 |
|---|---|---|
| Profit before tax | 6 063 | 6 122 |
| Tax calculated at domestic tax rates | 1 576 | 1 775 |
| Effect of foreign subsidiaries and branch offices different tax bases | 9 | -21 |
| Income not subject to tax | -3 | -3 |
| Expenses not deductible for tax purposes | 75 | 77 |
| Change in tax base | | -12 |
| Tax losses fro which no deferred income tax asset was recognised | -1 | -29 |
| Tax carried from previous years | 22 | 3 |
| Other | 19 | -18 |
| Income statement tax expense | 1 697 | 1 772 |

| EUR 1 000 | 2005 | 2004 |
|---|---|---|

### 11. Earnings per share

Earnings per share is calculated by dividing the profit attributable to equity holders of the parent company by the weighted average number of ordinary shares in issue during the year.

| | | |
|---|---|---|
| Profit attributable to equity holders of the parent company (EUR 1 000) | 4 366 | 4 350 |
| Weighted average number of shares for the financial period | 9 106 385 | 9 106 385 |
| Basic/diluted earnings per share (EUR) | 0.48 | 0.48 |

EUR 1 000

12. Property, plant and equipment

| | Land | Buildings | Vehicles and machinery | Motor vehicles | Other tangible assets | Advances | Total |
|---|---|---|---|---|---|---|---|
| Cost January 1, 2005 | 1 058 | 11 098 | 29 704 | 3 222 | 1 234 | 186 | 46 502 |
| Reclassifications | | | | | 53 | | 53 |
| Additions | | 489 | 2 445 | 112 | 122 | | 3 168 |
| Disposals | | 23 | 19 | 9 | | 91 | 142 |
| Exchange differences | | | | | | | 0 |
| Cost December 31, 2005 | 1 058 | 11 564 | 32 130 | 3 325 | 1 409 | 95 | 49 581 |
| Accumulated depreciation and impairment | | | | | | | |
| January 1, 2005 | 104 | 4 903 | 22 614 | 2 198 | 432 | 0 | 30 251 |
| Reclassifications | | | | | 37 | | 37 |
| Disposals | 15 | 441 | 2 168 | 244 | 201 | | 3 069 |
| Depreciation related to the disposals | | 12 | 18 | 7 | | | 37 |
| Accumulated depreciation and impairment December 31, 2005 | 119 | 5 332 | 24 764 | 2 435 | 670 | 0 | 33 320 |
| Property, plant and equipment, Net book amount January 1, 2005 | 954 | 6 195 | 7 090 | 1 024 | 802 | 186 | 16 251 |
| Property, plant and equipment, Net book amount December 31, 2005 | 939 | 6 232 | 7 366 | 890 | 739 | 95 | 16 261 |

12.1. Property, plant and equipment

| | Land | Buildings | Vehicles and machinery | Motor vehicles | Other tangible assets | Advances | Total |
|---|---|---|---|---|---|---|---|
| Cost January 1, 2004 | 1 029 | 10 773 | 28 483 | 2 859 | 370 | 33 | 43 547 |
| Additions | 29 | 354 | 1 322 | 363 | 437 | 153 | 2 658 |
| Disposals | | | 101 | | | | 101 |
| Reclassifications | | -29 | | | 427 | | 398 |
| Cost December 31, 2004 | 1 058 | 11 098 | 29 704 | 3 222 | 1 234 | 186 | 46 502 |
| Accumulated depreciation and impairment | | | | | | | |
| January 1, 2004 | 89 | 4 491 | 20 587 | 1 943 | 138 | | 27 248 |
| Reclassification | | -13 | | | 169 | | 156 |
| Disposals | 15 | 433 | 2 102 | 255 | 34 | | 2 839 |
| Reclassifications | | -8 | | | 91 | | 83 |
| Depreciation related to the disposals | | | 75 | | | | 75 |
| Accumulated depreciation and impairment December 31, 2004 | 104 | 4 903 | 22 614 | 2 198 | 432 | 0 | 30 251 |
| Property, plant and equipment, Net book amount January 1, 2004 | 940 | 6 282 | 7 896 | 916 | 232 | 33 | 16 299 |
| Property, plant and equipment, Net book amount December 31, 2004 | 954 | 6 195 | 7 090 | 1 024 | 802 | 186 | 16 251 |

1 000 euro

13. Goodwill and other intangible assets

| | Goodwill | Patents and trademarks | Develop-ment costs | Internally generated capitalised intangible assets | Other intangible assets | Total |
|---|---|---|---|---|---|---|
| Cost January 1, 2005 | 1 459 | 423 | 140 | 7 440 | 4 476 | 13 938 |
| Reclassifications | | | | | -53 | -53 |
| Capitalised development costs | | | 344 | | | 344 |
| Additions | | 11 | | 701 | 926 | 1 638 |
| Disposals | | | | | 89 | 89 |
| Cost December 31, 2005 | 1 459 | 434 | 484 | 8 141 | 5 260 | 15 778 |
| Accumulated amortisation January 1, 2005 | 827 | 310 | | 5 568 | 3 507 | 10 212 |
| Reclassification | | | | | -37 | -37 |
| Disposals | | 18 | 8 | 570 | 287 | 883 |
| Accumulated amortisation December 31, 2005 | 827 | 328 | 8 | 6 138 | 3 757 | 11 058 |
| Goodwill and other intangible assets, Net book amount January 1, 2005 | 632 | 113 | 140 | 1 872 | 969 | 3 726 |
| Goodwill and other intangible assets, Net book amount December 31, 2005 | 632 | 106 | 476 | 2 003 | 1 503 | 4 720 |

The group received EUR 296 thousand grants for development costs and EUR 36 thousand for other intangible assets. Grants have been recognised as acquisition cost allowance.

Internally generated capitalised intangible assets are costs incurred from opening new quarries.

13.1. Goodwill and other intangible assets

| | Goodwill | Patents and trademarks | Develop-ment costs | Internally generated capitalised intangible assets | Other intangible assets | Total |
|---|---|---|---|---|---|---|
| Cost January 1, 2004 | 1 767 | 403 | | 6 756 | 4 549 | 13 475 |
| Capitalised development costs | | | 140 | | | 140 |
| Additions | | 20 | | 684 | 325 | 1 029 |
| Disposals | 308 | | | | | 308 |
| Reclassification | | | | | -398 | -398 |
| Cost December 31, 2004 | 1 459 | 423 | 140 | 7 440 | 4 476 | 13 938 |
| Accumulated amortisation January 1, 2004 | 1 135 | 291 | | 4 974 | 3 230 | 9 630 |
| Reclassification | | | | | -156 | -156 |
| Disposals | | 19 | | 594 | 516 | 1 129 |
| Reclassification | | | | | -83 | -83 |
| Amortisation related to the disposals | 308 | | | | | 308 |
| Accumulated amortisation December 31, 2004 | 827 | 310 | 0 | 5 568 | 3 507 | 10 212 |
| Goodwill and other intangible assets, Net book amount January 1, 2004 | 632 | 112 | 0 | 1 782 | 1 319 | 3 845 |
| Goodwill and other intangible assets, Net book amount December 31, 2004 | 632 | 113 | 140 | 1 872 | 969 | 3 726 |

EUR 1 000

14. Investment property

| | 2005 Land | 2005 Buildings | 2004 Land | 2004 Buildings |
|---|---|---|---|---|
| Acquisition cost January 1 and December 31 | 188 | 115 | 188 | 115 |
| Accumulated depreciation and impairment January 1 | | 61 | | 56 |
| Depreciation | | 4 | | 5 |
| Accumulated depreciation and impairment December 31 | | 65 | | 61 |
| Investment property, net book amount January 1 | 188 | 54 | 188 | 59 |
| Investment property, net book amount December 31 | 188 | 50 | 188 | 54 |
| Fair value *) | | 280 | | |
| Pledged property | | 34 | | 34 |

*) The value of the real estates, that have market value on active markets, is based on the opinions of real estate agents.

15. Investments in associates

Tulikivi Corporation has an associate company, Stone Pole Oy, domicile in Juuka. Tulikivi holds 27.3 percent of the company's shares.

| Shares and interest in associates | 2005 |
|---|---|
| Acquisition cost January 1 | 32 |
| Additions | 13 |
| Impairment loss | -44 |
| Share of the (loss)/profit of associates | -1 |
| Acquisition cost December 31 | 0 |
| Other investments in associates January 1 | |
| Additions | 75 |
| Impairment loss | -75 |
| Share of the (loss)/profit of associates | 0 |
| Other investments in associates December 31 | 0 |
| Total investments in associates December 31 | 0 |

| | Assets | Liabilities | Sales | Loss | % of shares |
|---|---|---|---|---|---|
| Stone Pole Oy, Juuka | 310 | 247 | 158 | 120 | 27.3 |

Associate financials are unaudited.

16. Goodwill impairment testing

Group's goodwill origins from the Architectural stone business segment, that also is a cash generated unit, to which the total goodwill is allocated. The recoverable amount is based on the value in use calculations. The estimated cash flow projections are based on five-years business plans approved by the management. Estimated sales and production volumes are based on the existing property, plant and equipment. Assumptions used in plans are based on the estimated future domestic demand for natural stone. Tulikivi's weighted average cost of capital (WACC) before taxes is used as discount rate. Discount rate is 8 percent (8 percent in 2004). Based on the impairment test there was no need for impairment loss recognition.

17. Other financial assets

Other financial assets consist of financial assets classified as available-for-sale, mainly investments in unquoted shares.

EUR 1 000

## 18. Deferred tax assets and liabilities

| 18.1. Changes in deferred taxes during year 2005: | Dec. 31, 2004 | Recognised through profit and loss | Dec. 31, 2005 |
|---|---|---|---|
| Deferred tax assets: | | | |
| Provisions | 56 | 28 | 84 |
| Unused tax losses | 441 | -157 | 284 |
| Accumulated negative depreciation difference | 95 | 69 | 164 |
| Pension obligations | 18 | -18 | |
| Other items | 83 | -83 | |
| Deferred tax assets, total | 693 | -161 | 532 |
| Deferred tax liabilities: | | | |
| Capitalisation of intangible assets | | -124 | -124 |
| Accumulated depreciation difference | -545 | 88 | -457 |
| Other items | -159 | -52 | -211 |
| Deferred tax liabilities, total | -704 | -88 | -792 |

| 18.2. Changes in deferred taxes during year 2004: | Jan. 1, 2004 | Recognised through profit and loss | Subsidiaries acquired | Dec. 31, 2004 |
|---|---|---|---|---|
| Deferred tax assets: | | | | |
| Provisions | 17 | 39 | | 56 |
| Unused tax losses | 650 | -209 | | 441 |
| Accumulated negative depreciation difference | | 95 | | 95 |
| Pension benefits | 350 | -332 | | 18 |
| Other items | 41 | 42 | | 83 |
| Deferred tax assets, total | 1 058 | -365 | | 693 |
| Deferred tax liabilities: | | | | |
| Accumulated depreciation difference | -690 | 145 | | -545 |
| Other items | -4 | -65 | -90 | -159 |
| Deferred tax liabilities, total | -694 | 80 | | -704 |

At December 31, 2005 deferred tax assets of EUR 267 thousand retaling to unused tax losses were not recorded since it is not probable that that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. These unused tax losses will expire in 2008-2013.

Deferred tax assets include current tax assets for EUR 88 thousand (EUR 162 thousand in 2004). Deferred tax liabilities include current tax liabilities for EUR 48 thousand (in 2004 there was no current tax liabilities).

| 19. Inventories | 2005 | 2004 |
|---|---|---|
| Raw materials and consumables | 3 671 | 3 159 |
| Work in progress | | 73 |
| Finished goods | 3 344 | 4 223 |
| Inventories, total | 7 015 | 7 455 |

A write-down of EUR 45 thousands was recognised during the financial year to lower the book value of the inventories to their net realisable value. (EUR 33 thousands in 2004)

| EUR 1 000 | 2005 | 2004 |
|---|---|---|
| **20. Trade and other receivables** | | |
| **20.1. Non-current** | | |
| Trade receivables | 158 | 173 |
| **20.2. Current** | | |
| Trade receivables | 6 472 | 6 611 |
| Trade receivables from associates | 1 | |
| Current tax assets based on the taxable income for the financial period | 39 | 116 |
| Receivables from construction contract clients | | 271 |
| Prepaid expenses and accrued income | | |
| Grant receivables | 365 | 158 |
| Prepayments | 245 | 216 |
| Other accrued income | 233 | 18 |
| Other receivables | 131 | 85 |
| Current trade and other receivables, total | 7 486 | 7 475 |
| **21. Cash and cash equivalents measured at fair value through profit and loss** | | |
| Investments in mutual funds | | 752 |
| **22. Cash and cash equivalents** | | |
| Cash in hand and at bank | 4 141 | 5 086 |

## 23. Notes to shareholders' equity

| Share series | Number of shares | Nominal value EUR | % of shares | % of voting rights | Share, EUR of share capital |
|---|---|---|---|---|---|
| K shares (10 votes) | 2 385 000 | 0,68 | 26.19 | 78.01 | 1 621 800 |
| A shares (1 vote) | 6 721 385 | 0,68 | 73.81 | 21.99 | 4 570 542 |
| Total at January 1 and December 31 | 9 106 385 | | 100.00 | 100.00 | 6 192 342 |

Maximum amount of shares is 15 000 000 (15 000 000 in year 2004). The nominal value is EUR 0.68 per share and maximum share capital is EUR 10.2 million (EUR 10.2 million in 2004). All issued shares have been paid in full.

Translation differences
Translation differences consist of translation differencies related to translation of the financial statements of foreign entities into Group reporting currency.

| 24. Group's distributable equity | 2005 | 2004 |
|---|---|---|
| Retained earnings | 13 943 | 11 645 |
| The proportion of untaxed reserves included in shareholders' equity. | -2 612 | -2 565 |
| Total distributable equity | 11 331 | 9 080 |

Parent company's distributable equity was EUR 9 760 thousand (EUR 8 453 thousand in 2004).

Dividends
The Board of Directors has proposed after the balance sheet date that a dividend of EUR 0.280 per share will be paid for A series shares and EUR 0.273 per share to be paid for the K series shares.

## 25. Pension obligations

All Group's pension plans where defined contribution plans at December 31, 2005. Balance sheet at December 31, 2004 included a pension obligation of EUR 0.1 million resulting from classification of the disability component of the Finnish statutory pension system as defined benefit plan. The obligation was recognised in income due to change in the calculation principles of Finnish statutory employment scheme's disability pension component, that came into force on January 1, 2006.

| Balance sheet's defined benefit obligation is determined as follows: | | |
|---|---|---|
| Current value of unfunded obligations | 27 | 1 352 |
| Reduction of the plan | -27 | -1 282 |
| Balance sheet pension liability | 0 | 70 |

| EUR 1 000 | 2005 | 2004 |
|---|---|---|
| 25.1. Income statement charge for defined benefit plans is determined as follows: | | |
| Interest cost | 27 | 187 |
| The expected profit on the plan's assets | 5 | 74 |
| Actuary gains and losses | | 29 |
| Loss/gain on the reduction of the plan | -27 | -1 282 |
| Deferred Finnish pension liability | -74 | -145 |
| Additional expense (+) / decrease in expense (-) of income statement | -70 | -1 137 |
| 26. Provisions | | |
| Warranty provision January 1 | 215 | 60 |
| Increase in provisions | 282 | 289 |
| Used provisions | -175 | -134 |
| Warranty provision December 31 | 322 | 215 |

There is a warranty period of five years related to certain products of Tulikivi Group. During the warranty period faults consistent with the warranty contract are fixed at company's expense. Warranty provision is based on previous years experience on the faulty products, taking into consideration improvements.

| | | |
|---|---|---|
| 27. Interest-bearing liabilities | | |
| Balance sheet value | 3 347 | 8 647 |
| 27.1 Non-current | | |
| Bank borrowings | 1 811 | 6 143 |
| 27.2. Current | | |
| Current portion of non-current bank borrowings | 1 536 | 2 504 |
| Non-current loans expire as follows: | | |
| 2005 | | 2 504 |
| 2006 | 1 536 | 2 941 |
| 2007 | 1 152 | 1 152 |
| 2008 | 490 | 1 620 |
| 2009 | 169 | 430 |
| Interest-bearing liabilities, total | 3 347 | 8 647 |

Debt obligations are denominated in euro.
Debts mainly have floating interest rate.

At December 31, 2005 interest-bearing non-current liabilities effective interest rate weighted average was 2.97 percent.

Fair values of interest-bearing liabilities
Balance sheet value of debts is close to the fair values, because most of the loans have floating interest rate and the company's risk premium has stayed unchanged.

The Group has some lease contracts on office equipment. They are not recognised as finance leases due to their low value. The remaining liability on the lease contracts totalled EUR 37 thousand (EUR 34 thousand in 2004).

| EUR 1 000 | 2005 | 2004 |
|---|---|---|
| 28. Trade and other payables | | |
| 28.1. Non-current | | |
| Unpaid acquisition price of subsidiaries | 347 | 347 |
| 28.2. Current | | |
| Trade payable | 1 787 | 1 689 |
| Advances received | 67 | 10 |
| Accrued expenses | | |
| Wages and social security expenses | 4 380 | 3 895 |
| Discounts and marketing expenses | 1 471 | 696 |
| External services | 822 | 743 |
| Quarry area fees | 411 | |
| Other accrued expenses | 504 | 1 086 |
| Amounts due to associates | 7 | |
| Other liabilities | 756 | 654 |
| Current trade and other payables, total | 10 205 | 8 773 |

Other accrued expenses include amortised personnel and other business operation expenses.

## 29. Financial risk management

The Group's activities expose it to a variety of financial risks. The Group's overall risk management policy seeks to minimize potential adverse effects on the Group's financial performance. The main financial risks the Group is exposed to are energy price risk, market risk, and liquidity risk.

The general policies of risk management are approved by the Board of Directors and are then carried out by a central treasury department in close co-operation with the Group's operating units.

Energy price risk
The Group consumes energy in its operations and the price of the energy is determined on the Norwegian electricity market, Nord Pool ASA. The price risk related to electricity is lowered with fixed-price delivery contracts, that comprise 50 per cent of the electricity required. In 2005 Tulikivi's production units consumed 14 702 MWh (2004: 14 560 MWh) of electricity.

Market risk and foreign exchange risk
90 per cent of the Group's revenue is denominated in euro. Exposures to other currency risks are minor. To manage foreign exchange risk arising from future commercial transactions, entities use forward contracts the hedge of ratio of which varies case by case. At the balance sheet date the Group had no foreign exchange forwards or other hedging instruments outstanding. The foreign entities' share capital is denominated in US dollars. The Group does not hedge foreign entities' equity, because of the foreign entities' liabilities to the Group.

Cash flow and fair value credit risk
Credit risks associated with commercial activities are minimized by client credit insurance. These amounted for 53 per cent of the receivables at December 31, 2005 (40 per cent at December 31, 2004). The risk management policy of the Group defines the credit rating requirements of clients and derivative contact counterparties and investment strategies.

Market risk and fair value interest rate risk
The Group can raise borrowings at fixed or floating interest rates. At the balance sheet date the Group had 38 per cent of its borrowings in fixed rate instruments. The Group had no interest rate swaps outstanding at the balance sheet date.

Liquidity risk
The Group aims to constantly evaluate and follow the funding required by the operations in order to meet commitments of sufficient liquid assets for funding and repayment of maturing loans. Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available and using several different banks in their financing acticities. The amount of unrealised credit limits at December 31, 2005 was EUR 4.3 million.

| EUR 1 000 | 2005 | 2004 |
|---|---|---|

### 30. Adjustments of cash generated from operations

| | | |
|---|---|---|
| Non-cash transactions: | | |
| Depreciations and amortisations | 3 956 | 3 973 |
| Impairment | 31 | |
| Change in pension obligations | -70 | -1 136 |
| Share of profit of associates | 88 | |
| Exchange differences | 53 | -22 |
| Other | 10 | -15 |
| Non-cash transactions, total | 4 068 | 2 800 |

### 31. Leases

Operating leases

#### 31.1. Group as lessee

| | | |
|---|---|---|
| Future aggregate minimum lease payments under non-cancellable operating leases: | | |
| Not later than 1 year | 468 | 474 |
| Later than 1 year and not later than 5 years | 93 | 207 |
| Later than 5 years | | 4 |

The Group has leased several production and office facilities. The agreements are mainly made for the time being. Fixed-term leases include an option to continue the agreement after the initial date of expiration.

#### 31.2. Group as lesser

The Group has leased commercial spaces and offices from its own properties under cancellable operating leases. In addition, the Group has subleased some of its offices.

### 32. Commitments

| | | |
|---|---|---|
| Debt with related mortgages and pledges | | |
| Loans from credit institutions | 2 866 | 7 614 |
| Credit limit accounts | 4 300 | 840 |
| Real estate mortgages given | 5 826 | 5 826 |
| Company mortgages given | 4 701 | 4 701 |
| Pledged mining rights | 226 | 226 |
| Total given mortgages and pledges | 10 753 | 10 753 |
| Liabilities, for which shares have been pledged | | |
| Loans from credit institutions | | 61 |

As pledge has been given the shares of AWL Marmori Oy, the book value of which is EUR 8 000.

| | | |
|---|---|---|
| Other own liabilities for which guarantees have been given | | |
| Letter of credit limit | 150 | 60 |
| Production and warranty guarantees, limit | 633 | 500 |
| Other commitments | 125 | 25 |
| Other own liabilities for which guarantees have been given | 908 | 585 |
| Real estate mortgages given | 1 716 | 1 716 |
| Pledges given | 10 | 10 |
| Total guarantees given on behalf of other than own liabilities | 1 726 | 1 726 |

### 33. Contingent purchase price

The purchase price of the Kivia Oy shares acquired in 2003 is partly contingent. If the terms and conditions of the contingent prices are fulfilled, purchase prices of EUR 0.4 million now included in other long-term liabilities and EUR 0.3 million now off balance sheet will fall due in 2006 and 2008 respectively.

EUR 1 000

## 34. Other contingent liabilities

Environmental obligations
Tulikivi Corporation's environmental obligations and the factors related to meeting these obligations, can be grouped into the following categories:

- Prevention of environmental degradation
  The required measures are continuously being implemented as part of normal production work. The group includes water treatment, land and stone material stacking area arrangements, vibration and noise level measurements, prevention of dusting, as well as related tracking point monitoring work.
- Measures to be carried out at factory or quarry areas when closing down a factory or quarry
  This category includes stacking area lining work, water system arrangements, the establishment of tracking points, as well as ensuring that safety conditions are met. In all of Tulikivi Corporation's quarry areas, the aim is to carry out the required stacking area lining work in conjunction with normal quarrying operations by transporting land materials from the new quarries to cover older stacking areas. The lining work conducted alongside normal operations is not expected to generate additional expenses as it releases the company of the need to stack unstable land materials elsewhere. These costs will be recognised when occurred. The landscaping obligations related to these measures consist mainly of planting or sowing vegetation.

The amount of the abovementioned obligations can not be estimated reliably and have therefore not been included in the financial statements. Based on the environmental authorisations, the Group has given guarantees to the effect of EUR 30 000 in total. For other environmental obligations, the Group has given real estate mortgages for EUR 33 638.

## 35. Related-party transactions

| 35.1. The Group's parent company and subsidiaries have the following relation: | Ownership interest (%) | Share of voting right (%) |
|---|---|---|
| Tulikivi Corporation, Juuka, parent company | | |
| Kivia Oy, Kuhmo | 100 | 100 |
| Tulikivi U.S., Inc., USA | 100 | 100 |
| AWL-Marmori Oy, Turku | 100 | 100 |
| The New Alberene Stone Company Inc., USA | 100 | 100 |
| Tulikivi Vertriebs GmbH, Germany | 100 | 100 |
| OOO Tulikivi Russia, Russia | 100 | 100 |
| Associated companies | | |
| Stone Pole Oy, Juuka | 27 | |

### 35.2. Related party transactions:

| 35.2.1. Sales of goods and services | 2005 | 2004 |
|---|---|---|
| Sales of goods to | | |
| Subsidiaries | 1 167 | 809 |
| Associates | | 1 |
| Sales of services to | | |
| Subsidiaries | 239 | 365 |
| Associates | 35 | 58 |

| 35.2.2. Purchases of goods and services | | |
|---|---|---|
| Purchases of goods from subsidiaries | 257 | 104 |
| Purchases of services from subsidiaries | 52 | 2 |

| 35.3. Outstanding balances | | |
|---|---|---|
| Sales receivables from subsidiaries | 142 | 200 |
| Loan receivables from subsidiaries | 858 | 1 108 |
| Other receivables from subsidiaries | 24 | 11 |
| Trade payables to subsidiaries | 27 | 0 |
| | | |
| Subsidiary guaranties | 57 | |

| EUR 1 000 | 2005 | 2004 |
|---|---|---|
| **35.4. Transactions with key management** | | |
| Leases from related parties | 84 | 71 |
| Leases to related parties | 3 | 2 |

At December 31, 2005, the Group had EUR 5 thousand in receivables from key management.

### 35.5. Transactions with other related parties

Tulikivi Corporation is a founder member of the Kivimuseo- ja Kivikyläsäätiö of Juuka. In 2005 the company has donated EUR 50 000 (EUR 110 000 in 2004) to the foundation. In addition, the company has leased offices and storages from the property owned by the foundation and Pohjois-Karjalan Koulutuskuntayhtymä. The rent paid for these facilities was EUR 120 407 in 2005 (EUR 118 951 in 2004). The rent corresponds to the market level of rents. The service charges of Tulikivi Corporation where EUR 35 422 in 2005 (EUR 58 904 in 2004). The Group has EUR 540 in accounts payable and EUR 2 584 in accounts receivable from the foundation at December 31, 2005.

### 35.6. Key management compensation

| | 2005 | 2004 |
|---|---|---|
| Salaries and other short-term employee benefits of the Chairman of the Board of Directors and the Managing Director | 434 | 411 |
| Salaries and commissions | | |
| Managing Director | 174 | 156 |
| Members of the Board of Directors | | |
| Erma Juhani | 18 | 17 |
| Makkonen Eero | 11 | 11 |
| Paukkonen Aimo | 11 | 11 |
| Bishop Ambrosius | 11 | 11 |
| Vauhkonen Heikki | 90 | 90 |
| Vauhkonen Reijo | 43 | 43 |
| Virtaala Matti | 76 | 72 |

### 36. Events after the balance sheet date

The Group has started a EUR 5 million factory investment at the factory in Juuka after the end of the reporting period. The investment will be finished in the autumn of the current year. In the beginning of 2006 Tulikivi got a permission for exploration, research and production of soapstone in Russia.

### 37. Transition to IFRS

As mentioned in the Accounting principles of the notes to the consolidated financial statements, these are the first financial statements of the Group that have been prepared in accordance with International Financial Reporting Standards. Before the adoption of IFRS Tulikivi's consolidated financial statements have been prepared in accordance with Finnish Accounting Standards. The transition to IFRS has changed the reported financial statements, its notes and the accounting principles compared to previous financial statements. The Accounting principles expressed in the Accountig principles of the Note, have been applied in the preparation of the financial statements at December 31, 2005, the corresponding figures at December 31, 2004 as well as the opening IFRS-balance sheet at January 1, 2004 (the transition date).
The later presented reconciliations and explanations define the differences of IFRS compared to FAS in 2004 and at the transition date at January 1, 2004.

37.1. Reconciliation of equity at January 1, 2004 and at December 31, 2004

| MEUR | Note | FAS at January 1, 2004 | Impact of IFRS-transition | IFRS at January 1, 2004 | FAS at December 31, 2004 | Impact of IFRS-transition | IFRS at December 31, 2004 |
|---|---|---|---|---|---|---|---|
| Assets | | | | | | | |
| Non-current assets | | | | | | | |
| Property, plant and equipment | (4,5) | 16.2 | 0.1 | 16.3 | 15.5 | 0.6 | 16.1 |
| Goodwill | (2) | 0.6 | | 0.6 | 0.3 | 0.3 | 0.6 |
| Other intangible assets | (5) | 3.3 | -0.1 | 3.2 | 3.8 | -0.5 | 3.3 |
| Investment property | | 0.2 | | 0.2 | 0.2 | | 0.2 |
| Investments held for sale | | 0.1 | | 0.1 | 0.1 | | 0.1 |
| Deferred tax receivables | (4) | 0.7 | 0.4 | 1.1 | 0.6 | 0.1 | 0,7 |
| Total non-current assets | | 21.1 | 0.4 | 21.5 | 20.5 | 0.5 | 21.0 |
| Current assets | | | | | | | |
| Inventories | (3) | 7.0 | -0.1 | 6.9 | 7.5 | | 7.5 |
| Trade and other receivables | (3) | 7.1 | | 7.1 | 7.6 | -0.3 | 7.3 |
| Prepayments | | | | | 0.3 | | 0.3 |
| Financial assets | | | | | | | |
| recognised at fair value through profit or loss | | 0.7 | | 0.7 | 0.7 | | 0.7 |
| Cash and cash equivalents | | 5.8 | -0.1 | 5.8 | 5.1 | | 5.1 |
| Total current assets | | 20.6 | -0.2 | 20.5 | 21.2 | -0.3 | 20.9 |
| Total assets | | 41.7 | 0.2 | 42.0 | 41.7 | 0.2 | 41.9 |
| Equity and liabilities | | | | | | | |
| Share capital | | 6.2 | | 6.2 | 6.2 | | 6.2 |
| Share premium | | 5.4 | | 5.4 | 5.4 | | 5.4 |
| Retained earnings | | 12.8 | -0.,9 | 11.9 | 11.6 | | 11.6 |
| Total equity | | 24.4 | -0.9 | 23.5 | 23.2 | 0.0 | 23.2 |
| Non-current assets liabilities | | | | | | | |
| Deferred tax liabilities | (4) | 0.7 | | 0.7 | 0.5 | 0.2 | 0.7 |
| Pension obligations | (1) | | 1.2 | 1.2 | | | |
| Provisions | | 0.1 | | 0.1 | 0.2 | | 0.2 |
| Interest-bearing liabilities | | 5.0 | | 5.0 | 6.1 | | 6.1 |
| Other liabilities | | | | | 0.4 | | 0.4 |
| Total non-current liabilities | | 5.8 | 1.2 | 7.0 | 7.2 | 0.2 | 7.4 |
| Current liabilities | | | | | | | |
| Trade and other payables | | 8.4 | | 8.4 | 8.8 | | 8.8 |
| Current income tax liabilities | | 0.3 | | 0.3 | | | |
| Current interest-bearing liabilities | | 2.8 | | 2.8 | 2.5 | | 2.5 |
| Total current liabilities | | 11.5 | | 11.5 | 11.3 | | 11.3 |
| Total liabilities | | 17.3 | 1.2 | 18.5 | 18.5 | 0.2 | 18.7 |
| Total equity and liabilities | | 41.7 | 0.3 | 42.0 | 41.7 | 0.2 | 41.9 |

37.2. Profit reconciliation at January 1 - December 31, 2004

| MEUR | Note | FAS Jan. 1 - Dec. 31, 2004 | Impact of IFRS transition | IFRS Jan. 1 - Dec. 31, 2004 |
|---|---|---|---|---|
| Sales | | 55.3 | | 55.3 |
| Other operating income | | 0.5 | | 0.5 |
| Increase / decrease in inventories of finished goods and in work in progress | | 0.5 | | 0.5 |
| Production for own use | | 0.8 | | 0.8 |
| Raw materials and consumables | (3) | 9.0 | 0.1 | 8.9 |
| External services | | 7.0 | | 7.0 |
| Personnel expense | (1) | 20.1 | 1.1 | 19.0 |
| Depreciation and amortisation | (2) | 4.3 | 0.3 | 4.0 |
| Other operating expenses | (3) | 11.7 | -0.3 | 12.0 |
| Operating profit | | 5.0 | 1.2 | 6.2 |
| Per cent of turnover | | 9.1 | | 11.4 |
| Financial income and expenses | | -0,1 | | -0,1 |
| Profit before income tax | | 4.9 | 1.2 | 6.1 |
| Per cent of turnover | | 8.8 | | 11.1 |
| Income tax expense | (4) | 1.4 | -0.4 | 1.8 |
| Profit for the year | | 3.5 | 0.8 | 4.3 |
| Earnings per share, EUR | | 0.38 | | 0.48 |

37.3. Summary of IFRS' impact on retained earnings

| MEUR | Note | At January 1, 2004 | At December 31, 2004 |
|---|---|---|---|
| Retained earnings according to FAS | | 12.8 | 11.6 |
| IAS 19 Employee benefits | (1) | -1.2 | |
| IFRS 3 Business combinations | (2) | | 0.3 |
| IAS 38 Intangible assets | (3) | -0.1 | -0.3 |
| IAS 12 Income taxes | (4) | 0.4 | |
| Retained earnings according to IFRS | | 11.9 | 11.6 |

## 37.4. Notes to the reconciliations of equity at January 1, 2004 and at December 31, 2004, and to the reconciliations of profit from January 1 to december 31, 2004

(1) Pension obligations
When determining the pension obligations on transition the disability component of the Finnish statutory pension system was accounted for as defined benefit plan. The defined benefit obligation calculated based on IAS 19 and the actuarially calculated obligation of EUR 1.2 million was booked to opening IFRS balance sheet. In December 2004 the Finnish Ministry of Social Matters and Health approved some changes to basis for calculation of the disability component of the Finnish statutory pension system. The changes come into force as at January 1, 2006. Due to the changes the disability component is classified and accounted for as defined contribution plan in the IFRS consolidated financial statements. The change in pension liabilities due to this change in classification is included as a one-off item in profit of 2004. The effect in the profit is EUR 1.2 million. In the IFRS balance sheet as of December 31, 2004 the pension liability related to the disability component is less than EUR 0.1 million.

(2) Depreciation of goodwill
Accoring to the IFRS 3 goodwill is not depreciated according to plan, instead tested for potential impairment annually according to IAS 36. This change in accounting policies improves the operating profit before taxes for 2004 by EUR 0.3 million.

(3) Intangible assets
According to IAS 38 certain development costs are capitalized as certain criteria are met. Based on this the development costs incurred in 2004 related to new products, that fulfill the criteria of IAS 38 were capitalised already in the 2004 FAS financial statements.
Costs from marketing and promotion activies are expensed under IAS 38 when the goods are delived or services rendered. Under FAS these costs have been capitalised and deferred when the economic benefits related to them are expected to accrue mainly during the forthcoming financial period. This adjustment decreases inventories at the transition date by EUR 0.1 million and other receivables as at December 31, 2004 by EUR 0.3 million and increases other operating expenses of 2004 by EUR 0.2 million.

(4) Income taxes
According to IAS 12 deferred tax liabilities and assets should be booked on all taxable temporary differences.
Change in accounting policy for booking deferred taxes based on above mentioned principles resulted in changes in deferred tax expense in the income statement and in deferred tax assets and liabilities in the balance sheet of EUR 0.4 million regarding the net deferred tax liability. In addition, the deferred tax liability of the IFRS balance sheet includes a liability of EUR 0.1 million related to contingent acquisition price of a subsidiary acquisition from 2004.

(5) Property, plant and equipment
A portion of EUR 0.5 million of the subsidiary purchase price that was allocated to stone reserves is presented under tangible assets in the IFRS balance sheet. Under FAS the asset was presented in intangible assets. In addition, the increase in tangible asset book value is due to deferred tax liability related to the share of the abovementioned contingent purchase price of the subsidiary acquisition that was allocated to stone reserves.

(6) Events after the balance sheet date
The dividend of EUR 4.6 million is recognised in the FAS - financial statement in the first quarter and in the IFRS-balance sheet according to IAS 10 in the second quarter.

Explanation of the significant impacts on the cash flow statement
There are no significant differencies between the cash flow statement measured according to IFRS and FAS.

# Key Figures Describing Financial Development and Earnings per Share

| FINANCIAL DEVELOPMENT<br>EUR 1 000 | 2001<br>FAS | 2002<br>FAS | 2003<br>FAS | 2004<br>IFRS | 2005<br>IFRS |
|---|---|---|---|---|---|
| Sales | 58 690 | 52 462 | 53 611 | 55 291 | 58 642 |
| Change, % | 25.1 | -10.6 | 2.2 | 3.1 | 6.1 |
| Operating profit | 6 575 | 3 160 | 4 224 | 6 283 | 6 285 |
| % of turnover | 11.2 | 6.0 | 7.9 | 11.4 | 10.7 |
| Finance incomes and expenses and share of loss of associated company | -107 | 133 | 36 | -161 | -222 |
| Profit before taxes | 6 468 | 3 293 | 4 269 | 6 122 *) | 6 063 |
| % of turnover | 11.0 | 6.3 | 8.0 | 11.1 | 10.3 |
| Profit for the period | 4 576 | 2 249 | 3 030 | 4 350 | 4 366 |
| % of turnover | 7.8 | 4.3 | 5.7 | 7.9 | 7.4 |
| Cash and cash equivalents | 5 148 | 7 229 | 6 501 | 5 839 | 4 141 |
| Equity | 26 905 | 25 962 | 24 384 | 23 166 | 25 517 |
| Non-interest bearing debt | 10 985 | 8 911 | 9 454 | 10 109 | 11 722 |
| Balance sheet total | 43 708 | 43 124 | 41 674 | 41 922 | 40 588 |
| Return on equity, % | 18.7 | 9.2 | 12.1 | 18.7 | 17.9 |
| Return on investments, % | 22.6 | 10.9 | 13.7 | 20.3 | 20.7 |
| Solvency ratio, % | 63.5 | 61.5 | 58.7 | 55.3 | 63.0 |
| Net indebtness ratio, % | 2.5 | 3.9 | 5.5 | 12.1 | -3.1 |
| Gross investments | 6 360 | 3 923 | 2 916 | 3 937 | 5 095 |
| % of turnover | 10.8 | 7.5 | 5.4 | 7.1 | 8.7 |
| Research and development costs | 1 419 | 1 338 | 1 325 | 1 497 | 1 652 |
| % of turnover | 2.4 | 2.6 | 2.5 | 2.7 | 2.8 |
| Development costs, capitalised | | | | 140 | 344 |
| Order book, EUR million | 6.4 | 3.9 | 7.1 | 5.4 | 9.2 |
| Average personnel | 558 | 578 | 555 | 513 | 514 |

| KEY INDICATORS PER SHARE | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Earnings per share | 0.51 | 0.27 | 0.34 | 0.48 | 0.48 |
| Equity per share, EUR | 2.95 | 2.85 | 2.68 | 2.54 | 2.80 |
| Dividends | | | | | |
| Nominal dividend per share, EUR | | | | | |
| A share | 0.30 | 0.47 | 0.51 | 0.23 | 0.280 **) |
| K share | 0.29 | 0.45 | 0.50 | 0.22 | 0.273 **) |
| Dividend per earnings, % | 58.1 | 172.6 | 151.2 | 47.6 | 58.0 |
| Effective dividend yield, % / A shares | 6.8 | 11.8 | 9.8 | 3.6 | 3.4 |
| Price/earnings ratio, EUR | 8.6 | 14.9 | 15.4 | 13.2 | 17.0 |
| Highest share price, EUR | 4.40 | 4.70 | 5.70 | 8.20 | 9.00 |
| Lowest share price, EUR | 3.00 | 3.40 | 3.50 | 5.25 | 5.55 |
| Average share price, EUR | 3.50 | 4.14 | 4.37 | 6.75 | 7.17 |
| Market capitalization, EUR 1 000 (supposing that the market price of the K share is the same as that of the A share) | 39 576 | 36 426 | 47 171 | 57 552 | 74 308 |
| Number of shares traded, (1 000 pcs) | 1 336.5 | 1 313.0 | 1 510.3 | 1 333.5 | 1 216.5 |
| % of the total amount | 19.9 | 19.5 | 22.5 | 19.8 | 18.1 |
| The average issue-adjusted number of the shares for the financial year, (1 000 pcs) | 8 942 | 8 993 | 9 106 | 9 106 | 9 106 |
| The issue-adjusted number of outstanding shares at December 31 (1 000 pcs) | 8 998 | 9 106 | 9 106 | 9 106 | 9 106 |

*) The comparative operating profit for 2004 is EUR 5.0 million. The difference is due to the non-recurring reduction of the disability pension obligation, amounting to 1.2 million, in 2004 due to the change in pension system under the Employees' Pension Act.

**) According to the proposal of the Board of Directors.

# Calculations of Key Ratios

### Key figures describing financial development

| | | |
|---|---|---|
| Return on equity (ROE), % = | 100 x | Profit for the year / Average shareholders´equity during the year |
| Return on investments (ROI), % = | 100 x | Operating profit / loss - taxes + interest and other finance expenses / Balance sheet total - non-interest bearing liabilities (mean value of beginning and end of the year) |
| Solvency ratio, % = | 100 x | Shareholder equity / Balance sheet total - advance payments |
| Net indebtness ratio, % = | 100 x | Interest-bearing liabilities - assets / Shareholder equity |

### Key figures per share

| | | |
|---|---|---|
| Earnings per share = | | Profit for the year / Average issue-adjusted number of shares for the financial year |
| Equity per share = | | Share capital / Issue-adjusted number of shares at balance sheet date |
| Dividend per share = | | Dividend paid for the year / Issue-adjusted number of shares at balance sheet date |
| Dividend per earnings, % = | 100 x | Dividend per share / Earnings per share |
| Effective dividend yield, % = | 100 x | Issue-adjusted dividend per share / The closing price of A share at balance sheet date |
| Price / Earnings ratio (P/E)= | | The closing price of A share at balance sheet date / Earnings per share |

# Parent Company Financial Statements, FAS

## Income Statement

| EUR 1 000 | Note | Parent company 2005 | 2004 |
|---|---|---|---|
| Net Sales | 1.1. | 55 166 | 51 788 |
| Increase (+) / decrease (-) in inventories in finished goods and in work in progress | | -662 | 78 |
| Production for own use | | 780 | 280 |
| Other operating income | 1.2. | 853 | 920 |
| Materials and external changes | 1.3. | 15 585 | 14 900 |
| Personnel expenses | 1.4. | 20 165 | 19 141 |
| Depreciation and value adjustments | 1.5. | 3 896 | 3 867 |
| Other operating expenses | | 11 605 | 10 729 |
| Operating profit | | 4 886 | 4 429 |
| Financial income and expenses | 1.6. | -208 | -119 |
| Profit before extraordinary items | | 4 678 | 4 310 |
| Extraordinary items | 1.7. | 61 | 167 |
| Profit before untaxed reserves and income taxes | | 4 739 | 4 477 |
| Untaxed reserves | 1.8. | 41 | 28 |
| Income taxes | 1.9. | -1 405 | -1 454 |
| Profit for the year | | 3 375 | 3 051 |

## Balance Sheet

| EUR 1 000 | Note | 2005 | 2004 |
|---|---|---|---|
| Assets | | | |
| Fixed asset and other non-current investments | | | |
| Intangible assets | 2.1. | 3 153 | 2 902 |
| Goodwill | 2.1. | 47 | |
| Tangible assets | 2.2. | 14 856 | 15 014 |
| Investments | | | |
| Shares in group companies | 2.3. | 572 | 570 |
| Group receivables | 2.4. | 524 | 524 |
| Participating interests | | 1 | |
| Other investments | 2.5. | 37 | 69 |
| Fixed assets and other non-current investments, total | | 19 190 | 19 079 |
| Current assets | | | |
| Inventories | 2.6. | 6 484 | 6 624 |
| Non-current receivables | 2.7. | 1 040 | 1 119 |
| Deferred tax assets | 2.8. | 80 | 63 |
| Current receivables | 2.9. | 6 906 | 7 321 |
| Marketable securities | | | 752 |
| Cash in hand and at banks | | 3 958 | 4 855 |
| Total current assets | | 18 468 | 20 734 |
| Total assets | | 37 658 | 39 813 |
| Liabilities and shareholders' equity | | | |
| Shareholders' equity | | | |
| Capital stock | 2.10. | 6 192 | 6 192 |
| Share premium fund | 2.10. | 5 351 | 5 351 |
| Retained earnings | 2.10. | 6 385 | 5 402 |
| Profit for the year | 2.10. | 3 375 | 3 051 |
| Total shareholders' equity | | 21 303 | 19 996 |
| Untaxed reserves | | | |
| Accelerated depreciation | | 3 069 | 3 110 |
| Provisions | 2.12. | 307 | 200 |
| Liabilities | | | |
| Deferred tax liability | 2.13. | | 4 |
| Non-current liabilities | 2.14. | 2 055 | 6 212 |
| Current liabilities | 2.15. | 10 924 | 10 291 |
| Total liabilities | | 12 979 | 16 507 |
| Total liabilities and shareholders' equity | | 37 658 | 39 813 |

# Cash Flow Statement

| EUR 1 000 | 2005 | 2004 |
|---|---|---|
| Cash flow from operating activities | | |
| Profit before extraordinary items | 4 678 | 4 310 |
| Adjustments for: | | |
| Depreciation | 3 896 | 3 867 |
| Other non-payment-related expenses | 107 | 140 |
| Financial income and expenses | 208 | 119 |
| Other adjustments | 9 | -15 |
| Cash flow before working capital changes | 8 898 | 8 421 |
| Change in net working capital: | | |
| Increase (-) / decrease (+) in current non-interest bearing receivables | 226 | -554 |
| Increase (-) / decrease (+) in inventories | 141 | -103 |
| Increase (+) / decrease (-) in current non-interest bearing liabilities | 1 221 | 109 |
| Cash generated from operations before financial items and income taxes | 10 486 | 7 873 |
| Interest paid and payments on other financial expenses from operations | -271 | -298 |
| Dividends received | 4 | 31 |
| Interest received | 123 | 116 |
| Income taxes paid | -1 314 | -1 806 |
| Cash flow before extraordinary items | 9 028 | 5 916 |
| Extraordinary items paid | 61 | 166 |
| Net cash flow from operating activities (A) | 9 089 | 6 082 |
| Net cash flow from investing activities | | |
| Investments in tangible and intangible assets, gross | -3 969 | -2 670 |
| Investment grants received | 6 | 7 |
| Proceeds from sale of tangible and intangible assets | 94 | 51 |
| Loans given | -250 | -1 080 |
| Acquired subsidiary companies | -2 | -88 |
| Other investments | -87 | -737 |
| Repayments of loan receivables | 500 | |
| Proceeds on other investments | 756 | 741 |
| Interest received | 15 | |
| Net cash used in investing activities (B) | -2 937 | -3 776 |
| Cash flow from financing activities | | |
| Long-term borrowing | | 5 600 |
| Repayment of long-term loans | -4 977 | -3 959 |
| Dividends paid | -2 071 | -4 645 |
| Net cash flow from financing activities (C) | -7 048 | -3 004 |
| Net increase (+) / decrease (-) in cash and cash equivalents (A+B+C) | -896 | -698 |
| Cash and cash equivalents at the beginning of the financial year | 4 855 | 5 553 |
| Cash and cash equivalents at the end of the financial year | 3 959 | 4 855 |

# Notes to the Financial Statements

**Accounting Policy**

The financial statements have been prepared in accordance with the Finnish accounting law.

**Valuation of Fixed Assets**

Fixed assets have been disclosed in the balance sheet at acquisition cost net of received investment grants and depreciation according to plan. Depreciation according to plan have been calculated on straight-line method based on the economic life time of the assets as follows:

| | Depreciation period |
|---|---|
| Intangible rights and other long-term expenditure | 5 to 10 years |
| Goodwill | 5 years |
| Buildings | 25 to 30 years |
| Constructions | 5 years |
| Process machinery | 3 to 10 years |
| Motor vehicles | 5 to 8 years |
| IT equipment | 3 to 5 years |
| Development expenditure | 5 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. The cost of land areas relating to quarries is depreciated on the basis of the volumes of stone quarried.

**Valuation of Inventories**

Inventories have been presented in accordance with the average cost principle or the net realisable value, whichever is lower. The cost value of inventories includes direct costs and their proportion of indirect manufacturing and acquisition costs.

**Revenue Recognition**

Net sales represents sales after the deduction of discounts, indirect taxes and exchange gains/losses on trade receivables. Revenue has been recognized at the time of the delivery of the goods, with the exception of construction contracts pertaining to the Group's recognized on the basis architectural stone business, which require a long production time. The revenue generated by these contracts has been of percentage of completion method. As construction contracts requiring a long production time are regarded projects with revenues in excess of EUR 90 thousand. The stage of completion of these projects has been determined based on the costs occurred on the project in relation to its estimated costs of the project.

**Research and Development Cost**

Research and development expenditure has been recorded as annual costs when incurred. The costs generated by quarry area excavation studies have been capitalised and are amortised over their estimated lifetime.

**Retirement Costs**

Employee pension schemes have been arranged with external pension insurance companies. Pension costs are expensed for the year when occurred. Pension schemes for personnel outside Finland follow the local practices.

**Untaxed Reserves**

According to the Finnish corporate tax law untaxed reserves, such as accelerated depreciation, are tax deductible only if recorded in financial statements.

**Income Taxes**

Income taxes include taxes corresponding to the result for the financial period as well as the change in deferred tax liability and asset. The deferred tax liabilities and assets have been provided on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements using tax rate enacted at the balance sheet date for the following years. In the financial statements the deferred tax liabilities have been fully provided and deferred tax assets have been recognised to the extent they are probably coverable.

**Dividends**

The financial statements do not include the divided proposed by the Board of Directors to the annual shareholders' meeting. Dividends are recorded on the basis of the decision made by the annual general meeting.

**Foreign Currency Items**

Foreign currency balance sheet items have been valued at the average exchange rate prevailing on the balance sheet date as indicated by the European Central Bank.

| EUR 1 000 | 2005 | 2004 |
|---|---|---|
| **1.1. Net sales** | | |
| **1.1.1. Net sales per business area** | | |
| Fireplace business | 48 705 | 45 504 |
| Architectural stone business | 6 461 | 6 284 |
| Total net sales per business area | 55 166 | 51 788 |
| **1.1.2. Net sales per geographical area** | | |
| Finland | 24 998 | 24 833 |
| Rest of Europe | 29 069 | 26 169 |
| USA | 1 099 | 786 |
| Total net sales per geographical area | 55 166 | 51 788 |

Company's net sales include EUR 0.2 (0.7) million in net sales recognised based on the percentage of completion method. Of this amount there where no uncompleted projects (EUR 0.7 million in 2004).

| | 2005 | 2004 |
|---|---|---|
| **1.2. Other operating income** | | |
| Rental income | 65 | 65 |
| Charges for intergroup services | 321 | 470 |
| Government grants | 386 | 304 |
| Other | 81 | 81 |
| Total other operating income | 853 | 920 |
| **1.3. Materials and services** | | |
| Materials and supplies (good) | | |
| Purchases during the fiscal year | 10 009 | 8 575 |
| Change in inventories, increase (+) / decrease (-) | -521 | -25 |
| External charges | 6 097 | 6 350 |
| Total materials and services | 15 585 | 14 900 |
| **1.4. Personnel expenses and number of employees** | | |
| **1.4.1. Personnel expenses** | | |
| Salaries and wages | 16 135 | 15 205 |
| Pension expenses | 2 622 | 2 618 |
| Other social security expenses | 1 408 | 1 318 |
| Total personnel expenses | 20 165 | 19 141 |
| **1.4.2. Salaries and fees paid to Directors** | | |
| Salaries and fees paid to Members of the Board and the Managing Director | 434 | 411 |
| Salaries and wages | | |
| Managing Director | 174 | 156 |
| Members of the Board | | |
| Erma Juhani | 18 | 17 |
| Makkonen Eero | 11 | 11 |
| Paukkonen Aimo | 11 | 11 |
| Bishop Ambrosius | 11 | 11 |
| Vauhkonen Heikki | 90 | 90 |
| Vauhkonen Reijo | 43 | 43 |
| Virtaala Matti | 76 | 72 |

| | 2005 | 2004 |
|---|---|---|
| **1.4.3. Average number of employees during the fiscal year** | | |
| Clerical employees | 108 | 103 |
| Workers | 386 | 386 |
| Total number of employees | 494 | 489 |
| **1.5. Depreciation according to plan** | | |
| Intangible rights | 14 | 24 |
| Other long-term expenditure | 925 | 917 |
| Buildings and constructions | 444 | 429 |
| Machinery and equipment | 2 200 | 2 181 |
| Other tangible assets | 12 | 16 |
| Land areas | 15 | 14 |
| Goodwill | 286 | 286 |
| Depreciation according to plan in total | 3 896 | 3 867 |
| **1.6. Financial income and expenses** | | |
| Dividend income | | 45 |
| Interest income from non-current investments from group companies | 27 | 11 |
| Interest income | 69 | 96 |
| Interest expenses | -201 | -256 |
| Exchange rate gains / losses | 14 | -17 |
| Reduction in value of investments held as non-current assets | -118 | |
| Other financial income and expenses | 1 | 2 |
| Financial income and expenses in total | -208 | -119 |
| **1.7. Extraordinary items** | | |
| Extraordinary income | | |
| Settlement by Group company of receivable previously written-off | 61 | 167 |
| Extraordinary items in total | 61 | 167 |
| **1.8. Untaxed reserves** | | |
| Change in accelerated depreciation | 41 | 28 |
| **1.9. Income taxes** | | |
| Income taxes on extraordinary items | 16 | 48 |
| Income taxes on ordinary operations | 1 410 | 1 439 |
| Change in deferred tax liabilities / tax assets | -21 | -33 |
| Income taxes in total | 1 405 | 1 454 |

| EUR 1 000 | 2 005 | 2004 |
|---|---|---|

## Notes to the balance sheet

### Fixed assets

### 2.1. Intangible assets

#### 2.1.1. Intangible rights

| | | |
|---|---|---|
| Acquisition cost January 1 | 496 | 486 |
| Additions | 20 | 10 |
| Acquisition cost December 31 | 516 | 496 |
| Accumulated depreciation according to plan January 1 | 410 | 386 |
| Depreciation for the financial year | 14 | 24 |
| Accumulated depreciation December 31 | 424 | 410 |
| **Balance sheet value of intangible rights, December 31** | **92** | 86 |

#### 2.1.2. Goodwill

| | | |
|---|---|---|
| Acquisition cost January 1 | 1 345 | 1 666 |
| Deductions | | 321 |
| Acquisition cost December 31 | 1 345 | 1 345 |
| Accumulated depreciation according to plan January 1 | 1 012 | 1 046 |
| Accumulated depreciation on deductions | | 321 |
| Depreciation for the financial year | 286 | 287 |
| Accumulated depreciation December 31 | 1 298 | 1 012 |
| **Balance sheet value of goodwill, December 31** | **47** | 333 |

The parent company's goodwill comprises merger and liquidation losses.

#### 2.1.3. Other long term expenditures

| | | |
|---|---|---|
| Acquisition cost January 1 | 10 943 | 10 283 |
| Transfer between balance sheet headings | | 2 |
| Additions | 1 592 | 658 |
| Deductions | 89 | |
| Acquisition cost December 31 | 12 446 | 10 943 |
| Accumulated depreciation according to plan January 1 | 8 460 | 7 543 |
| Depreciation for the financial year | 925 | 917 |
| Accumulated depreciation December 31 | 9 385 | 8 460 |
| **Balance sheet value of long term expenditure, December 31** | **3 061** | 2 483 |
| **Total goodwill and intangible assets** | **3 200** | 2 902 |

The balance sheet value of other long term expenditure includes EUR 2.2 million for stone research and costs relating to the opening of new soapstone quarries and of quarries not yet taken into production use.

| | 2005 | 2004 |
|---|---|---|

### 2.2. Tangible assets

#### 2.2.1. Land

| | | |
|---|---|---|
| Acquisition cost January 1 | 1 172 | 1 144 |
| Transfer between balance sheet headings | | -2 |
| Additions | | 30 |
| Acquisition cost December 31 | 1 172 | 1 172 |
| Accumulated depreciation January 1 | 104 | 90 |
| Depreciation for the financial year | 15 | 14 |
| Accumulated depreciation December 31 | 119 | 104 |
| **Balance sheet value of land, December 31** | **1 053** | 1 068 |

#### 2.2.2. Buildings and constructions

| | | |
|---|---|---|
| Acquisition cost January 1 | 11 197 | 10 843 |
| Additions | 489 | 354 |
| Disposals | 24 | |
| Acquisition cost December 1 | 11 662 | 11 197 |
| Accumulated depreciation according to plan January 1 | 4 962 | 4 533 |
| Accumulated depreciation on disposals | 12 | |
| Depreciation for the financial year | 444 | 429 |
| Accumulated depreciation December 31 | 5 394 | 4 962 |
| **Balance sheet value of buildings and constructions, December 31** | **6 268** | 6 235 |

#### 2.2.3. Machinery and equipment

| | | |
|---|---|---|
| Acquisition cost January 1 | 31 695 | 30 178 |
| Additions | 2 128 | 1 630 |
| Disposals | 17 | 113 |
| Acquisition cost December 31 | 33 806 | 31 695 |
| Accumulated depreciation according to plan January 1 | 24 217 | 22 114 |
| Accumulated depreciation on disposals | 16 | 78 |
| Depreciation for the financial year | 2 200 | 2 181 |
| Accumulated depreciation December 31 | 26 401 | 24 217 |
| **Balance sheet value of machinery and equipment, December 31** | **7 405** | 7 478 |

#### 2.2.4.Other tangible assets

| | | |
|---|---|---|
| Acquisition cost January 1 and December 31 | 198 | 198 |
| Accumulated depreciation according to plan January 1 | 151 | 135 |
| Depreciation for the financial year | 12 | 16 |
| Accumulated depreciation December 31 | 163 | 151 |
| **Balance sheet value of other tangible assets, December 31** | **35** | 47 |
| 2.2.5. Advance payments | 95 | 186 |
| **Total tangible assets** | **14 856** | 15 014 |
| **Amount of machinery and equipment included in balance sheet value** | **6 862** | 6 975 |

EUR 1 000

## 2.3. Shares in Group Companies

| | 2005 | 2004 |
|---|---|---|
| | % | % |
| Kivia Oy, Kuhmo | 100 | 100 |
| Tulikivi U.S., Inc., USA | 100 | 100 |
| AWL-Marmori Oy, Turku | 100 | 100 |
| The New Alberene Stone Company Inc., USA | 100 | 100 |
| Tulikivi Vertriebs GmbH, Germany | 100 | 100 |
| OOO Tulikivi Russia, Russia | 100 | |

In addition to its subsidiaries, Tulikivi Corporation has a branch office in Germany, Tulikivi Oy Niederlassung Deutschland.

| | 2005 | 2004 |
|---|---|---|
| Participating interest undertaking | | |
| Stone Pole Oy, Juuka | 27 | |

## 2.4. Receivables from Group companies

| | 2005 | 2004 |
|---|---|---|
| Capital loan, AWL-Marmori Oy | 34 | 34 |
| Capital loan, Kivia Oy | 490 | 490 |
| Receivables from Group companies, total | 524 | 524 |

## 2.5. Other investments

| | 2005 | 2004 |
|---|---|---|
| Stone Pole Oy | 1 | 31 |
| Other | 37 | 38 |
| Total other investments | 38 | 69 |

## 2.6. Inventories

| | 2005 | 2004 |
|---|---|---|
| Raw material and consumables | 3 527 | 3 005 |
| Works in progress | | 73 |
| Finished products / goods | 2 957 | 3 546 |
| Total inventories | 6 484 | 6 624 |

## 2.7. Non-current receivables

| | 2005 | 2004 |
|---|---|---|
| Trade receivables | 158 | |
| Receivables from group companies | | |
| Loan receivables | 858 | 1 108 |
| Prepayments and accrued income | 24 | 11 |
| Total non-current receivables | 1 040 | 1 119 |

## 2.8. Deferred tax assets

| | 2005 | 2004 |
|---|---|---|
| Provisions | 80 | 52 |
| Other deferred tax assets | | 11 |
| Deferred tax assets, total | 80 | 63 |

## 2.9. Current receivables

| | 2005 | 2004 |
|---|---|---|
| Receivables form group companies | | |
| Trade receivables | 141 | 200 |
| Receivables from participating interest undertakings | | |
| Trade receivables | 1 | |
| Receivables form others | | |
| Trade receivables | 5 778 | 6 067 |
| Other receivables | 131 | 42 |
| Prepayments and accrued income | | |
| Receivables on long-term contracts | | 673 |
| Advances received from long-term contracts | | -402 |
| Other prepayments and accrued income | | |
| Receivables from grants | 365 | 158 |
| Prepayments | 245 | 458 |
| Employment pension receivable | 186 | |
| Other prepayments and accrued income | 59 | 125 |
| Receivables from other, total | 6 764 | 7 121 |
| Total current receivables | 6 906 | 7 321 |

## 2.10. Shareholders' equity

| | 2005 | 2004 |
|---|---|---|
| Capital stock January 1 | 6 192 | 6 192 |
| Capital stock December 31 | 6 192 | 6 192 |
| Share premium fund January 1 | 5 351 | 5 351 |
| Share premium fund December 31 | 5 351 | 5 351 |
| Retained earnings January 1 | 8 453 | 10 020 |
| Dividend paid | -2 068 | -4 618 |
| Retained earnings December 31 | 6 385 | 5 402 |
| Profit for the year | 3 375 | 3 051 |
| Total shareholders' equity | 21 303 | 19 996 |

## 2.11. Statement of distributable earnings December 31

| | 2005 | 2004 |
|---|---|---|
| Profit for the previous years | 6 385 | 5 402 |
| Profit for the year | 3 375 | 3 051 |
| Total distributable earnings | 9 760 | 8 453 |

## 2.12. Provisions

| | 2005 | 2004 |
|---|---|---|
| Warranty reserve | 307 | 200 |

| EUR 1 000 | 2 005 | 2004 |
|---|---|---|
| **2.13. Deferred tax liabilities** | | |
| Other deferred tax liabilities | | 4 |
| **Total deferred tax liabilities** | | 4 |
| **2.14. Non-current liabilities** | | |
| Loans from credit institutions | 1 708 | 5 865 |
| Other non-current liabilities | 347 | 347 |
| **Total non-current liabilities** | 2 055 | 6 212 |
| **2.15. Current liabilities** | | |
| Liabilities to group companies | | |
| Trade payables | 20 | |
| Liabilities to associates | | |
| Trade payables | 7 | |
| Liabilities to others | | |
| Loans from credit institutions | 1 362 | 2 182 |
| Advances received | 67 | 10 |
| Trade payables | 1 692 | 1 579 |
| Other current liabilities | 693 | 601 |
| Accrued liabilities | | |
| Salaries, wages and social costs | 4 224 | 3 692 |
| Discounts and marketing expenses | 1 428 | 679 |
| External charges | 724 | 634 |
| Tax liabilities | 40 | |
| Other accrued liabilities | 667 | 914 |
| **Total current liabilities** | 10 924 | 10 291 |

| | 2005 | 2004 |
|---|---|---|
| **2.16 Given guarantees, contingent liabilities and other commitments** | | |
| Loans and credit limit accounts with related mortgages and pledges | | |
| Loans from credit institutions | 2 589 | 7 015 |
| Credit limit accounts | 4 300 | 840 |
| Real estate mortgages given | 5 826 | 5 826 |
| Company mortgages given | 3 727 | 3 727 |
| **Given mortgages and pledges, total** | 9 553 | 9 553 |
| Debts with related mortgages and pledges | | |
| Loans from credit institutions | | 61 |

As pledge have been given shares of AWL-Marmori Oy, the carrying value of which is EUR 8 000.

| | 2005 | 2004 |
|---|---|---|
| Other own liabilities for which guarantees have been given | | |
| Letter of credit limit | 150 | 60 |
| Production and warranty guarantees, limit | 633 | 500 |
| Other commitments | 125 | 25 |
| Other own liabilities for which guarantees have been given | 908 | 585 |
| Guarantees given | | |
| Real estate mortgages given | 1 682 | 1 682 |
| Pledges given | 10 | 10 |
| **Guarantees given on behalf of other own liabilities, total** | 1 692 | 1 692 |
| Leasing commitments | | |
| Due during the financial year 2006 | 13 | 12 |
| Due later | 24 | 22 |
| **Leasing commitments, total** | 37 | 34 |

Leasing agreements are three to six years in duration and do not include redemption clauses.

### Contingent purchase price

The purchase price of the Kivia Oy shares acquired in 2003 is partly contingent. If the terms and conditions of the contingent prices are fulfilled, purchase price of EUR 0.4 million and EUR 0.3 million will fall due in 2006 and 2008 respectively. The former has been recognised in the 2004 financial statements while the latter has not yet been recorded.

### Other contingent liabilities

### Environmental obligations

Tulikivi Corporation's environmental obligations and the factors related to meeting these obligations, can be grouped into the following categories:

- Prevention of environmental degradation
  The required measures are continuously being implemented as part of normal production work. The group includes water treatment, land and stone material stacking are arrangements, vibration and noise level measurements, prevention of dusting, as well as related tracking point monitoring work.
- Measures to be carried out at factory or quarry areas when closing down a factory or quarry
  This category includes stacking area lining work, water system arrangements, the establishment of tracking points, as well as ensuring that safety conditions are met. In all of Tulikivi Corporation's quarry areas, the aim is to carry out the required stacking area lining work in conjunction with normal quarrying operations by transporting land materials from the new quarries to cover older stacking areas. The lining work conducted alongside normal operations is not expected to generate additional expenses as it releases the company of the need to stack unstable land materials elsewhere. These costs will be expensed when occurred. The landscaping obligations related to these measures consist mainly of planting or sowing vegetation.

The amount of the aforementioned obligations can not be estimated reliably and have therefore not been included in the Financial Statements. Based on environmental authorisations, the Group has given guarantees to effect of EUR 30 000 in total. For other environmental obligations, the Group has given real estate mortgages for EUR 33 638.

# Tulikivi Corporation´s Shares and Shareholders

## Capital Stock and Shares

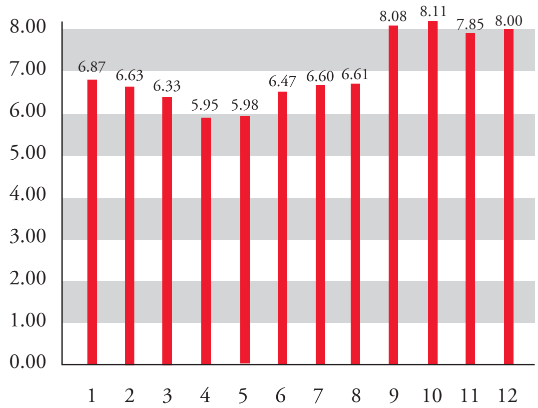
Tulikivi Corporation's capital stock, which has been paid and entered in the Trade Register, amounted to EUR 6 192 341.80 on December 31, 2005. The minimum and maximum capital stock are EUR 2 550 000 and EUR 10 200 000 respectively. The capital stock divided into two series of shares, as shown in the note 23. According to the Articles of Association, the dividend payable for A shares shall be at least one percentage point greater than the dividend payable for K shares, as calculated form the nominal values of the shares. Tulikivi Corporation's A share is listed on the Helsinki Stock Exchange and its trading code is TULAV.

In 2005, a total of 1 216 490 of the company's A shares were traded on the Helsinki Stock Exchange. The trade value of share turnover was EUR 8.8 million. The highest share price in 2005 was EUR 9.0 and the lowest was EUR 5.55. On the closing date of the review period, the share price was EUR 8.16. At the end of the financial year, Tulikivi Corporation had 2 946 shareholders. Foreign shareholders held 5.9 per cent of the total number of shares.

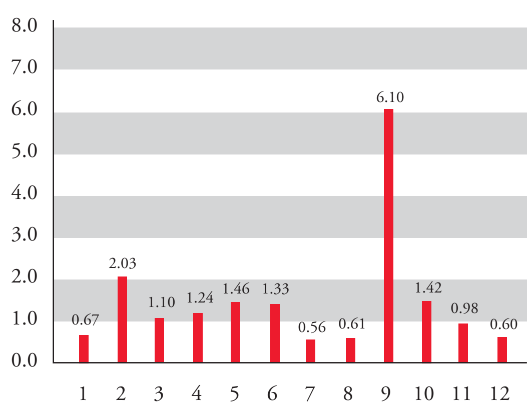
The Board of Directors does not have any existing authorisation to organise an issue of shares or for issuing convertible bonds or option loans. The Board of Directors is authorised to purchase a maximum of 336 069 of Tulikivi Corporation A shares and a maximum of 119 250 of the company's K shares. The authorisation is valid until the 2006 Annual General Meeting, though not later than until March 31, 2006. Respectively, the Board of Directors has been authorised to dispose of the Corporation's own shares as consideration in conjunction with acquisitions and other structural arrangements. The Corporation does not currently hold any own shares.

The shares entered in the company's book-entry account in accordance with paragraph 3a:3 of the Finnish Companies Act - the "joint account" - were sold in April-May 2003 on behalf of the shareholders. Shareholders and other rightholders are entitled until May 2013 to withdraw the amount of funds corresponding to their shareholding by delivering their share certificates and required notices of receipt to one of the offices of Sampo Pankki Plc or to the State Provincial Office of Eastern Finland.

MONTHLY DEVELOPMENT OF THE AVERAGE PRICE OF THE A SHARE, EUR




MONTHLY DEVELOPMENT OF THE TRADING VOLUME OF A SHARE, %



## Shareholders and Management Ownership

10 MAJOR SHAREHOLDERS ACCORDING TO NUMBER OF SHARES

| Shares registered in the name of a nominee are not included. | K shares | A shares | Proportion, % |
|---|---|---|---|
| 1. Vauhkonen Reijo | 713 125 | 326 548 | 11.42 |
| 2. Vauhkonen Heikki | 724 375 | 25 563 | 8.24 |
| 3. Elo Eliisa | 104 375 | 619 880 | 7.95 |
| 4. Virtaala Matti | 340 000 | 264 723 | 6.64 |
| 5. Ilmarinen Mutual Pension Insurance Company | | 515 595 | 5.66 |
| 6. Mutanen Susanna | 199 375 | 250 000 | 4.93 |
| 7. Investment Fund Phoebus | | 220 800 | 2.42 |
| 8. Vauhkonen Mikko | 99 375 | 100 800 | 2.20 |
| 9. Nuutinen Tarja | 99 375 | 69 260 | 1.85 |
| 10. Fondita Nordic Small Cap Placfond | | 163 100 | 1.79 |

10 MAJOR SHAREHOLDERS ACCORDING TO NUMBER OF VOTES

| Shares registered in the name of a nominee are not included. | K shares | A shares | Proportion, % |
|---|---|---|---|
| 1. Vauhkonen Reijo | 713 125 | 326 548 | 24.39 |
| 2. Vauhkonen Heikki | 724 375 | 25 563 | 23.78 |
| 3. Virtaala Matti | 340 000 | 264 723 | 11.99 |
| 4. Mutanen Susanna | 199 375 | 250 000 | 7.34 |
| 5. Elo Eliisa | 104 375 | 619 880 | 5.44 |
| 6. Vauhkonen Mikko | 99 375 | 100 800 | 3.58 |
| 7. Nuutinen Tarja | 99 375 | 69 260 | 3.48 |
| 8. Ilmarinen Mutual Pension Insurance Company | | 515 595 | 1.69 |
| 9. Suomen Kulttuurirahasto | 25 000 | 85 000 | 1.10 |
| 10. Laakkonen Reino | 25 000 | | 0.82 |

The members of the Board and managing director control 1 802 500 K shares and 638 476 A shares representing 61 % of votes.

BREAKDOWN OF SHARE OWNERSHIP ON DECEMBER 31, 2005

| Number of shares | Shareholders pcs | Proportion % | Shares pcs | Proportion % |
|---|---|---|---|---|
| 1 - 100 | 459 | 15.58 | 31 553 | 0.35 |
| 101 - 1000 | 1 834 | 62.25 | 873 791 | 9.59 |
| 1001 - 5000 | 535 | 18.16 | 1 722 686 | 18.92 |
| 5001 - 10000 | 58 | 1.97 | 1 064 210 | 11.69 |
| 10001 - | 60 | 2.04 | 5 414 145 | 59.45 |
| Total | 2 946 | 100.00 | 9 106 385 | 100.00 |

ON DECEMBER 31, 2005 THE COMPANY'S SHAREHOLDERS WERE BROKEN DOWN BY SECTOR AS FOLLOWS:

| Sector | Holding, % | Votes, % |
|---|---|---|
| Enterprises | 2.69 | 1.25 |
| Financial and insurance institutions | 10.19 | 3.48 |
| Public organisations | 6.25 | 1.86 |
| Non-profit organisations | 2.87 | 1.59 |
| Households | 77.82 | 91.77 |
| Foreign | 0.17 | 0.05 |
| Total | 100.00 | 100.00 |

Nominee-registered shares, 522 276 in total (5.7% of the capital stock), are entered under financial and insurance institutions.

# Signatures to Report of the Board and Financial Statements

In Nunnalahti February 7, 2006

Matti Virtaala Reijo Vauhkonen Bishop Ambrosius Juhani Erma

Eero Makkonen Aimo Paukkonen Heikki Vauhkonen

Juha Sivonen
Managing Director

# Auditor´s Report

## To the Shareholders of Tulikivi Corporation

We have audited the accounting records, the financial statements and the administration of Tulikivi Corporation for the period January 1 - December 31, 2005. The Board of Directors and the Managing Director have prepared the report of the Board of Directors and the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU and the parent company's financial statements prepared in accordance with prevailing regulations in Finland, that includes parent company's balance sheet, income statement, cash flow statement and the notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, the parent company's financial statements and on the administration of the parent company.

We have conducted the audit in accordance with 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 and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of administration is to examine that the members of the Board of Directors and the Managing Director of the parent company have legally complied with the rules of the Companies' Act.

**Consolidated Financial Statements**

In our opinion the consolidated financial statements give a true and fair view, as referred to in the International Financial Reporting Standards as adopted by the EU and defined in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position. The consolidated financial statements can be adopted.

**Parent Company's Financial Statements and Administration**

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Finnish Accounting Act, of the parent company's result of operations as well as of the financial position. The 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 period audited by us. The proposal by the Board of Directors regarding the distributable retained earnings is in compliance with the Companies' Act.

In Nunnanlahti February 24, 2006

PricewaterhouseCoopers Oy
Authorized Public Accountants

Hannele Selesvuo, APA

## Tulikivi Corporation – Factories and Offices

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