

A night photograph of a swimming pool. The pool is illuminated by several bright underwater lights, creating a shimmering effect on the water's surface and the mosaic tiles. The tiles are a mix of dark and light colors, possibly blue and white. The pool's edge is visible on the left, and the water extends towards the right. The overall atmosphere is serene and modern.

HARVIA PLC

**REPORT BY THE BOARD OF  
DIRECTORS AND CONSOLIDATED  
FINANCIAL STATEMENTS 2018**



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Hotel Sarotla, Brandnertal, Austria

#### **GENERAL INFORMATION OF HARVIA**

Harvia is one of the world's leading companies of sauna and spa products. Harvia has a comprehensive product offering that strives to meet the needs of the global sauna and spa market, for industry professionals and consumers alike. Harvia largest client group are retailers and wholesalers who sell Harvia products to builders and end customers. Harvia product offering is divided to five categories, to saunaheaters, saunas, control units, steam generators, spare parts, services and other sauna products.

Harvia's headquarters is in Muurame, Finland. The group production facilities are located in

Finland, China, United States, Romania and Estonia, and additionally the group has a contract producer in Russia and has sales and customer service company, along with a logistics center in Austria. Harvia's products are distributed globally through a network of dealers.

#### **PROFIT PERFORMANCE, KEY FIGURES AND STATEMENT OF FINANCIAL POSITION**

Harvia key figures for the period 1 January – 31 December 2018 are presented below (EUR thousand, unless otherwise indicated).

|  | 2018   | 2017   | 2016   |
|--|--------|--------|--------|
| <b>Key statement of comprehensive income indicators</b>  |        |        |        |
| Operating profit   | 61,942 | 60,107 | 50,095 |
| EBITDA   | 11,533 | 11,184 | 11,307 |
| EBITDA margin, per cent                                  | 18.6%  | 18.6%  | 22.6%  |
| Adjusted EBITDA  | 13,009 | 12,617 | 11,664 |
| Adjusted EBITDA margin, per cent                         | 21.0%  | 21.0%  | 23.3%  |
| Operating profit   | 9,376  | 9,263  | 9,698  |
| Operating profit margin, per cent                        | 15.1%  | 15.4%  | 19.4%  |
| Adjusted operating profit                                | 10,852 | 10,696 | 10,055 |
| Adjusted operating profit margin, per cent               | 17.5%  | 17.8%  | 20.1%  |
| Basic EPS (EUR)  | 0.41   | 0.30   | 0.35   |
| Diluted EPS (EUR)  | 0.41   | 0.30   | 0.34   |
| <b>Key cash flow indicators</b>                          |        |        |        |
| Cash flow from operating activities                      | 8,820  | 8,029  | 9,952  |
| Operating free cash flow                                 | 10,019 | 9,035  | 10,804 |
| Cash conversion, per cent                                | 77.0%  | 71.6%  | 92.6%  |
| Investments in tangible and intangible assets            | -1,617 | -1,196 | -1,002 |
| <b>Financial position key figures</b>                    |        |        |        |
| Net debt   | 30,258 | 72,985 | 74,455 |
| Net debt / adjusted EBITDA (Leverage), per cent          | 2.3    | 5.8    | 6.4    |
| Net working capital                                      | 17,500 | 17,255 | 15,443 |
| Capital employed excluding goodwill, average             | 34,348 | 32,752 | 30,544 |
| Capital employed excluding goodwill at the end of period | 35,659 | 33,037 | 32,466 |
| Adjusted return on capital employed (ROCE), per cent     | 31.6%  | 32.7%  | 32.9%  |
| Equity ratio, per cent                                   | 56.3%  | 16.9%  | 15.5%  |
| Return on equity (ROE), per cent                         | 15.9%  | 16.1%  | 22.1%  |

The Group's revenue for January–December was EUR 61.9 million (60.1), which represents a year-on-year increase of 3.1%. At comparable exchange rates, revenue grew by 4.6% to EUR 62.9 million.

Revenue increased particularly in Finland (4.0%), other EU countries (5.6%) and other countries (24.1%). The development of revenue in Germany was slightly positive, when eliminating the effect of discontinued private label sales. Despite the positive impact of the new product offering, Russia's revenue decreased by 9.1% year-on-year, mainly due to weakening of the Russian ruble. Sauna heater sales increased by 1.3% from the

comparison period, and growth remained solid in electric heaters but the sales of wood burning heaters did not fully recover from the demand challenges created by the hot summer. The positive sales development seen in heaters also continued in saunas, in which larger entities were implemented for customers during the year. Revenue also grew in steam generators, spa modules, and infrared saunas. The revenue of control units dropped from the previous year due to the discontinuation of private label sales in Central Europe early in the year.

Operating profit for January–December was EUR 9.4 million (9.3). The operating profit

included EUR 1.5 million (1.4) of items affecting comparability, mainly related to the public offering and the share issue. The adjusted operating profit of EUR 10.9 million improved from the previous year (10.7) and the operating profit margin was 17.5% (17.8). Revenue growth in product groups with lower margins such as saunas weighed down the operating profit margin during the review period. Financing expenses for the review period amounted to EUR 2.8 million (4.9).

The unadjusted result before taxes for January–December was EUR 6.6 million (4.3). The Group's taxes amounted to EUR 0.2 million (-1.4). The positive taxes resulted from the entry of a EUR 1.6 million deferred tax asset in the first quarter, deriving from intra-group interest expenses, which were not deducted from taxable income in previous years.

The result for the financial period was EUR 6.8 million (2.9) and the undiluted earnings per share were EUR 0.41 (0.30). Changes in exchange rates impacted the result of the review period by approximately EUR -0.4 million.

## PERSONNEL

The average number of employees in 2018 was 376 (367 in 2017). Wages and salaries were EUR 10.7 million in 2018 (EUR 10.0 million in 2017). Harvia's CEO and CFO both received a one-time bonus of EUR 50 thousand when the listing was completed.

## RESEARCH AND PRODUCT DEVELOPMENT

In 2018 Harvia research and development activities concentrated on improving the productivity and competitiveness, and diversifying the product offering.

During 1 January – 31 December 2018 there were on average 13 employees working in Research and development. The Group's research and development expenditure amounted to EUR 1.7 million (EUR 1.2 million in 2017), of which EUR 1.1 million (EUR 1.0 million in 2017) were recognized as expenses.

## RISK MANAGEMENT

The company evaluates that no significant changes occurred in risks and uncertainty factors during the review period.

Harvia Group's risk management is controlled by its Risk Management Policy. The purpose of risk management in the Group is to encourage the identification of risks and their pre-emptive management, to ensure an adequate level of risk management and to include risk management as part of the company's business.

General economic, societal and political conditions impact Harvia's operating environment. Economic uncertainty in Finland, Europe, Russia, North America or more widely can affect the company's business in many ways and make accurate predictions and planning of future business more difficult. Economic predictability is also hampered by recent geopolitical tensions in, among other places, East Asia and the Middle East.

Harvia's largest customer group is formed by retail and wholesale companies that sell the company's products to construction companies and end customers. In addition, the company sells tailored products and solutions in smaller quantities directly to end customers. Although the company has many different retail channels, the most important retailers are essential to the company's business.

The self-sufficiency of the Group's manufacturing processes, the backup supplier system for materials and the widely dispersed customer base balance potential strategic risks. Production is based on the company's own design and patents, and these are used to manage potential operative risks. Damage risks are covered with insurances where possible, and their coverage is assessed annually with the insurance company.

The Group refinanced its earlier bank loans in March 2018. The new loan agreements are made for the long term. The loans include covenants, which in unfavorable circumstances may call for new financing negotiations with the bank.



The company protects itself from interest risks arising from bank loans with interest rate swaps.

Harvia has business activities in many countries. Harvia is mainly exposed to transaction risks related to the US dollar and the Russian ruble, and the risk caused when the parent company's investments in subsidiaries outside the Euro zone are converted into euros. So far, the currency risks have not been significant to the Group and Harvia has not shielded itself against them with currency derivatives.

The principles of Harvia's financing risk management are described in the Consolidated Financial Statements and the general principles of risk management on the company's website at [www.harvia.fi/en](http://www.harvia.fi/en).

## GROUP STRUCTURE

Harvia Plc is holding company and parent company of Harvia Group. Harvia Plc owns through another holding company Harvia Group Oy daughter company Harvia Finland Oy that produces heaters and sauna and spa products, Velha Oy that produces saunas and Sentiotec GmbH subgroup specialized in control units, sauna rooms and sauna heaters. Harvia Finland Oy owns Harvia (HK) Sauna Co. Ltd subgroup and daughter companies Harvia Estonia OÜ, LLC Harvia RUS and Saunamax Oy (ownership 56,2 per cent). Harvia Group Oy established Harvia US Holdings Inc. subgroup to United States in 2018.

Harvia Plc changed the form of the company to public limited liability company and changed its name from Harvia Holding Oy to Harvia Plc in February 2018. At the same time Harvia Oy changed its name to Harvia Finland Oy.

## SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

Harvia Plc applied for admission of their shares to public trading on the official list of Nasdaq Helsinki Oy (the "Helsinki Stock Exchange") on 9 March 2018. The interest in the company's initial public offering (IPO) was strong and IPO was oversubscribed. Trading with Harvia's share began on the Nasdaq Helsinki pre-list on

22 March 2018 and on the Nasdaq Helsinki main list on 26 March 2018 with ticket symbol HARVIA.

Harvia established Harvia US Holdings Inc. subgroup to United States late in 2018, and acquired the business of Almost Heaven Saunas LLC in December 2018. The acquired business was consolidated to the the group financial statements starting 1 January 2019. The acquired business will increase the number of employees in the group by 40 persons.

## CHANGES IN GROUP AND FINANCING STRUCTURES

On February 9, 2018, the shareholders of the company decided with a unanimous decision to change the form of the company to a public limited liability company and to implement an increase in share capital by a capital increase to meet the required EUR 80,000 limit for a public limited liability company through a fund increase.

The Board of Directors was authorized at the same time to decide on a share issue to implement the public listing and on including the shares in the book-entry system managed by Euroclear Finland.

In the connection with the listing, the company carried out an offering which consisted of a public offering in Finland, an institutional offering to institutional investors in Finland and in accordance with applicable laws, internationally; and personnel offering to employees of the group. The subscription price was in the public and institutional offering EUR 5.00 per share and in the personnel offering EUR 4.50 per share. With the share issue, the company raised gross proceeds of EUR 45,000 thousand that was recognised in the invested unrestricted equity reserve.

The Board of Directors was authorised by the Annual General meeting 2 March 2018, to decide on the issue of options and other special rights entitling to shares as referred to in chapter 10, section 1 of the Limited Liability Companies Act entitling to shares in one or more instalments, either against payment or free of charge. The number of shares issued based on specific rights

can be no more than 2,000,000 shares. Based on the option rights or other specific rights entitling to shares, the company can issue either new shares or treasury shares.

In May, the Board of Directors of Harvia Plc decided, based on authorization, to establish a new share based long-term incentive plan for the CEO and Management Team members. The long-term incentive plan consists of three performance periods of three calendar years each, 2018-2020, 2019-2021 and 2020-2022. In the first performance period, the plan has 10 participants at most and the targets for the long-term incentive plan relate to the company's total shareholder return, revenue growth and EBIT margin. The maximum number of shares to be paid based on the first performance period is approximately 125,000 Harvia Plc's shares. The Board of Directors was authorised to decide on the acquisition of a maximum of 2,000,000 treasury shares in one or more instalments using the company's unrestricted equity. The authorisation stands until the beginning of the company's next annual general meeting, however until 30 June 2019 at the latest. The board of directors did not execute this authorisation by 31 December 2018.

#### **BOARD OF DIRECTORS PROPOSAL FOR DISTRIBUTION OF PROFIT**

The unrestricted equity of Harvia Plc amounts to EUR 63,238,441.27, of which the result for the financial period 2018 amounts to EUR 7,860,902.59.

Harvia targets a regularly increasing dividend with a bi-annual dividend payout of at least 60 percent of net income, in total. To set the dividend, the Board of Directors has assessed the liquidity and financial position of Harvia Plc after the end of the financial period.

The Board of Directors of Harvia Plc proposes to the Annual General Meeting that a dividend of EUR 0.18 per share be distributed after the Annual General Meeting in April 2019 for the financial period that ended on December 31, 2018. In addition, the Board of Directors of Harvia Plc

requests the Annual General Meeting to authorize the Board to distribute a dividend amounting to a maximum of EUR 0.19 per share in October 2019.

Thus, the dividends distributed by Harvia for 2018 based on the Board of Director's proposal would amount to a maximum of EUR 0.37 per share, or a maximum of EUR 6,916,867.32 in total.

#### **BOARD OF DIRECTORS AND THE COMPANY'S AUDITORS**

Harvia Plc's members of the Board of Directors during 1 January – 8 February 2018 were Olli Liitola, Anders Björkell, Pertti Harvia and Ja Adlercreutz. During 9 February – 31 December 2018 the members of the Board of Directors were Olli Liitola, Anders Björkell, Pertti Harvia, Ari Hiltunen and Ja Adlercreutz. Olli Liitola acted as Chairman of the Board. Company CEO was Tapio Pajuharju. Company auditor has been PricewaterhouseCoopers Oy, Markku Launis, Authorised Public Accountant as principal auditor.

#### **OUTLOOK FOR 2019**

Harvia does not anticipate any significant changes in the operating environment in 2019, and management believes that the current market situation will support the company's business operations also in 2019. The company business is somewhat depending on the financial outlook of the traditional sauna and spa markets and especially on the development of the rebuilding markets. Management thinks that the replacement market in pipe and sewer repair will support sales in the upcoming years especially in the sauna and spa market in Finland.

In 2019 Harvia will continue the gradual expansion of the sales network and aims to diversify the clientele in the current operating markets and to further expand the geographical operating regions.

#### **SIGNIFICANT EVENTS AFTER THE REVIEW PERIOD**

There were no significant events to report after the review period.

## SHARE CAPITAL AND SHARES

Harvia's registered share capital is EUR 80,000 and at the end of the review period, the company held 18,694,236 fully paid shares. All shares have equal rights to dividends and company assets. Trading in the company's shares on the official list of Nasdaq Helsinki began on March 26, 2018. The ticker symbol for the shares is HARVIA and their ISIN code is FI4000306873. Harvia has one series of shares, and each share entitles to one vote in the company's general meeting.

The company's shares are included in a book-entry system. The share trading volume during the review period was EUR 43.8 million and 8,314,233 shares. These figures include share sales related to the IPO. The share's volume weighted average rate during the review period

was EUR 5.26. The highest rate during the review period was EUR 6.39 and the lowest was EUR 4.91. The closing price of the share at the end of December 2018 was EUR 5.37. The market value of the share capital on December 31, 2018 stood at EUR 100.4 million. The company does not currently own any treasury shares.

The number of registered shareholders at the end of the review period was 3,248, including nominee registers. At the end of the review period, nominee-registered and direct foreign shareholders held 40.8% of the company's shares. At the end of the review period, the ten largest shareholders held a total of 43.4% of Harvia's shares and votes.

| Shareholder profile 31 December 2018           | Total %    | Total pcs         |
|--|------------|-------------------|
| Foreign holding                                | 40.8       | 7,624,656         |
| CapMan funds                                   | 24.6       | 4,605,679         |
| Enterprises                                    | 12.6       | 2,358,138         |
| Households                                     | 11.3       | 2,115,728         |
| Financial institutions and insurance companies | 9.5        | 1,775,390         |
| Public sector entities                         | 1.1        | 214,645           |
| <b>Total</b>                                   | <b>100</b> | <b>18,694,236</b> |

| Shareholders on 31 December 2018                        | pcs              | Percentage of shares and votes |
|---|------------------|--------------------------------|
| CAPMAN BUYOUT X FUND A L.P.                             | 3,247,590        | 17.4                           |
| CAPMAN BUYOUT X FUND B KY                               | 1,358,089        | 7.3                            |
| LANNEBO FONDER *  | 708,574          | 3.8                            |
| OP-SUOMI SMALL FIRMS FUND                               | 552,031          | 3.0                            |
| ODIN FINLAND  | 474,460          | 2.5                            |
| TIIPETI OY - PERTTI HARVIA                              | 429,290          | 2.3                            |
| SIJOITUSRAHASTO SÄÄSTÖPANKKI PIENYHTIÖT                 | 370,000          | 2.0                            |
| VERITAS PENSION INSURANCE COMPANY                       | 347,500          | 1.9                            |
| ILMARINEN MUTUAL PENSION INSURANCE COMPANY              | 323,708          | 1.7                            |
| ERIKOISSIJOITUSRAHASTO TAALERITEHDAS MIKRO MARKKA OSAKE | 303,000          | 1.6                            |
| KTR-INVEST OY - RISTO HARVIA                            | 287,625          | 1.5                            |
| TAPIO PAJUJARJU   | 240,000          | 1.3                            |
| AVUS OY - KULLERVO HARVIA                               | 214,645          | 1.1                            |
| MANTEREENNIEMI OY - SARI HARVIA-JYLLINMAA               | 214,645          | 1.1                            |
| SÄÄSTÖPANKKI KOTIMAA -SIJOITUSRAHASTO                   | 185,917          | 1.0                            |
| <b>Total</b>  | <b>9,257,074</b> | <b>49.5</b>                    |

\* According to the fund's announcement. Harvia has 41% nominee registered shareholders, and all the major nominee registered shareholders are not listed here.



| Shares per shareholder | Number of shareholders | Percentage of shareholders % | Shares total, pcs | Percentage of shares and votes % |
|------------------------|------------------------|------------------------------|-------------------|----------------------------------|
| Over 1 000 000         | 4                      | 0.1                          | 10,963,045        | 58.6                             |
| 100 001 - 1 000 000    | 20                     | 0.6                          | 5,595,459         | 29.9                             |
| 10 001 - 100 000       | 23                     | 0.7                          | 815,359           | 4.4                              |
| 1 001 - 10 000         | 226                    | 7.0                          | 530,444           | 2.8                              |
| 1 - 1000               | 2,976                  | 91.6                         | 789,929           | 4.2                              |
| <b>Total</b>           | <b>3,249</b>           | <b>100.0</b>                 | <b>18,694,236</b> | <b>100.0</b>                     |

#### MANAGEMENT HOLDINGS

Members of the Board of Directors, CEO and Directors of the Group, and the companies under

their control owned 31 December 2018 a total of 1,403,873 Harvia shares, corresponding 7.5 per cent of shares and votes in the company.

## CALCULATION OF KEY FIGURES AND RECONCILIATION OF ALTERNATIVE PERFORMANCE MEASURES

| EUR thousand   | 2018   | 2017   |
|--|--------|--------|
| <b>Operating profit</b>                                      | 9,376  | 9,263  |
| Depreciation and amortisation                                | 2,158  | 1,921  |
| <b>EBITDA</b>  | 11,533 | 11,184 |
| <b>Items affecting comparability</b>                         |        |        |
| Costs related to listing                                     | 1,327  | 584    |
| Strategic development projects                               | 72     | 605    |
| Acquisition related expenses                                 | 77     | 227    |
| Restructuring expenses                                       |        | 52     |
| Net gains or losses from sales of assets and grants received |        | -34    |
| <b>Total items affecting comparability</b>                   | 1,476  | 1,434  |
| <b>Adjusted EBITDA</b>                                       | 13,009 | 12,617 |
| Depreciation and amortisation                                | -2,158 | -1,921 |
| <b>Adjusted operating profit</b>                             | 10,852 | 10,696 |
| Finance costs, net   | -2,767 | -4,914 |
| <b>Adjusted profit before income taxes</b>                   | 8,085  | 5,783  |

## CALCULATION OF KEY FIGURES

| Key figure                                 | Definition  |
|--|---|
| Operating profit                           | Profit before income taxes, finance income and finance costs.   |
| EBITDA                                     | Operating profit before depreciation and amortisation.  |
| Items affecting comparability              | Material items outside the ordinary course of business, which relate to i) costs related to the listing ii) strategic development projects, iii) acquisition and integration related expenses, iv) restructuring expenses and v) net gains or losses on sale of assets and grants received. |
| Adjusted operating profit                  | Operating profit before items affecting comparability.  |
| Adjusted EBITDA                            | EBITDA before items affecting comparability.  |
| Adjusted profit before income taxes        | Profit before income taxes excluding items affecting comparability.   |
| Earnings per share, undiluted              | Profit for the period attributable to the owners of the parent divided by weighted average number of shares outstanding.  |
| Earnings per share, diluted                | Profit for the period attributable to the owners of the parent divided by weighted average number of shares outstanding taken into consideration the effects associated with any parent company's obligations regarding the possible share issue in the future.                             |
| Net debt                                   | Shareholder loans and current and non-current loans from credit institutions less cash and cash equivalents.  |
| Leverage                                   | Net debt divided by adjusted EBITDA (12 months).  |
| Net working capital                        | Inventories, trade and other receivables less trade and other payables.   |
| Capital employed excluding goodwill        | Capital employed excluding goodwill is total equity and net debt less goodwill.   |
| Adjusted return on capital employed (ROCE) | Adjusted operating profit (12 months) divided by average capital employed excluding goodwill.   |
| Operating free cash flow                   | Adjusted EBITDA added/subtracted by the change in net working capital in consolidated statement of cash flows less investments in tangible and intangible assets.   |
| Cash conversion                            | Operating free cash flow divided by adjusted EBITDA.  |
| Equity ratio                               | Total equity divided by total assets less advances received.  |
| Return on Equity (ROE)                     | Profit for the period divided by average total equity.  |

# CONSOLIDATED FINANCIAL STATEMENTS IFRS

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| EUR thousand  | Note | 1 Jan - 31 Dec 2018 | 1 Jan - 31 Dec 2017 |
|---|------|---------------------|---------------------|
| <b>Revenue</b>  | 2.1  | <b>61,942</b>       | <b>60,107</b>       |
| Other operating income  | 2.3  | 188                 | 208                 |
| Materials and services  |      | -25,853             | -24,972             |
| Employee benefit expenses   | 2.3  | -13,063             | -12,305             |
| Other operating expenses  | 2.3  | -11,679             | -11,855             |
| Depreciation and amortisation   | 2.4  | -2,158              | -1,921              |
| <b>Operating profit</b>   |      | <b>9,376</b>        | <b>9,263</b>        |
| Finance income  | 5.4  | 215                 | 457                 |
| Finance costs   | 5.4  | -2,981              | -5,370              |
| Finance costs, net  |      | -2,767              | -4,914              |
| <b>Profit before income taxes</b>                                       |      | <b>6,609</b>        | <b>4,349</b>        |
| Income taxes  | 6.3  | 172                 | -1,435              |
| <b>Profit for the period</b>  |      | <b>6,780</b>        | <b>2,914</b>        |
| Attributable to:  |      |                     |                     |
| Owners of the parent  |      | 6,780               | 2,914               |
| <b>Other comprehensive income</b>                                       |      |                     |                     |
| Items that may be reclassified to profit or loss in subsequent periods: |      |                     |                     |
| Translation differences   | 6.4  | -13                 | -505                |
| <b>Other comprehensive income, net of tax</b>                           |      | <b>-13</b>          | <b>-505</b>         |
| <b>Total comprehensive income</b>                                       |      | <b>6,767</b>        | <b>2,409</b>        |
| Attributable to:  |      |                     |                     |
| Owners of the parent  |      | 6,767               | 2,409               |
| Basic EPS (EUR)   | 2.5  | 0.41                | 0.30                |
| Diluted EPS (EUR)   | 2.5  | 0.41                | 0.30                |

The notes are an integral part of these consolidated financial statements.



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| EUR thousand                    | Note | 31-Dec-18      | 31-Dec-17      |
|---------------------------------|------|----------------|----------------|
| <b>ASSETS</b>                   |      |                |                |
| <b>Non-current assets</b>       |      |                |                |
| Intangible assets               | 3.2  | 4,189          | 2,999          |
| Goodwill                        | 3.2  | 60,421         | 59,224         |
| Property, plant and equipment   | 3.3  | 14,741         | 14,939         |
| Deferred tax receivables        | 6.3  | 1,358          |                |
| <b>Total non-current assets</b> |      | <b>80,710</b>  | <b>77,163</b>  |
| <b>Current assets</b>           |      |                |                |
| Inventories                     | 4.1  | 14,526         | 14,143         |
| Trade and other receivables     | 4.2  | 12,152         | 12,738         |
| Income tax receivables          |      | 1,283          | 1,604          |
| Cash and cash equivalents       | 5.2  | 8,268          | 8,345          |
| <b>Total current asset</b>      |      | <b>36,230</b>  | <b>36,830</b>  |
| <b>Total assets</b>             |      | <b>116,939</b> | <b>113,993</b> |

  

| EUR thousand                                       | Note | 31-Dec-18      | 31-Dec-17      |
|--|------|----------------|----------------|
| <b>EQUITY AND LIABILITIES</b>                      |      |                |                |
| <b>Equity attributable to owners of the parent</b> |      |                |                |
| Share capital                                      | 6.4  | 80             | 3              |
| Other reserves                                     | 6.4  | 53,064         | 9,703          |
| Retained earnings                                  | 6.4  | 5,897          | 6,656          |
| Profit for the period                              | 6.4  | 6,780          | 2,914          |
| <b>Total equity</b>                                |      | <b>65,822</b>  | <b>19,276</b>  |
| <b>Liabilities</b>                                 |      |                |                |
| <b>Non-current liabilities</b>                     |      |                |                |
| Shareholder loans                                  | 5.1  |                | 41,618         |
| Loans from credit institutions                     | 5.1  | 36,371         | 31,318         |
| Derivative financial instruments                   | 5.1  | 1,471          | 1,327          |
| Deferred tax liabilities                           | 6.3  | 361            | 442            |
| Other non-current liabilities                      | 5.1  | 369            | 383            |
| Provisions   | 3.4  | 215            | 225            |
| <b>Total non-current liabilities</b>               |      | <b>38,787</b>  | <b>75,313</b>  |
| <b>Current liabilities</b>                         |      |                |                |
| Loans from credit institutions                     | 5.1  | 2,155          | 8,394          |
| Income tax liabilities                             |      | 782            | 1,160          |
| Trade and other payables                           | 4.3  | 9,178          | 9,626          |
| Provisions   | 3.4  | 215            | 225            |
| <b>Total current liabilities</b>                   |      | <b>12,331</b>  | <b>19,404</b>  |
| <b>Total liabilities</b>                           |      | <b>51,117</b>  | <b>94,716</b>  |
| <b>Total equity and liabilities</b>                |      | <b>116,939</b> | <b>113,993</b> |

The notes are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### Attributable to owners of the parent

| EUR thousand                      | Note | Share capital | Invested unrestricted equity reserve | Translation differences | Retained earnings | Total         |
|-----------------------------------|------|---------------|--------------------------------------|-------------------------|-------------------|---------------|
| <b>Equity at 1 January 2017</b>   | 6.4  | <b>3</b>      | <b>9,724</b>                         | <b>484</b>              | <b>6,656</b>      | <b>16,868</b> |
| Profit for the period             |      |               |                                      |                         | 2,914             | 2,914         |
| Other comprehensive income        |      |               |                                      | -505                    |                   | -505          |
| Total comprehensive income        |      | 0             | 0                                    | -505                    | 2,914             | 2,409         |
| <b>Equity at 31 December 2017</b> |      | <b>3</b>      | <b>9,724</b>                         | <b>-21</b>              | <b>9,570</b>      | <b>19,276</b> |

### Attributable to owners of the parent

| EUR thousand                                  | Note | Share capital | Invested unrestricted equity reserve | Translation differences | Retained earnings | Total         |
|---|------|---------------|--------------------------------------|-------------------------|-------------------|---------------|
| <b>Equity at 1 January 2018</b>               | 6.4  | <b>3</b>      | <b>9,724</b>                         | <b>-21</b>              | <b>9,570</b>      | <b>19,276</b> |
| Adoption of IFRS 9 standard                   | 1.3  |               |                                      |                         | -313              | -313          |
| Adoption of IFRS 15 standard                  | 1.3  |               |                                      |                         | 5                 | 5             |
| <b>Equity at 1 January 2018</b>               |      | <b>3</b>      | <b>9,724</b>                         | <b>-21</b>              | <b>9,262</b>      | <b>18,968</b> |
| Increase in share capital                     |      | 78            | -78                                  |                         |                   | 0             |
| Share issue                                   |      |               | 45,000                               |                         |                   | 45,000        |
| Expenses related to the share issue           |      |               | -1,671                               |                         |                   | -1,671        |
| Discount related to the personnel share issue |      |               | 72                                   |                         |                   | 72            |
| Share-based incentive plan                    |      |               | 50                                   |                         |                   | 50            |
| Dividend distribution                         |      |               |                                      |                         | -3,365            | -3,365        |
| Total transactions with shareholders          | 6.4  | 78            | 43,374                               | 0                       | -3,365            | 40,086        |
| Profit for the period                         |      |               |                                      |                         | 6,780             | 6,780         |
| Other comprehensive income                    | 6.4  |               |                                      | -13                     |                   | -13           |
| Total comprehensive income                    |      |               |                                      | -13                     | 6,780             | <b>6,767</b>  |
| <b>Equity at 31 December 2018</b>             |      | <b>80</b>     | <b>53,098</b>                        | <b>-34</b>              | <b>12,678</b>     | <b>65,822</b> |

The notes are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

| EUR thousand  | Note     | 2018          | 2017          |
|---|----------|---------------|---------------|
| <b>Cash flows from operating activities</b>                           |          |               |               |
| Profit before taxes   |          | 6,609         | 4,349         |
| Adjustments   |          |               |               |
| Depreciation and amortisation   | 2.4      | 2,158         | 1,921         |
| Finance income and finance costs                                      | 5.4      | 2,767         | 4,914         |
| Other adjustments   |          | -123          | -39           |
| Cash flows before changes in working capital                          |          | 11,410        | 11,145        |
| Change in working capital   |          |               |               |
| Increase (-) / decrease (+) in trade and other receivables            | 4.2      | 497           | -2,153        |
| Increase (-) / decrease (+) in inventories                            | 4.1      | 374           | -2,349        |
| Increase (+) / decrease (-) in trade and other payables               | 4.3      | -2,245        | 2,115         |
| Cash flows from operating activities before financial items and taxes |          | 10,036        | 8,758         |
| Interest and other finance costs paid                                 |          | -111          | -186          |
| Interest and other finance income received                            |          | 85            | 1             |
| Income taxes paid   |          | -1,190        | -543          |
| <b>Net cash from operating activities</b>                             |          | <b>8,820</b>  | <b>8,029</b>  |
| <b>Cash flows from investing activities</b>                           |          |               |               |
| Purchases of tangible and intangible assets                           | 3.2, 3.3 | -1,617        | -1,196        |
| Sale of tangible and intangible assets                                |          | 14            | 30            |
| <b>Net cash from investing activities</b>                             |          | <b>-1,603</b> | <b>-1,166</b> |
| <b>Cash flows from financing activities</b>                           |          |               |               |
| Proceeds from share issues  | 6.4      | 45,000        | 50            |
| Osakeannin omaan pääomaan kirjatut kulut                              | 6.4      | -2,089        |               |
| Proceeds from non-current loans                                       | 5.1      | 36,500        |               |
| Repayments of non-current loans                                       | 5.1      | -78,879       | -4,250        |
| Change in short-term interest-bearing liabilities                     | 5.1      | -2,136        | 952           |
| Interest and other finance costs paid                                 |          | -2,328        | -1,634        |
| Maksetut osingot  | 6.4      | -3,365        |               |
| <b>Net cash from financing activities</b>                             |          | <b>-7,297</b> | <b>-4,882</b> |
| <b>Net change in cash and cash equivalents</b>                        |          | <b>-80</b>    | <b>1,980</b>  |
| Cash and cash equivalents at 1 January                                | 5.2      | 8,345         | 6,568         |
| Exchange gains/losses on cash and cash equivalents                    |          | 3             | -204          |
| <b>Cash and cash equivalents at 31 December</b>                       |          | <b>8,268</b>  | <b>8,345</b>  |

The notes are an integral part of these consolidated financial statements.



## NOTES TO FINANCIAL STATEMENTS

This section presents the Group's accounting policies to the extent that they are not disclosed in other notes. These principles have been applied consistently in all the periods presented, unless otherwise stated.

### SECTION 1: BASIS OF PREPARATION

#### 1.1 GENERAL INFORMATION

Harvia Plc (the "Parent company") is a Finnish limited liability company and the parent company of the Harvia Group ("Harvia", "Harvia Group" or the "Group"). The registered address of Harvia Plc is Teollisuustie 1-7, PO BOX 12, 40951 Muurame, Finland.

Harvia is one of the world's leading sauna and spa companies. Over the past 60 years, Harvia has expanded its operations from the manufacturer of heaters to a provider of wide range of saunas and spa products. Harvia's products are exported to over 84 countries. The Group's product range includes sauna heaters, sauna rooms, infrared and steam saunas, spa components, control units, sauna accessories and sauna interior solutions such as sauna benches, audio speakers and lighting solutions. The Group also provides sauna installation, maintenance and repair services. At the end of the financial year 2018 the company had 400 employees, of which 186 worked in Finland, 30 in Austria, 71 in Romania, 61 in China and Hong Kong, 42 in the United States and 10 in Estonia.

Harvia Plc is the parent company of the Group which operated until February 2018 under the name Harvia Holding Oy. The following subsidiaries are consolidated to the Group's financial statements:

- Harvia Group Oy which is the second management company of the Group
- Harvia Finland Oy (former Harvia Oy) manufacturing heaters and sauna and steam bath products
- Velha Oy manufacturing sauna and steam bath products
- Sentiotec GmbH subgroup specialised in control units, sauna products and electric

heaters (acquired on 4 November 2016)

- Saunamax Oy (56.2% acquired on 24 February 2017), provider of sauna maintenance and repair services
- Harvia (HK) Sauna Co. Ltd subgroup manufacturing sauna heaters, steam generators and components of similar equipment
- Harvia Estonia Oü manufacturing steam room equipment and
- LLC Harvia RUS which is the sales company for Harvia products in Russia
- Holding company Harvia US Holdings Inc. and manufacturing company Harvia US Inc. The company also sells Harvia sauna products in the United States. The companies were established in November 2018.

Harvia Group was established in May 2014 when Harvia Group Oy acquired shares in Harvia Oy (current Harvia Finland Oy) and Velha Oy ("Harvia acquisition") from four people belonging to the Harvia family ("Harvia's previous owners"). In connection with the acquisition previous owners became minority shareholders in the Harvia Holding Group through their investment companies. CapMan Buyout X Fund A Ltd and CapMan Buyout X Fund B Ky ("CapMan funds") established Harvia Holding Oy (current Harvia Plc) for the acquisition of Harvia.

Harvia Plc applied for admission of their shares to public trading on the official list of Nasdaq Helsinki Oy (the "Helsinki Stock Exchange") on 9 March 2018. The interest in the company's initial public offering (IPO) was strong and IPO was oversubscribed. Trading with Harvia's share began on the Nasdaq Helsinki pre-list on 22 March 2018 and on the Nasdaq Helsinki main list on 26 March 2018 with ticket symbol HARVIA. Consolidated

financial statements are available at the head office at Teollisuustie 1-7, 40950 Muurame and at the Group's home pages [www.harvia.fi](http://www.harvia.fi).

The Board of Directors of Harvia Plc has approved these consolidated financial statements for issue on 13 February 2019. Under the Finnish

Limited Liability Companies Act, shareholders can approve or disapprove the consolidated financial statements in the Annual General Meeting held after the release. The Annual General Meeting is also entitled to amend the consolidated financial statements.

## 1.2 ACCOUNTING POLICIES

The consolidated financial statements of Harvia Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, conforming with the IAS standards and IFRS standards as well as SIC and IFRIC interpretations applicable as per 31 December 2017. IFRS refer to the standards and interpretations applicable by corporations set out by the Finnish Accounting Act and other regulations set out on basis of this ordinance enforced for application in accordance with the procedure stipulated in the regulation (EC) No 1606/2002 of the European Parliament and of the Council. The notes to the consolidated financial statements also comply with the Finnish accounting and corporate legislation complementing the IFRS standards.

Harvia Group published the first consolidated financial statements prepared under IFRS

standards for the financial period ending 31 December 2017 with comparative information for the financial period ending 31 December 2016 and 2015. The date of transition to IFRS was 1 January 2015. Harvia Group has previously applied Finnish Accounting Standards (FAS).

The figures presented in the financial statements are rounded and therefore the sum of individual figures may differ from the presented sum figure.

### How should Harvia Group's accounting policies be read?

Harvia Group's accounting policies of the financial statements are described in conjunction with each note in the aim of providing enhanced understanding of each accounting area.

The table below summarises the note in which each accounting policy is presented and the relevant IFRS standard.

| Accounting principle             | Note   | IFRS standard                           |
|----------------------------------|--|---|
| Revenue                          | 1.3 Adoption of new standards<br>2.1 Revenue | IFRS 15                                 |
| Employee benefits                | 2.3 Other income and expense items           | IAS 19                                  |
| Business combinations            | 3.1 Business combinations                    | IFRS 3                                  |
| Intangible assets                | 3.2 Intangible assets                        | IAS 36, IAS 38                          |
| Property, plant and equipment    | 3.3 Property, plant and equipment            | IAS 16, IAS 36                          |
| Provisions                       | 3.4 Provisions                               | IAS 37                                  |
| Inventories                      | 4.1 Inventories                              | IAS 2                                   |
| Financial assets and liabilities | 5.1, 5.2 Financial assets and liabilities    | IAS 32, IAS 39, IFRS 7, IFRS 13, IFRS 9 |
| Financial risk management        | 5.3 Financial risk management                | IAS 32, IAS 39, IFRS 7, IFRS 13, IFRS 9 |
| Operating leases                 | 5.5 Commitments and contingent liabilities   | IAS 17                                  |
| Share based payments             | 6.2 Related party transactions               | IFRS 2                                  |
| Taxes                            | 6.4 Taxes                                    | IAS 12                                  |
| Shareholder's equity             | 6.5 Shareholder's equity                     | IAS 1                                   |

**Historical cost convention**

The consolidated financial statements of Harvia Group have been prepared on a historical cost basis, except for the derivative financial instruments.

**Foreign currency translation**

Items included in the financial statements of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in thousands of euros unless otherwise stated.

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the

settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are recognised in profit or loss.

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each statement of profit or loss are translated at average exchange rates, and
- all resulting exchange differences are recognised in other comprehensive income.

### 1.3 CHANGES IN APPLIED ACCOUNTING PRINCIPLES

**This note describes impacts of adoption of standards IFRS 9 Financial instruments and IFRS 15 Revenue from contracts with customers has had on the Group's consolidated financial statements.**

**IFRS 9 Financial instruments**

The group has applied IFRS 9 Financial instruments standard from 1 January 2018. IFRS 9 has been applied retrospectively, but in accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. Comparative figures from 2017 have been prepared in accordance with IAS 39. The most significant effects of the adoption of IFRS 9 in the group related to the impairment of

trade receivables and classification of financial assets and liabilities that is based on the business models determined by the group as well as the cash flow properties of the financial assets. Harvia does not apply hedge accounting. The impacts of the new standard on the accounting policies of the group's financial instruments and the opening statement of financial position as of 1 January 2018 have been presented below.

**Accounting policy****Classification and measurement of financial assets**

The Group's financial assets consist of trade receivables, certain other receivables and accrued income as well as cash and cash equivalents. A financial asset is measured at fair value at initial recognition, to which are added transaction costs directly attributable to the acquisition, excluding trade receivables that are measured at transaction price when they do not contain a significant financing component.

Harvia's management has determined which business models are applied for the Group's financial assets at the date of application of IFRS 9 as of January 1, 2018 and classified financial assets into categories according to IFRS 9. All financial assets of the group, excluding possible derivative assets, are classified as at amortized cost when previously under IAS 39 they have been classified as loans and other receivables. This change in classification has not caused any changes in the carrying values of financial assets.



Impairment of financial assets

Financial assets consist mainly of trade receivables and for the recognition of expected credit losses the group applies the simplified approach prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Expected credit losses also incorporate forward looking information.

Classification and measurement of financial liabilities

Loans from credit institutions are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest rate method. Loans from credit institutions are classified at amortized cost in accordance with

IFRS 9, which does not change the previous measurement or accounting under IAS 39.

Fees paid on the revolving credit facility arrangements are capitalized as a prepayment for liquidity services and amortized as expense over the period of the facility to which it relates, if there is no certainty that some or all of the facility will be drawn down. This reflects the finance cost of the undrawn facility. To the extent that it is probable that some or all of the facility will be drawn, the fees are partly recognized as transaction costs, when the loan is drawn, recognized in the income statement over the period of the borrowings using the effective interest rate method.

Derivative financial instruments

Group's derivatives have not been determined as hedging instruments and therefore under IFRS 9 they are classified at fair value through profit or loss under assets or liabilities as of 1 January 2018. This classification does not change the previous measurement or accounting of derivatives under IAS 39.

**IMPACT OF THE ADOPTION OF A NEW IMPAIRMENT MODEL FOR TRADE RECEIVABLES**

The effect of the increase in the loss allowance in the opening statement of financial position as of January 1, 2018 and changes during the period are presented below:

| EUR thousand   | Jan - Dec 2018<br>IFRS 9 | Jan - Dec 2017<br>IAS 39 |
|--|--------------------------|--------------------------|
| At January 1 - under IAS 39  | 63                       | 69                       |
| Impact of the increase in the loss allowance on the opening balance          | 391                      |                          |
| <b>Opening loss allowance at January 1 calculated under IFRS 9</b>           | <b>454</b>               |                          |
| Change in loan loss allowance recognized in profit or loss during the period | -79                      | 22                       |
| Trade receivables written off during the period as uncollectible             | -21                      | -28                      |
| Unused amount reversed   | -1                       |                          |
| <b>Total</b>   | <b>374</b>               | <b>63</b>                |

During the financial period 2017 the impairment of trade receivables was assessed based on the incurred losses applying calculation matrix for credit losses. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly.

An increase in the loss allowance amounting to EUR 391 thousand related to trade receivables decreases the opening balance of retained earnings as at January 1, 2018. In addition, the tax effect of the increase in the loss allowance of EUR 78 thousand increases the opening balance

of deferred tax assets and the retained earnings respectively. Net effect on the retained earnings opening balance was EUR 313 thousand.

### **IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS**

Harvia has adopted the standard IFRS 15 Revenue from Contracts with Customers on January 1, 2018 using the modified retrospective method which means that the cumulative

impacts of the adoption have been recognized in retained earnings as of January 1, 2018 and that comparatives have not been restated. Harvia has defined the impacts of the standard and based on that has adjusted the revenue of project sales. For the rest, the effects of the changes were not significant and do not require adjustments to the figures of interim information. The impacts of the new standard on the revenue recognition policies and figures are presented below.

#### **Accounting policy**

Harvia's revenue mainly consists of the sales of sauna and spa products that it has produced. Harvia sells most of its products to retailers, distributors or importers. Sales of goods are recognized when the control is transferred to the buyer. This is when the goods have been delivered to the buyer. Delivery is deemed to have taken place when the products have been delivered to the agreed location and the risk of obsolescence and damage of products has been transferred to the customer. In addition, for certain contract terms, a transportation service is considered to be a separate performance obligation when control to the goods is transferred to the buyer before the goods are delivered. However, transportation service is typically performed during the same day as control is transferred to the customer and therefore the revenue from goods and transportation service is recognized at the same time.

Amounts disclosed as revenue are net of returns, volume-based marketing subsidies and rebates. Goods are often sold with volume discounts based on aggregate sales over a 12-month period. Revenue from sales is recognized based on the price specified in the contract, net of the estimated volume-based discounts. A contract liability is recognized for expected volume discounts and marketing subsidies payable to customers in relation to sales made until the end of the reporting period. Certain wholesale customers are given a right of return in respect of certain campaign products if the goods are

not sold within six months after the purchase or the legislation concerning products will change. Products directly sold to consumers via online shops are subject to a 14-day return policy. A contract liability for the expected refunds to customers is recognized as adjustment to revenue. Accumulated experience is used to estimate and provide for the discounts, volume-based marketing subsidies and returns, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur.

As for the sold products, they are usually given a payment period between 30 and 120 days which is consistent with the market practice, and thus no finance element is included in the sales. A receivable is recognized when the goods are delivered. This is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Minority of Harvia Group's revenue comes from rendering services, but mainly from installation and maintenance services as well as project sales where sauna or spa department or many pre-installed saunas are provided to the customer. Revenue from services is recognized in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognized based on the actual service provided by the end of the reporting period as a proportion of the total services to be provided. This is determined based on the actual costs relative to the total expected costs.

**PROJECT SALES ADJUSTMENT**

For some of the project sales Harvia will recognize revenue over time when previously revenue has been recognized after completion.

Below is a summary of the adjustments to the opening statement of financial position as of January 1, 2018:

| EUR thousand  | Carrying value<br>under IFRS 15 | Impact on retained<br>earnings at January 1, 2018 |
|---|---------------------------------|---|
| Contract assets   | 31                              | 31  |
| Changes in inventories of finished goods and work in progress | -25                             | -25   |
| Deferred tax liabilities                                      | 1                               | -1  |

The revenue for the interim period January 1 to December 31, 2018 would have been EUR 116 thousand lower if old revenue principles had been applied. The Consolidated Statement of Financial position as of December 31, 2018 includes contract assets of EUR 21 thousand and contract liabilities of EUR 2 thousand.

leases. According to the new standard, a lease is recognized as a right-of-use asset (the right to use the leased asset) and as a lease liability to pay rentals, recorded under interest-bearing liabilities.

**NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

Harvia Group has not yet applied the following new and amended standards and interpretations already issued and endorsed by the European Union. The Group will adopt them as of the effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year.

The Group has implemented an IFRS adoption project during the year, in which the Group's leases have been analyzed in accordance with the new standard. The Group has decided to adopt the standard using the simplified transitional approach, whereby comparative financial information is not adjusted. The Group is implementing the exemptions provided by the standard and is not recognizing low-value or short-term leases as right-to-use assets.

Harvia is adopting the IFRS 16 Leases standard as of January 1, 2019. The standard replaces the current IAS 17 Leases standard. The adoption will have a significant impact for the lessee's recognition, as the standard removes the current distinction between operating and financing

On the balance sheet date, the adoption of IFRS 16 is estimated to increase the right-of-use assets and lease liabilities in the balance sheet by approximately EUR 2.8 million. The adoption will not have a significant impact on the Group's operating profit. The change will improve Harvia's adjusted EBITDA annually by approximately EUR 0.6 million.

**1.4 CRITICAL ACCOUNTING ESTIMATES AND SIGNIFICANT MANAGEMENT JUDGEMENTS**

The Group's most significant accounting policies are primarily described together with the applicable note. The preparation of Harvia Group's consolidated financial statements requires the use of estimates, judgement and assumptions that may affect the application of

accounting policies and the recognised amounts of assets and liabilities at the date of the financial statements. In addition, the recognised amounts of revenue and expenses during the periods presented are affected. Actual results may differ from previously made estimates and judgements.



Estimates and judgements are reviewed regularly. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in all subsequent periods.

The sources of uncertainty and management judgement which have been identified by the Group and which are considered to fulfill these criteria are presented in connection to the items considered to be affected. The table below discloses where to find these descriptions.

| Sources of estimation uncertainty and management judgement | Note |
|--|------|
| Marketing subsidies  | 2.1  |
| Adoption of new reporting standards                        | 2.1  |
| Segment reporting  | 2.2  |
| Research and development expenses                          | 3.2  |
| Key assumptions used in goodwill impairment tests          | 3.2  |
| Provisions   | 3.4  |
| Share-based payments                                       | 6.2  |
| Taxes  | 6.3  |

## SECTION 2: GROUP PERFORMANCE

This section focuses on the results and performance of the Group. The accompanying notes on the following pages explain the different components of the Group's operating profit and the company's earnings per share.

### COMPONENTS OF OPERATING PROFIT

| EUR thousand                                  | 2018         | % of revenue | 2017         | % of revenue |
|---|--------------|--------------|--------------|--------------|
| Revenue                                       | 61,942       |              | 60,107       |              |
| Other operating income                        | 188          | 0%           | 208          | 0%           |
| Materials, services and change in inventories | -25,853      | -42%         | -24,972      | -42%         |
| Employee benefit expenses                     | -13,063      | -21%         | -12,305      | -20%         |
| Depreciation and amortisation                 | -2,158       | -3%          | -1,921       | -3%          |
| Other operating expenses                      | -11,679      | -19%         | -11,855      | -20%         |
| <b>Operating profit</b>                       | <b>9,376</b> | 15%          | <b>9,263</b> | 15%          |

### 2.1 REVENUE

Harvia is one of the world's leading sauna and spa companies. The Group's product range includes sauna heaters, sauna rooms, infrared and steam saunas, steam sauna and spa components, control units, sauna accessories and sauna interior solutions such as sauna benches, audio speakers and lighting solutions.

The Group also provides sauna installation, maintenance and repair services. The biggest market areas are Finland, EU and Russia.

Harvia Group's revenue includes mainly sales of products. Only minor part comes from selling of sauna installation, maintenance and repair

services provided by Velha Oy and Saunamax Oy. Harvia sells most of its products to retailers, distributors or importers. Harvia's biggest customer relationship is based on group-level frame agreement under which individual order agreements made by the Group accounted for approximately 16% of the Group's revenue in 2017 (2017: 17%).

The accumulation of Harvia's revenue has been constant and stable over the past years. A unifying trend across the different customer categories is that the relationships with customers are long-lasting. The Group has formal contractual relationships with clients, but most of the contracts cover only a short period (the most common type of contract being annual contract). The long-lasting customer relationships are based on customer loyalty.

### Accounting policy

Harvia's revenue mainly consists of the sales of sauna and spa products that it has produced. Harvia sells most of its products to retailers, distributors or importers. Sales of goods are recognized when the control is transferred to the buyer. This is when the goods have been delivered to the buyer. Delivery is deemed to have taken place when the products have been delivered to the agreed location and the risk of obsolescence and damage of products has been transferred to the customer. In addition, for certain contract terms, a transportation service is considered to be a separate performance obligation when control to the goods is transferred to the buyer before the goods are delivered. However, transportation service is typically performed during the same day as control is transferred to the customer and therefore the revenue from goods and transportation service is recognized at the same time.

Amounts disclosed as revenue are net of returns, volume-based marketing subsidies and rebates. Goods are often sold with volume discounts based on aggregate sales over a 12-month period. Revenue from sales is recognized based on the price specified in the contract, net of the estimated volume-based discounts. A contract liability is recognized for expected volume discounts and marketing subsidies payable to customers in relation to sales made until the end of the reporting period. Certain wholesale customers are given a right of return in respect of certain campaign products

if the goods are not sold within six months after the purchase or the legislation concerning products will change. Products directly sold to consumers via online shops are subject to a 14-day return policy. A contract liability for the expected refunds to customers is recognized as adjustment to revenue. Accumulated experience is used to estimate and provide for the discounts, volume-based marketing subsidies and returns, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur.

As for the sold products, they are usually given a payment period between 30 and 120 days which is consistent with the market practice, and thus no finance element is included in the sales. A receivable is recognized when the goods are delivered. This is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Minority of Harvia Group's revenue comes from rendering services, but mainly from installation and maintenance services as well as project sales where sauna or spa department or many pre-installed saunas are provided to the customer. Revenue from services is recognized in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognized based on the actual service provided by the end of the reporting period as a proportion of the total services to be provided. This is determined based on the actual costs relative to the total expected costs.

**Significant management judgement**

The management uses judgement when allocating marketing subsidies to allowances included in the revenue and marketing costs included in other expenses. Marketing subsidies determined as the percentage of sales volume and against which marketing

services are not obtained, are reducing the revenue. Other marketing subsidies are allocated to operating expenses.

Management uses judgement when deciding on the fulfillment of the service obligations under IFRS15.

**REVENUE BY MARKET AREA**

| EUR thousand       | 2018          | %    | 2017          | %    |
|--------------------|---------------|------|---------------|------|
| Finland            | 23,104        | 37%  | 22,214        | 37%  |
| Other Scandinavia  | 3,452         | 6%   | 3,324         | 6%   |
| Germany            | 6,953         | 11%  | 7,373         | 12%  |
| Other EU countries | 14,827        | 24%  | 14,044        | 23%  |
| Russia             | 5,662         | 9%   | 6,227         | 10%  |
| North America      | 3,027         | 5%   | 2,963         | 5%   |
| Other countries*   | 4,916         | 8%   | 3,962         | 7%   |
| <b>Total</b>       | <b>61,942</b> | 100% | <b>60,107</b> | 100% |

\*Of which the largest are the following: Arab countries, Asia and other Europe.

**REVENUE BY PRODUCT GROUP**

| EUR thousand                    | 2018          | %    | 2017          | %    |
|---------------------------------|---------------|------|---------------|------|
| Sauna heaters                   | 35,763        | 58%  | 35,289        | 59%  |
| Sauna rooms                     | 7,521         | 12%  | 6,903         | 11%  |
| Control units                   | 5,822         | 9%   | 6,318         | 11%  |
| Steam generators                | 3,004         | 5%   | 2,791         | 5%   |
| Spareparts, services and other* | 9,831         | 16%  | 8,807         | 15%  |
| <b>Total</b>                    | <b>61,942</b> | 100% | <b>60,107</b> | 100% |

\*Includes among others, spa components, infrared radiators and sauna equipment.

EUR 1,251 thousand (2017: EUR 0 thousand) represents revenue from projects recognized over time. Adjustment to revenue on 1 January

2018 and its impacts during 2018 is presented in note 1.3.

**2.2 SEGMENT REPORTING**

The Group constitutes a single operating segment. This is consistent with the way that internal reporting is provided to the chief

operating decision maker ("CODM") and the way that chief operating decision maker determines allocation of resources and assesses the performance.



**Significant management judgement**Determining operating segments

The management of Harvia Group has used judgement when determining Group's segment reporting. Areas requiring judgement have been the determination of CODM, the decisions made and reports used when managing the Group. The Board of Directors

has been determined as the chief operating decision maker. The Board of Directors, taking into account its composition and its active participation in key strategic and operative decision-making, is responsible for allocating resources and assessing the performance. The management of Harvia Group, using its judgement, has determined that the Group has one operating segment.

The Group's non-current assets are allocated geographically as follows:

| EUR thousand                    | 31-Dec-18     | 31-Dec-17     |
|---------------------------------|---------------|---------------|
| Finland                         | 72,585        | 72,774        |
| Other EU                        | 3,345         | 3,662         |
| Asia                            | 583           | 726           |
| United States                   | 2,839         |               |
| <b>Total non-current assets</b> | <b>79,351</b> | <b>77,163</b> |

Revenue by geographical areas has been presented in note 2.1.

## 2.3 OPERATING INCOME AND EXPENSES

This note provides information on other components of operating profit: other operating income, material and service expenses, employee benefit expenses, other operating expenses as well as depreciations and amortisations. Other operating income includes gains on sale of property, plant and equipment, sales of scrap metal which is generated from production and different kind of grant income.

Materials and services in the consolidated statement of comprehensive income consist mainly purchases of electricity and electronic components such as heating elements, control units and wood timber for saunas. The change in inventories of finished goods and work in progress will adjust the income statement by the cost effect of items booked and removed from inventory at the end of the period.

The most significant items of other operating expenses relate to sales (as sales freight costs and sales related commissions) and marketing.

Harvia's production facility in Muurame is characterised by efficient production. Harvia has a long experience in manufacturing of heaters and other sauna products and the staff is qualified and experienced. The company's operations are highly integrated. Own R&D department is specialised in the development of production process and products and company's own department specialised in tools and machinery used in production ensures the cost-effectiveness of the production equipment and machinery maintenance and repair.

**Accounting policy**

A defined contribution plan is a pension plan under which the Group pays fixed contributions into pension insurances. The

Group has no legal or constructive obligations to pay further contributions if the insurance does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The following table presents different components of employee benefit expenses:

| EUR thousand                               | 2018          | 2017          |
|--|---------------|---------------|
| Wages and salaries                         | 10,742        | 10,019        |
| Pension costs - defined contribution plans | 1,508         | 1,431         |
| Other employee benefit expenses            | 814           | 855           |
| <b>Total</b>                               | <b>13,063</b> | <b>12,305</b> |

Harvia Group employed a total of 400 employees as at 31 December 2018 (2017: 365 employees). Of the total number of employees at the end of 2018 142 were white collar employees and 258 blue collar employees. Pension plans of

employees of the Group in Finland, Austria, Romania, China, Hong Kong and Estonia are defined contribution plans.

Other significant expense items are as follows:

**OTHER OPERATING EXPENSES**

| EUR thousand                                     | 2018          | 2017          |
|--|---------------|---------------|
| Sales and marketing*                             | 5,481         | 5,438         |
| Travel and cars                                  | 898           | 834           |
| Electricity, heating and water                   | 679           | 626           |
| Audit, accounting, consulting and legal expenses | 1,094         | 1,383         |
| Rents  | 565           | 529           |
| IT and telecommunication                         | 226           | 273           |
| Voluntary staff expenses                         | 253           | 210           |
| Other**  | 2,483         | 2,562         |
| <b>Total</b>                                     | <b>11,679</b> | <b>11,855</b> |

\* Sales and marketing include, among others, warranty costs, sales freight costs, sales commissions and marketing expenses.

\*\* Other expenses include, among others, maintenance costs related to the administration of the company and the premises.

Audit, accounting, consulting and legal expenses and other expense items include items outside the ordinary course of business that are related to the Group's strategic development projects, listing, acquisitions and loss on sales of assets and affect the comparability between the different periods.

The auditor's fees recognised during 2018 to PricewaterhouseCoopers amounted to EUR 484 thousand (2017: EUR 509 thousand). Of these, EUR 75 thousand were fees relating to statutory audit (2017: EUR 76 thousand), EUR 7 thousand (2017: EUR 0 thousand) fees related to auditor opinions and certificates and EUR 402 thousand were other fees (2017: EUR 433 thousand). Audit

fees paid to other auditors were EUR 19 thousand (2017: EUR 9 thousand). Harvia Group's research and development department employed an

average of 13 persons, and expensed research and development costs totaled EUR 1,065 thousand in the financial year 2018 (2017: EUR 960 thousand).

## 2.4 DEPRECIATION AND AMORTISATION

### Accounting policy

#### Property, plant and equipment

Land and buildings are recognised at historical cost. Land is not depreciated. Buildings are depreciated over their useful lives.

Machinery and equipment as well as other tangible assets are depreciated over their useful lives. Useful lives are based on estimates of the period over which the assets will generate revenue. Depreciation is recognised on a straight-line basis based on the cost of the assets and estimated useful lives. Impairment tests for depreciable non-current assets are performed if there are indications of impairment at the balance sheet date.

The useful lives of the assets are as follows:

- Buildings 15-30 years
- Machinery and equipment 5-10 years
- Other tangible assets 3-5 years

#### Intangible assets

Purchased and internally generated intangible assets are recognised at historical cost. Intangible assets acquired in business combinations are measured at fair value at acquisition. Intangible assets are amortised over 10 to 15 years except for capitalised development costs and software licenses, which are amortised in 5 years.

The following table presents depreciation and amortisation by asset class:

| EUR thousand                               | 2018         | 2017         |
|--|--------------|--------------|
| <b>Depreciation by class</b>               |              |              |
| Buildings and constructions                | 617          | 604          |
| Machinery and equipment                    | 906          | 858          |
| Other tangible assets                      | 107          | 72           |
| <b>Total property, plant and equipment</b> | <b>1,630</b> | <b>1,535</b> |
| <b>EUR thousand</b>                        | <b>2018</b>  | <b>2017</b>  |
| <b>Amortisation by class</b>               |              |              |
| Development costs                          | 285          | 193          |
| Customer relationships                     | 49           | 49           |
| Brand                                      | 59           | 59           |
| Technology                                 | 11           | 11           |
| Other intangible assets                    | 122          | 74           |
| <b>Total intangible assets</b>             | <b>527</b>   | <b>386</b>   |
| <b>Total depreciation and amortisation</b> | <b>2,158</b> | <b>1,921</b> |

## 2.5 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for period attributable to the owners of the parent company by the weighted average number of shares outstanding during the financial period. Diluted earnings per share is

calculated on the same basis as basic earnings per share, unless it takes into consideration the effects associated of any parent company's obligations regarding the possible share issue in the future.

|  | 2018        | 2017        |
|--|-------------|-------------|
| Profit for the period attributable to the owners of the parent company, EUR thousand | 6,780       | 2,914       |
| Weighted average number of shares outstanding during the financial period, '000      | 16,688      | 9,617       |
| <b>Basic earnings per share, EUR</b>   | <b>0.41</b> | <b>0.30</b> |
| Impact of unregistered share issue on number of shares, '000                         |             |             |
| Weighted average number of shares outstanding during the year, diluted, '000         | 16,708      | 9,617       |
| <b>Diluted earnings per share, EUR</b>   | <b>0.41</b> | <b>0.30</b> |

## SECTION 3: CAPITAL EMPLOYED

This section describes the assets that are required to have to run the business and Harvia's acquisitions. The Information on net working capital is presented in section 4.

### 3.1 BUSINESS COMBINATIONS

For Harvia, acquisitions are a way to speed up the implementation of its strategy. On 21 December 2018 Harvia announced the the acquisition of LLC Almost Heaven Saunas business in the United States. The deal was closed 28 December 2018. The new business will be consolidated as of 1 January 2019.

In February 2017 Harvia invested EUR 450 thousand in Saunamax Oy and got an ownership of 56.2% of the company. The agreement also included an option to purchase the remaining 43.8%. Saunamax Oy has been consolidated in the Group's financial statements as a 100% owned subsidiary.

**Accounting policy**

The acquisition method is applied for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the shares issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Identifiable assets acquired and identifiable liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Identifiable assets include tangible assets as well as intangible assets, such as customer relationships, brand and technology.

Acquisition related costs are expensed as incurred and presented as other operating expenses in the income statement.

**Accounting estimates and management judgement**

Net assets acquired through business combinations are measured at fair value. The measurement of fair value of the acquired net assets is based on market value of similar assets (property, plant and equipment), or an estimate of expected cash flows (intangible assets). The valuation, which is based on prevailing repurchase value, expected cash flows or estimated sales price, requires management

judgement and assumptions.

The management trusts that the applied estimates and assumptions are sufficiently reliable for determining fair values.

According to the option arrangement related to the business combination, the Group is going to pay subsequently to the former owners and these expected cash flows are estimated based on the terms of the sale contract and Harvia's knowledge of that business and how the current economic environment is likely to impact it.

**ACQUISITION OF ALMOST HEAVEN SAUNAS BUSINESS IN 2018**

In December 2018 Harvia acquired Almost Heaven Saunas -business. Almost Heaven Saunas is one of the leading sauna and spa product companies in the United States. The acquisition will enable Harvia to offer better and more extensive service to Harvia's customers in North America. The new business will be consolidated as of 1 January 2019.

Almost Heaven Saunas was established in 1978 and has been owned by its current owner since 2007. The company has grown rapidly in recent years, its revenue totaling USD 3.5 million in 2014 and approximately USD 9 million in 2017. The company's main products comprise of United States manufactured outdoor and indoor saunas of entry level price range. Harvia's revenue from North America in 2017 totaled approximately

EUR 3 million, of which coming about half through Almost Heaven Saunas.

Almost Heaven Saunas has a sales office in Holland, Michigan, and a manufacturing facility in Renick, West Virginia. Almost Heaven Saunas employs approximately 40 persons, who will be employed by Harvia Group after the transaction.

The deal was implemented by an agreement, based on which no compensation was paid to the seller and Harvia assumed responsibility for the liabilities of the acquired business.

EUR 1,358 thousand reported as purchase consideration below reflects the amount of accounts receivables of Harvia from the acquiree that is considered as an internal item after the acquisition and eliminated from the consolidated balance sheet.



**EUR thousand**

|                                  |       |
|----------------------------------|-------|
| Purchase price                   | 1,358 |
| Net identifiable assets acquired |       |
| Non-current assets               |       |
| Intangible assets                | 1,250 |
| Property, plant and equipment    | 393   |
| Current assets                   |       |
| Inventories                      | 1,005 |
| Trade and other receivables      | 438   |
| Total assets                     | 3,086 |
| Non-current liabilities          |       |
| Deferred tax assets              | 361   |
| Other liabilities                | 995   |
| Current liabilities              |       |
| Loans from credit institutions   | 397   |
| Trade and other payables         | 1,172 |
| Total liabilities                | 2,925 |
| Total                            | 161   |
| Goodwill                         | 1,196 |

Goodwill arises from personnel and possibilities to expand Harvia's business in North America. After the closing of the acquisition Harvia paid EUR 1,032 thousand of assumed liabilities of the business.

If Almost Heaven Saunas -business had been acquired 1 January 2018, it would have increased consolidated revenue by EUR 7.7 million and decreased operating profit by EUR 0.3 million.

**CASH FLOW IMPACT****EUR thousand**

|                                     |     |
|-------------------------------------|-----|
| Expenses related to the acquisition | -27 |
| Impact on cash flows                | -27 |

Expenses related to the acquisition are presented under Other operating expenses.

**ACQUISITION OF SAUNAMAX IN 2017**

In February 2017 Harvia Finland Oy invested EUR 450 thousand in Saunamax Oy by subscribing new shares of the company and therefore got an ownership of 56.2% of the company. The company produces sauna maintenance and repair services. The agreement also included an option to purchase the remaining 43.8% of the shares. Saunamax Oy has been consolidated in

the consolidated financial statement as a 100% owned subsidiary. The liability relating to the purchase option of the shares has been measured at fair value in accordance with the shareholder agreement but the final amount of the option is determined when the option is exercised.

Details of the purchase consideration, the net acquired assets and goodwill are as follows:

**EUR thousand**

|                                     |     |
|-------------------------------------|-----|
| Purchase price*                     |     |
| Share purchase option (43.8% share) | 350 |
| Net identifiable assets acquired    |     |
| Non-current assets                  |     |
| Intangible assets                   | 30  |
| Property, plant and equipment       | 14  |
| Current assets                      |     |
| Inventories                         | 22  |
| Trade and other receivables         | 47  |
| Total assets                        | 113 |
| Current liabilities                 |     |
| Interest-bearing                    | 11  |
| Non interest-bearing                | 119 |
| Total liabilities                   | 130 |
| Total                               | -17 |
| Goodwill                            | 367 |
| Net assets acquired                 | 350 |

\* The holding of 56.2% was acquired by subscribing new shares in Saunamax Oy.

Goodwill consists of Saunamax personnel and opportunities to expand Harvia's sauna service offerings.

If the acquisition of Saunamax had occurred on 1 January 2017, it would not have had significant impact on the Group's revenue or operating profit for 2017.

**CASH FLOW IMPACT****EUR thousand**

|   |     |
|---|-----|
| Cash and cash equivalents of the acquired company | 0   |
| Expenses related to the acquisition               | -22 |
| Impact on cash flows                              | -22 |

Expenses related to the acquisition are presented under Other operating expenses.

### 3.2 INTANGIBLE ASSETS AND IMPAIRMENT TESTING

Majority of the goodwill was recognised in connection of the acquisition of Harvia in 2014. The goodwill was increased in connection of the purchase of the Spa Modules business by Harvia Estonia OÜ in December 2014,

acquisition of Sentiotec subgroup located in Austria and Romania in November 2016 as well as acquisition of Saunamax Oy in February 2017 and acquisition of Almost Heaven Saunas business in December 2018.

#### Accounting policy

##### Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the fair value of the identifiable net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to cash generating units (CGU's), that are expected to benefit from the synergies of the combination. This unit to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

##### Other intangible assets

Other intangible assets mainly include customer relationships, brands and technology acquired in business combinations that are recognised in fair value at the date of acquisition. These are amortised on a straight-line basis over 10-15 years. Other intangible assets also include capitalised development expenditures and software licenses and are amortised on a straight-line basis over 5 years.

##### Capitalised development costs

Development costs are capitalised when certain criteria related to economic and technical feasibility are met and when it is expected that the product will generate economic benefits in the future. Capitalised development costs mainly include materials, supplies and direct labor costs. Development costs booked earlier as expenses will not be capitalised later. Intangible assets under development are not amortised but are tested for impairment at least annually.

#### Accounting estimates and management judgement

Costs incurred in the development phase of a project are capitalised as intangible assets if the criteria is met. Management has made judgements and assumptions when assessing whether a project meets these criteria, and on measuring the costs and the economic life as well as the future cash inflows generated

by the development projects. Expected returns from capitalised development projects involve estimates and judgement from the management about the future revenue and related costs. These estimates involve risks and uncertainties and it is possible that following changes in circumstances, expected returns from capitalised development projects change. Harvia assesses indications of impairment for capitalised development projects.

The following tables present the movements in intangible assets including goodwill during the reported periods:

| EUR thousand                            | Goodwill      | Development expenditure | Advance payments | Customer relationships | Brand        | Technology | Other intangible assets | Total         |
|---|---------------|-------------------------|------------------|------------------------|--------------|------------|-------------------------|---------------|
| <b>2018</b>                             |               |                         |                  |                        |              |            |                         |               |
| Cost at 1 January                       | 59,224        | 743                     | 849              | 741                    | 590          | 114        | 1,142                   | 63,404        |
| Business combinations                   | 1,196         |                         |                  | 215                    | 961          | 74         |                         | 2,446         |
| Additions                               |               | 8                       | 435              |                        |              |            | 80                      | 523           |
| Disposals                               |               |                         |                  |                        |              |            |                         | 0             |
| Reclassifications                       |               | 781                     | -1,011           |                        |              |            | 176                     | -54           |
| Exchange differences                    |               |                         |                  |                        |              |            | -1                      | -1            |
| Cost at 31 December                     | 60,421        | 1,532                   | 273              | 956                    | 1,550        | 189        | 1,397                   | 66,318        |
| Accumulated depreciation at 1 January   |               | -203                    |                  | -58                    | -69          | -13        | -837                    | -1,180        |
| Amortisation                            |               | -285                    |                  | -49                    | -59          | -11        | -122                    | -527          |
| Exchange differences                    |               |                         |                  |                        |              |            | 0                       | 0             |
| Accumulated depreciation at 31 December |               | -489                    |                  | -107                   | -128         | -25        | -959                    | -1,708        |
| <b>Net book amount at 1 January</b>     | <b>59,224</b> | <b>540</b>              | <b>849</b>       | <b>683</b>             | <b>521</b>   | <b>101</b> | <b>304</b>              | <b>62,223</b> |
| <b>Net book amount at 31 December</b>   | <b>60,421</b> | <b>1,043</b>            | <b>273</b>       | <b>849</b>             | <b>1,423</b> | <b>164</b> | <b>437</b>              | <b>64,610</b> |

| EUR thousand                            | Goodwill      | Development expenditure | Advance payments | Customer relationships | Brand      | Technology | Other intangible assets | Total         |
|---|---------------|-------------------------|------------------|------------------------|------------|------------|-------------------------|---------------|
| <b>2017</b>                             |               |                         |                  |                        |            |            |                         |               |
| Cost at 1 January                       | 58,857        | 606                     | 538              | 741                    | 590        | 114        | 954                     | 62,400        |
| Business combinations                   | 368           |                         |                  |                        |            |            | 30                      | 398           |
| Additions                               |               | 4                       | 456              |                        |            |            | 158                     | 618           |
| Disposals                               |               |                         | -11              |                        |            |            |                         | -11           |
| Reclassifications                       |               | 133                     | -133             |                        |            |            |                         | 0             |
| Exchange differences                    |               |                         | -1               |                        |            |            | -1                      | -2            |
| Cost at 31 December                     | 59,224        | 743                     | 849              | 741                    | 590        | 114        | 1,142                   | 63,404        |
| Accumulated depreciation at 1 January   |               | -11                     |                  | -8                     | -10        | -2         | -763                    | -794          |
| Amortisation                            |               | -193                    |                  | -49                    | -59        | -11        | -74                     | -386          |
| Accumulated depreciation at 31 December |               | -203                    |                  | -58                    | -69        | -13        | -837                    | -1,180        |
| <b>Net book amount at 1 January</b>     | <b>58,857</b> | <b>595</b>              | <b>538</b>       | <b>733</b>             | <b>580</b> | <b>113</b> | <b>191</b>              | <b>61,606</b> |
| <b>Net book amount at 31 December</b>   | <b>59,224</b> | <b>540</b>              | <b>849</b>       | <b>683</b>             | <b>521</b> | <b>101</b> | <b>304</b>              | <b>62,223</b> |

## IMPAIRMENT TEST FOR GOODWILL

**Accounting estimates and management judgement**Key assumptions used in goodwill impairment testing

The management makes significant estimates and judgements in determining the level at which the goodwill is allocated and whether there is any indication of impairment in goodwill.

The recoverable amount of a cash generating unit is determined based on value-in-use calculations which require the use of estimates. The calculations use cash flow projections based on budgets and financial

estimates approved by management covering a five-year period. Cash flow forecasts are based on the Group's actual results and the management's best estimates on future sales, cost development, general market conditions and applicable tax rates. Cash flows estimates include budgets and rolling estimates for a period of five years and cash flows beyond the five-year period are extrapolated using the estimated growth rates stated above. The growth rates are based on the management's estimates on future growth in the business. Management tests the impacts of changes in significant estimates used in forecasts by sensitivity analyses as described above in this note.

The allocation of goodwill to the Group's cash-generating units is presented below:

| EUR thousand   | 31-Dec-18     | 31-Dec-17     |
|----------------|---------------|---------------|
| Finland        | 60,111        | 58,915        |
| Central Europe | 310           | 310           |
| <b>Total</b>   | <b>60,421</b> | <b>59,224</b> |

To carry out impairment testing, the management monitors goodwill at the level of Finland and Central Europe. The recoverable amount of cash generating units has been determined based on value-in-use calculations using the projected discounted cash flows. These calculations use pre-tax cash flow projections based on the budgets and forecasts approved by management covering a five-year period. Goodwill EUR 1,196 thousand arising from acquisition of Almost Heaven Saunas business has been presented as part of goodwill in Finland and will be subject to impairment testing in 2019.

Key assumptions in the projections are the development of net sales and key cost items, the discount rate used in the calculation as well as the cash flow growth rate after the five-year forecast period. The projections have been prepared to reflect the past performance and expectations for the future considering the Group's market position and the general economic environment. Cash flows beyond the five-year period are extrapolated using the estimated growth rates. The discount rate used in the impairment testing is weighted average pre-tax cost of capital (WACC). The discount rate reflects the total cost of equity and debt and the market risks related to the Group.



The key assumptions used for value-in-use calculations are as follows:

|  | 31-Dec-18 | 31-Dec-17 |
|--|-----------|-----------|
| <b>Long-term growth rate</b>                                 | 1.0%      | 1.0%      |
| <b>Average revenue growth for the forecast period</b>        |           |           |
| Finland  | 4.8%      | 5.1%      |
| Central Europe   | 8.3%      | 6.7%      |
| <b>Average EBITDA for the forecast period (% of revenue)</b> |           |           |
| Finland  | 22.5%     | 24.4%     |
| Central Europe   | 20.0%     | 10.1%     |
| <b>Pre-tax discount rate</b>                                 |           |           |
| Finland  | 9.1%      | 8.8%      |
| Central Europe   | 9.3%      | 10.3%     |

As result of the impairment tests performed no impairment loss has been recognised for any period presented. In 2018 the recoverable amount calculated based on value-in-use exceeded the carrying value by EUR 57 million in Finland and EUR 30 million in Central Europe (2017 by EUR 73 million in Finland and EUR 8 million in Central Europe).

Management has prepared sensitivity analyses regarding the key factors, and based on the analyses performed the recoverable amount equals with the carrying value if the assumptions change one at a time and other assumptions remain unchanged as follows (changes in percentage points):

|                         | 31-Dec-18 | 31-Dec-17 |
|-------------------------|-----------|-----------|
| <b>Finland</b>          |           |           |
| EBITDA margin decrease  | -7.7%     | -9.5%     |
| Change in discount rate | 5.0%      | 6.3%      |
| <b>Central Europe</b>   |           |           |
| EBITDA margin decrease  | -16.2%    | -4.9%     |
| Change in discount rate | 31.2%     | 9.5%      |

### 3.3 PROPERTY, PLANT AND EQUIPMENT

Land areas and buildings consist mainly of Harvia's factory building in Muurame. Also Velha Oy operates in the facilities owned by Harvia. The factory in Romania is owned by a Romanian real estate company K&R Imobiliare which is wholly-owned by the Group. Other production units operate in leased premises.

Other significant items of property, plant and equipment are the production machineries in Muurame and in China. Harvia has a separate department that manufactures tools and equipment used in production.

For depreciations see also note 2.4.

**Accounting policy**

Property, plant and equipment are presented at acquisition cost less depreciation and potential impairment losses. Subsequent costs are included in the carrying amount when they can be measured reliably and future economic benefits associated with the these will flow to the entity.

Significant leasehold improvements are included in the asset's carrying amount or are separated as a separate asset when it is probable that they will be economically useful in the future and the costs incurred can be distinguished from normal repair and maintenance costs.

The Group assesses at every reporting date whether there is any indication of impairment of an asset. If there are any indications, the asset is tested for impairment. An impairment test estimates the recoverable amount of the asset. The recoverable amount is the higher of the asset's fair value less costs to sell or cash flow based value-in-use. If the recoverable amount can not be determined at the level of an individual asset, the need for impairment is reviewed at the level of the lowest cash generating unit (CGU), which is largely independent of other units and its cash flows can be distinguished from the cash flows of other similar entities.

Changes in property, plant and equipment are presented in the following tables for the financial periods presented in the financial statements.

| EUR thousand                       | Land         | Buildings and structures | Machinery and equipment | Other tangible assets | Construction in progress | Total         |
|------------------------------------|--------------|--------------------------|-------------------------|-----------------------|--------------------------|---------------|
| <b>2018</b>                        |              |                          |                         |                       |                          |               |
| Cost at 1 Jan                      | 1,249        | 19,805                   | 13,018                  | 748                   | 181                      | 35,000        |
| Business combinations              |              |                          | 393                     |                       |                          | 393           |
| Additions                          | 1            | 103                      | 262                     | 13                    | 622                      | 1,002         |
| Disposals                          |              |                          |                         | -1                    | -14                      | -15           |
| Reclassifications                  |              |                          | 351                     | 261                   | -558                     | 54            |
| Exchange differences               | 0            | 0                        | -17                     | 0                     | 0                        | -18           |
| Cost at 31 Dec                     | 1,249        | 19,908                   | 14,007                  | 1,022                 | 230                      | 36,417        |
| Accumulated depreciation at 1 Jan  |              | -9,671                   | -9,874                  | -516                  |                          | -20,060       |
| Depreciation                       |              | -617                     | -906                    | -107                  |                          | -1,630        |
| Impairment                         |              |                          |                         |                       |                          |               |
| Disposals                          |              |                          |                         |                       |                          |               |
| Reclassifications                  |              |                          |                         |                       |                          |               |
| Exchange differences               |              | 0                        | 15                      | 0                     |                          | 15            |
| Accumulated depreciation at 31 Dec |              | -10,288                  | -10,764                 | -623                  |                          | -21,676       |
| <b>Net book amount at 1 Jan</b>    | <b>1,249</b> | <b>10,135</b>            | <b>3,144</b>            | <b>232</b>            | <b>181</b>               | <b>14,939</b> |
| <b>Net book amount at 31 Dec</b>   | <b>1,249</b> | <b>9,620</b>             | <b>3,243</b>            | <b>399</b>            | <b>230</b>               | <b>14,741</b> |

| EUR thousand                       | Land         | Buildings and structures | Machinery and equipment | Other tangible assets | Construction in progress | Total         |
|------------------------------------|--------------|--------------------------|-------------------------|-----------------------|--------------------------|---------------|
| <b>2017</b>                        |              |                          |                         |                       |                          |               |
| Cost at 1 Jan                      | 1,256        | 19,764                   | 12,799                  | 738                   | 1                        | 34,559        |
| Business combinations              |              |                          | 15                      |                       |                          | 15            |
| Additions                          |              | 9                        | 493                     | 7                     | 307                      | 816           |
| Disposals                          |              |                          | -54                     |                       |                          | -54           |
| Reclassifications                  |              | 45                       | 83                      |                       | -127                     | 0             |
| Exchange differences               | -7           | -12                      | -319                    | 2                     |                          | -336          |
| Cost at 31 Dec                     | 1,249        | 19,805                   | 13,018                  | 748                   | 181                      | 35,000        |
| Accumulated depreciation at 1 Jan  |              | -9,068                   | -9,259                  | -441                  |                          | -18,768       |
| Depreciation                       |              | -604                     | -858                    | -72                   |                          | -1,535        |
| Impairment                         |              |                          |                         |                       |                          |               |
| Disposals                          |              |                          |                         |                       |                          |               |
| Reclassifications                  |              |                          |                         |                       |                          |               |
| Exchange differences               |              | 2                        | 244                     | -3                    |                          | 243           |
| Accumulated depreciation at 31 Dec |              | -9,671                   | -9,874                  | -516                  |                          | -20,060       |
| <b>Net book amount at 1 Jan</b>    | <b>1,256</b> | <b>10,695</b>            | <b>3,540</b>            | <b>298</b>            | <b>1</b>                 | <b>15,790</b> |
| <b>Net book amount at 31 Dec</b>   | <b>1,249</b> | <b>10,135</b>            | <b>3,144</b>            | <b>232</b>            | <b>181</b>               | <b>14,939</b> |

### 3.4 PROVISIONS

The Group provides warranties for its products and recognises provision for this obligation. The warranty provision includes all expenses required to settle the present obligation.

The amount of accrued estimated warranty costs is primarily based on historical experience and current information on repair costs and processing costs of the claims.

#### Accounting policy

Provision is made for estimated warranty claims in respect of products sold which are still under warranty at the end of the reporting

period. Management estimates the provision based on historical warranty claim information and any recent trends that may suggest future claims could differ from historical amounts.

#### Accounting estimates

The amount of warranty provision involves uncertainty as estimated warranty claims may not realise as predicted. Typically the claims are realised frontloaded during the warranty

period. Estimates and assumptions are reviewed quarterly. The differences between actual and estimated warranty claims may affect the amount of the provisions to be recognised in future financial periods.

Changes in warranty provisions are as follows:

| EUR thousand          | 31-Dec-18  | 31-Dec-17  |
|-----------------------|------------|------------|
| At 1 January          | 449        | 524        |
| Additions             | 430        | 449        |
| Used during the year  | -449       | -524       |
| <b>At 31 December</b> | <b>430</b> | <b>449</b> |
| of which              |            |            |
| current               | 215        | 225        |
| non-current           | 215        | 225        |
| <b>Total</b>          | <b>430</b> | <b>449</b> |

The warranty provision was used EUR 449 thousand during 2018 (2017: EUR 524 thousand) and increased EUR 430 thousand (2017: EUR 449 thousand). The provision is divided to current and non-current liability. Most of the Harvia's products sold have two years' warranty for private use and one years' warranty for

professional use. Warranty provision is calculated for external warranty costs, for employees processing complaints and for warranty parts. For exported products, no warranty provision is recognised as under these contracts the counterparty is responsible for warranty work.

## SECTION 4: NET WORKING CAPITAL

This section describes components of net working capital.

| EUR thousand   | 31-Dec-18     | 31-Dec-17     |
|--|---------------|---------------|
| <b>Net working capital</b>   |               |               |
| Inventories  | 14,526        | 14,143        |
| Trade receivables  | 11,046        | 11,503        |
| Other receivables  | 1,106         | 1,235         |
| Trade payables   | -5,164        | -5,077        |
| Other payables   | -4,014        | -4,549        |
| <b>Total</b>   | <b>17,500</b> | <b>17,255</b> |
| Change in net working capital in the statement of financial position   | 245           | 1,812         |
| Items not taken into account in change in net working capital in the statement of cash flows and the effect of which is included elsewhere in the statement of cash flows* | 1,129         | 574           |
| Change in net working capital in the statement of cash flows**   | 1,374         | 2,387         |

\* The most significant items are related to finance costs, unrealised exchange rate gains and losses, acquisitions and investments.

\*\* An increase in net working capital decreases cash flows, and a decrease in net working capital increases cash flows.

## 4.1 INVENTORIES

The inventory of the Group consists of raw materials such as steel, stone and wood, work in progress as well as finished goods on sales

(sauna heaters, sauna interiors and other sauna related products).

### Accounting policy

Materials and supplies, work in progress and finished goods are measured at the lower of cost and net realisable value. Cost of work in progress and finished goods comprises direct materials, direct labour costs and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating

capacity. The acquisition cost is assigned to individual items of inventory on the basis of weighted average cost formula. The cost of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The inventory is divided as follows:

| EUR thousand           | 31-Dec-18     | 31-Dec-17     |
|------------------------|---------------|---------------|
| Materials and supplies | 6,315         | 6,167         |
| Work in progress       | 1,335         | 1,253         |
| Finished goods         | 6,876         | 6,723         |
| <b>Total</b>           | <b>14,526</b> | <b>14,143</b> |

No significant write-downs of inventories have been made during years 2017-2018.



## 4.2 TRADE AND OTHER RECEIVABLES

Trade and other receivables consist of trade receivables, other receivables (mainly VAT receivables) and prepayments and accrued income. Income tax receivables are presented on a separate row in the consolidated statement of financial position.

Payment terms of trade receivables varies according to customer type and creditworthiness. Advance payment is required from certain customers. Information on the impairment of trade and other receivables and the Group's exposure to credit risk, refer to note 5.3.

### Accounting policy

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. As of 1 January 2018 they are classified as at amortized cost if collection of the amounts is expected in one year or less they are classified as current assets. Otherwise they are presented as non-current assets. Trade receivables are generally due for settlement within 60 days and therefore are all classified as current. Impairment and other accounting policies for trade and other receivables are outlined in note 5.3.

Other receivables include mainly prepaid expenses and accrued income from the usual operating activities of the Group.

According to IAS 39 the Group classified trade receivables as loans and other receivables, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities longer than 12 months after the end of the reporting period.

The following tables present the different components of account and other receivables:

| EUR thousand                   | 31-Dec-18     | 31-Dec-17     |
|--------------------------------|---------------|---------------|
| Trade receivables              | 11,046        | 11,503        |
| Prepayments and accrued income | 317           | 416           |
| Other receivables              | 790           | 819           |
| <b>Total</b>                   | <b>12,152</b> | <b>12,738</b> |

Material items included in prepayments and accrued income:

| EUR thousand | 31-Dec-18  | 31-Dec-17  |
|--------------|------------|------------|
| Social costs | 126        | 63         |
| Other        | 191        | 353        |
| <b>Total</b> | <b>317</b> | <b>416</b> |

Due to the short-term nature of the current receivables, their carrying amount is assumed to be the same as their fair value.

### 4.3 TRADE AND OTHER PAYABLES

Trade and other payables include trade payables, other liabilities, advance payments

and accrued expenses related the usual operating activities of the Group.

#### Accounting policy

Trade payables are payment obligations arising from goods or services acquired from suppliers or service providers in the ordinary course of business. Trade payables are classified as current liabilities if payment

is due within one year or less. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method. Trade and other payables are classified as other financial liabilities at amortised cost.

The following tables present the different components of trade and other payables:

| EUR thousand      | 31-Dec-18    | 31-Dec-17    |
|-------------------|--------------|--------------|
| Trade payables    | 5,164        | 5,077        |
| Advance payments  | 95           | 74           |
| Accrued expenses  | 3,201        | 3,718        |
| Other liabilities | 718          | 758          |
| <b>Total</b>      | <b>9,178</b> | <b>9,626</b> |

Trade payables are unsecured and are usually paid within 30 days of recognition.

Material items included in accrued expenses:

| EUR thousand                               | 31-Dec-18    | 31-Dec-17    |
|--|--------------|--------------|
| Accrued salaries and social security costs | 2,063        | 2,013        |
| Accrued annual discounts                   | 861          | 820          |
| Accrued interests                          | 6            | 151          |
| Other                                      | 271          | 734          |
| <b>Total</b>                               | <b>3,201</b> | <b>3,718</b> |

The carrying amounts of trade and other payables are assumed to be the same as their fair values, due to their short-term nature.

## SECTION 5: NET DEBT AND CONTINGENCIES

This section describes how the Group has financed its operations. this section also describes exchange rate, interest rate, liquidity and credit risks related to financial assets and liabilities. This section also provides information how the Group addresses above mentioned risks.

### 5.1 BORROWINGS AND OTHER FINANCIAL LIABILITIES

The Group's financial liabilities were drawn down in connection of the acquisition of Harvia Finland Oy and Velha Oy. The acquisition was partly financed with variable rate bank loans and partly with fixed rate shareholder loans. In connection with the listing of the Company

in March 2018 shareholder loans were repaid and bank loans were refinanced. The Group has entered into an interest rate swap agreement to hedge against interest rate risk arising from variable rate of bank loans.

#### Accounting policy

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Fees paid on the revolving credit facility arrangements are capitalised as a prepayment

for liquidity services and amortised as expense over the period of the facility to which it relates, if there is no certainty that some or all of the facility will be drawn down. This reflects the finance cost of the undrawn facility. To the extent that it is probable that some or all of the facility will be drawn down, the fees are recognised as transaction costs when the loan is drawn down and recognized in profit and loss using the effective interest rate method.

The following tables present the classification of the financial liabilities as well as carrying values:

| EUR thousand                         | Liabilities at fair value through<br>profit or loss | Other financial liabilities at<br>amortised cost |
|--------------------------------------|---|--|
| <b>31-Dec-18</b>                     |   |  |
| <b>Liabilities per balance sheet</b> |   |  |
| Shareholder loans                    |   |  |
| Loans from credit institutions       |   | 38,526   |
| Other loans                          |   | 369  |
| Trade and other payables             |   | 9,601  |
| Derivative financial instruments     | 1,471   |  |
| <b>Total</b>                         | <b>1,471</b>  | <b>48,496</b>                                    |

| EUR thousand                         | Liabilities at fair value through<br>profit or loss | Other financial liabilities at<br>amortised cost |
|--------------------------------------|---|--|
| <b>1-Jan-18</b>                      |   |  |
| <b>Liabilities per balance sheet</b> |   |  |
| Shareholder loans                    |   | 41,618   |
| Loans from credit institutions       |   | 39,712   |
| Other loans                          |   | 383  |
| Trade and other payables             |   | 9,552  |
| Derivative financial instruments     | 1,327   |  |
| <b>Total</b>                         | <b>1,327</b>  | <b>91,265</b>                                    |

## LOANS FROM CREDIT INSTITUTIONS AND SHAREHOLDER LOANS

### Loans from credit institutions

The Group has drawn down two facilities (Facility A and Facility B) during April 2014. Facility A matured in April 2020 and Facility B in April 2021, and the interest rate was variable and tied to Euribor. The Loans were secured by the land and buildings of the Group and with the corporate pledges. See also note 5.5. The Group has entered in interest rate swaps as described in note 5.3. All loans from credit institutions were denominated in euro. In addition, in Finnish units, the Group had EUR 5 million revolving credit facility at its disposal, of which EUR 1,655 thousand was in use as at 31 December 2017.

On March 2, 2018, the company agreed on a financing arrangement of EUR 44,500 thousand in total, with Danske Bank A/S, Finland branch, which was conditional upon the completion of the listing. The new financing arrangement consisted of a EUR 36,500 thousand term loan and EUR 8,000 thousand credit limit. In connection with the listing at the end of March, Harvia repaid prematurely its old bank loans, nominal value of EUR 36,250 thousand in total, with funds from the term loan, and replaced the previous EUR 5,000 thousand credit limit with the new credit limit. The new bank loan will mature in one instalment on March 2, 2023 and its nominal interest is tied to Euribor and its margin is tied to Group's net debt / adjusted EBITDA ratio.

As a result of the repayment of old bank loans (including credit limit), remaining transaction

costs of EUR 616 thousand in the balance sheet were recognized as expenses under other finance costs for the interim period. As a result of the refinancing of the old bank loans, the group's real estate and corporate mortgages as well as pledged subsidiary shares were released. The parent company guarantees the loans drawn down in accordance with the new financing arrangement.

Sentiotec GmbH has a secured credit facility agreement of EUR 2 300 thousand and Domo Romania, a subsidiary of Sentiotec, has a small credit facility. Related to these, a total of EUR 1,743 was in use as at 31 December 2018 (31 December 2017: EUR 2,123 thousand).

### Shareholder loans

The Group had drawn down shareholder loans from the owners of Harvia Holding Oy during April 2014. The loans matured in October 2021 and bore an interest of 10%. The accrued interest was payable annually as at 31 December. In case the interest was not paid, the accrued interest was capitalised. The shareholder loans, including capitalised interest, amounted to EUR 30 148 thousand as at 31 December 2017.

In March 2018 Harvia strengthened its capital structure by using the funds raised in the share issue to repay the principal and accrued interests of shareholder loans. Shareholder loans matured prematurely as a result of the listing. With the share issue, Harvia raised the funds of EUR 45,000 thousand of which EUR 42,453 thousand was used to repayment of shareholder loans

and their accrued interests, including so-called vendor note loan.

#### Compliance with loan covenants

New bank loans include covenants according to the financing agreement, such as net debt to adjusted EBITDA ratio and interest cover ratio. Covenants are monitored quarterly. The Group has complied with all covenants related to new bank loans in 2018.

#### Fair values

The fair values of non-current borrowings are based on discounted cash flows using a current borrowing rate. They are classified as level 2 in the fair value hierarchy due to the use of unobservable inputs, including own credit risk.

The Group's management has determined that there is no essential difference between carrying value and fair value because there have not been significant changes in interest rates since the issue date of the loans and margins of loans are considered to reflect different conditions and the subordination of the loans with reasonable accuracy.

### DERIVATIVE FINANCIAL INSTRUMENTS

#### **Accounting policy**

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and subsequently measured at their fair value through profit or loss.

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations.

The Group had interest rate swap agreements with fair value of EUR -1,471 thousand at the end of 2018 (2017: EUR -1,327 thousand). Nominal value of the interest rate swap contract was EUR 25,000 thousand as at 31 December 2018 (2017: EUR 25,000 thousand). The current swap contract matures in March 2023.

The fair value of interest rate swap is calculated as the present value of the estimated future cash flows based on observable yield curves. The fair value is on level 2 in the fair value hierarchy.

### OTHER NON-CURRENT LIABILITIES

Other non-current liabilities include a liability of EUR 350 thousand relating to the purchase option of Saunamax Oy's minority shareholders. Harvia Finland Oy has in place a shareholders agreement with the minority shareholders in Saunamax Oy. Pursuant to the shareholders agreement, the share of Harvia Finland Oy's ownership has to be 51 per cent at the minimum and, since 2020, the other shareholders of Saunamax Oy have the right to demand Harvia to redeem, and respectively, an obligation to sell all the shares of Saunamax Oy owned by these shareholders. The redemption price shall be determined, as defined in the shareholder agreement, in accordance with fair value determined according to acquisition cost or EBITDA or by other means. Liability related to the purchase option is measured at fair value in accordance with the shareholder agreement and is classified as level 3 in the fair value hierarchy.

## 5.2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents amounted to EUR 8,268 thousand at the end of 2017 (31 December 2017: EUR 8,345 thousand).

In the consolidated statement of cash flow, cash and cash equivalents include cash in hand and deposits held at call from banks. The short-term deposits are considered readily convertible to

cash as those have original maturities of three months or less. Cash and cash equivalents on the statement of financial position equals the cash and cash equivalents of the consolidated statement of cash flows. Cash and cash equivalents are financial asset and valued at amortized cost (in 2017 according to IAS 39 included in the class "loans and other receivables").



### 5.3 FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT

This note explains Harvia Group's exposure to financial risks and how these risks could affect Harvia Group's future financial performance. Profit and loss information for the period has been included where relevant to add further context.

This note also describes how the Group monitors its capital structure and what are the targets for the structure.

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Derivative financial instruments are used to hedge certain risk exposures.

The Group's risk management is carried out by a finance department under guidelines provided by the Board of Directors. Finance department identifies, evaluates and hedges financial risks in close co-operation with the Group's business operations.

#### FOREIGN EXCHANGE RISK

Harvia operates in several countries. Harvia is mainly exposed to transaction risk and translation risk associated with the US dollar and the Russian ruble arising when the parent company's investments to subsidiaries outside euro area are converted into euros. Transaction risk associated with subsidiaries outside the euro area consists primarily of trade receivables and trade payables from these subsidiaries arising in the operational business of the Group companies.

So far transaction risks have not been significant for the Group and Harvia has not hedged against these risks by currency derivatives. In other respects, the Group's income and expenses arise almost exclusively in euros. The Group's net investment to units outside the euro area consist of the investments in subsidiaries in China, Hong Kong, Russia, Romania and the United States. Foreign exchange risk related to net investments is not hedged.

During the financial period, the following foreign exchange related amounts were recognised in profit or loss and other comprehensive income:

| EUR thousand   | 2018        | 2017        |
|--|-------------|-------------|
| <b>Amounts recognised in profit or loss</b>  |             |             |
| Net foreign exchange gains/losses included in operating income/ expenses                             | -305        | -507        |
| Net foreign exchange gains/losses included in finance income/ costs                                  | 39          | -113        |
| <b>Total net foreign exchange gains/losses recognised in profit before income tax for the period</b> | <b>-265</b> | <b>-620</b> |
| <b>Gains/losses recognised in other comprehensive income</b>   |             |             |
| Translation differences of foreign operations  | -13         | -505        |

#### INTEREST RATE RISK

The Group's main interest rate risk arises from non-current borrowings with variable rates, which expose the Group to cash flow interest rate risk. However, the Group manages interest rate risk in these loans by swapping floating rate into fixed rate. The Group has raised non-current loans from credit institutions at floating rates and swapped them into fixed rates that are lower

than those available if the Group borrowed at fixed rates directly.

Group's target is to maintain at least 60% thereafter of its borrowings at fixed rate and use interest rate swaps to achieve this when necessary. During 2018 and 2017, the Group's borrowings at variable rate were denominated in euros and swaps in place covered 68% on

31 December 2018 and 69% on December 2017 of the variable loan principal outstanding. Based on the sensitivity analysis, if interest rate level of unhedged borrowings at variable rate would have been one percentage point higher with all other variables held constant, interest expenses of the Group would have been EUR 127 thousand higher in 2018.

The Group's fixed rate shareholder loans and vendor notes were repaid in March 2018.

### CREDIT RISK

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the company. Credit risk arises from cash and cash equivalents, as well as from credit exposures to customers from outstanding receivables. Insurance for certain customers and for some customers advance payments are in use. The credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. To spread the credit risk, Harvia deposits its cash reserves with different banks.

The Group considers that there is evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or delinquency in payments

#### Impact of the adoption of a new impairment model for trade receivables

During the financial period 2017 the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. As a result of adoption of IFRS 9 the Group has applied expected credit loss model. A simplified method has been applied, in which the probability of expected credit losses over the life of the receivables is assessed. An increase in the loss allowance amounting to EUR 391 thousand related to trade receivables decreased the opening balance of retained earnings as at January 1, 2018. In addition, the tax effect of the increase in the loss allowance of EUR 78 thousand increases the opening balance of deferred tax assets and the retained earnings respectively. Net impact on retained earnings decreased retained earnings by EUR 313 thousand.

The effect of the increase in the loss allowance in the opening statement of financial position as of January 1, 2018 and changes during the period are presented below:

| EUR thousand   | Jan - Dec 2018<br>IFRS 9 | Jan - Dec 2017<br>IAS 39 |
|--|--------------------------|--------------------------|
| At 1 January - under IAS 39  | 63                       | 69                       |
| Impact of the increase in the loss allowance on the opening balance          | 391                      |                          |
| <b>Opening loss allowance at 1 January calculated under IFRS 9</b>           | <b>454</b>               |                          |
| Change in loan loss allowance recognised in profit or loss during the period | -79                      | 22                       |
| Trade receivables written off during the period as uncollectible             | -21                      | -28                      |
| Unused amount reversed   | -1                       |                          |
| <b>Total</b>   | <b>374</b>               | <b>63</b>                |

In 2018, Harvia has significant trade receivables due to long terms of payment in the client agreements. In certain circumstances, Harvia has also supported its distribution and dealership relationships by accepting longer than ordinary

terms of payment periods and by agreeing on a new payment plan in respect of receivables due, which has increased trade receivables especially in USA and in Russia.

During 2018 EUR 21 thousand (2017: EUR 28 thousand) was recognised in profit or loss in relation to credit losses. For trade receivables EUR 63 thousand was recognised as provision for

impairment as at 31 December 2017.

The loss allowance on 31 December 2018, EUR 374 thousand, is specified as follows:

| 31-Dec-18<br>EUR thousand | Gross book value | Allowance for bad debt |
|---------------------------|------------------|------------------------|
| <b>Not due</b>            | 8,265            | 4                      |
| Overdue by                |                  |                        |
| Less than 30 days         | 1,507            | 6                      |
| 30-60 days                | 560              | 5                      |
| 61-90 days                | 181              | 2                      |
| 91-180 days               | 450              | 45                     |
| 181-360 days              | 196              | 49                     |
| Over 360 days             | 263              | 263                    |
| <b>Total</b>              | <b>11,420</b>    | <b>374</b>             |

The other classes within other receivables do not contain essentially impaired or overdue assets. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The Group does not hold any collateral in relation to these receivables.

facilities (revolving credit facility) of EUR 8,000 thousand as at 31 December 2018 (EUR 3,561 thousand as at 31 December 2017). The undrawn interest-bearing facility is available constantly. Operating cash flows and liquid funds are the main source of financing for the future payments together with possible new debt or equity financing.

## LIQUIDITY RISK

Cash flow forecasting is performed on Group basis. Group finance department monitors Harvia Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed loan facility so that the Group does not breach loan limits or covenants on its loan facility. The Group has undrawn interest-bearing

The table below shows future repayments, interest expenses and capitalised interest expenses of Group's financial liabilities divided into maturity groupings based on the remaining contractual maturity at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| EUR thousand                   | Less than<br>6 months | 6 - 12<br>months | Between 1<br>and 2 years | Between 2<br>and 5 years | Over 5<br>years | Total<br>contractual<br>cash flows | Carrying<br>amount |
|--------------------------------|-----------------------|------------------|--------------------------|--------------------------|-----------------|------------------------------------|--------------------|
| <b>31-Dec-18</b>               |                       |                  |                          |                          |                 |                                    |                    |
| <b>Non-derivatives</b>         |                       |                  |                          |                          |                 |                                    |                    |
| Loans from credit institutions | 2,146                 | 8                | 33                       | 36,507                   |                 | 38,694                             | 38,526             |
| Other loans                    |                       |                  | 362                      | 6                        |                 | 369                                | 369                |
| Trade payables                 | 5,061                 | 104              |                          |                          |                 | 5,164                              | 5,164              |
| <b>Total non-derivatives</b>   | <b>7,207</b>          | <b>112</b>       | <b>395</b>               | <b>36,513</b>            |                 | <b>44,227</b>                      | <b>44,059</b>      |
| <b>Derivatives</b>             |                       |                  |                          |                          |                 |                                    |                    |
| Interest rate swaps            | 206                   | 209              | 829                      | 484                      |                 | 1,727                              | 1,471              |
| <b>Total derivatives</b>       | <b>206</b>            | <b>209</b>       | <b>829</b>               | <b>484</b>               |                 | <b>1,727</b>                       | <b>1,471</b>       |

| EUR thousand                   | Less than<br>6 months | 6 – 12<br>months | Between 1<br>and 2 years | Between 2<br>and 5 years | Over 5<br>years | Total<br>contractual<br>cash flows | Carrying<br>amount |
|--------------------------------|-----------------------|------------------|--------------------------|--------------------------|-----------------|------------------------------------|--------------------|
| <b>31-Dec-17</b>               |                       |                  |                          |                          |                 |                                    |                    |
| <b>Non-derivatives</b>         |                       |                  |                          |                          |                 |                                    |                    |
| Shareholder loans              |                       |                  |                          | 56,425                   |                 | 56,425                             | 41,618             |
| Loans from credit institutions | 4,420                 | 4,998            | 5,403                    | 28,268                   |                 | 43,089                             | 39,712             |
| Other loans                    | 69                    | 51               | 411                      | 23                       |                 | 554                                | 551                |
| Trade payables                 | 5,077                 |                  |                          |                          |                 | 5,077                              | 5,077              |
| <b>Total non-derivatives</b>   | <b>9,566</b>          | <b>5,049</b>     | <b>5,814</b>             | <b>84,716</b>            |                 | <b>105,145</b>                     | <b>86,958</b>      |
| <b>Derivatives</b>             |                       |                  |                          |                          |                 |                                    |                    |
| Interest rate swaps            | 219                   | 223              | 223                      | 662                      |                 | 1,327                              | 1,327              |
| <b>Total derivatives</b>       | <b>219</b>            | <b>223</b>       | <b>223</b>               | <b>662</b>               |                 | <b>1,327</b>                       | <b>1,327</b>       |

### CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern to provide returns and increase in value of invested capital for shareholders. The Group monitors net debt to adjusted EBITDA ratio and to net working capital.

Net debt is calculated as loans from credit institutions (included in current and non-current interest-bearing liabilities) less cash and cash equivalents. The target of the net debt and net debt position to EBITDA are linked to a covenant of borrowing facilities.

The table below shows the net debt position.

| EUR thousand                       | 31-Dec-18     | 31-Dec-17     |
|------------------------------------|---------------|---------------|
| Loans from credit institutions     | 38,526        | 39,712        |
| Shareholder loans and vendor notes |               | 41,618        |
| Less cash and cash equivalents     | -8,268        | -8,345        |
| <b>Net debt</b>                    | <b>30,258</b> | <b>72,985</b> |

Reconciliation of net cash flow to movement in net debt:

| EUR thousand               | Cash and cash<br>equivalents | Loans<br>from credit<br>institutions due<br>within 1 year | Loans<br>from credit<br>institutions due<br>after 1 year | Shareholder<br>loans due after<br>1 year | Total net debt |
|----------------------------|------------------------------|---|--|--|----------------|
| <b>At 1 January 2017</b>   | <b>6,568</b>                 | <b>-6,954</b>   | <b>-35,553</b>   | <b>-38,516</b>                           | <b>-74,455</b> |
| Cash flows                 | 1,980                        | 3,071   |  | 196                                      | 5,247          |
| Acquisitions               |                              | -11   |  |  | -11            |
| Exchange differences       | -204                         |   |  |  | -204           |
| Other non-cash movements   |                              | -4,500  | 4,235  | -3,298                                   | -3,563         |
| <b>At 31 December 2017</b> | <b>8,345</b>                 | <b>-8,394</b>   | <b>-31,318</b>   | <b>-41,618</b>                           | <b>-72,985</b> |
| Cash flows                 | -80                          | 6,636   | -4,733   | 41,618                                   | 43,441         |
| Acquisitions               |                              | -397  |  |  | -397           |
| Exchange differences       | 3                            |   |  |  | 3              |
| Other non-cash movements   |                              |   | -320   |  | -320           |
| <b>At 31 December 2018</b> | <b>8,268</b>                 | <b>-2,155</b>   | <b>-36,371</b>   | <b>0</b>                                 | <b>-30,258</b> |

## 5.4 FINANCE INCOME AND COSTS

This note presents the finance income and finance costs of the Group. The Group has entered into interest rate swap agreements to hedge against interest rate changes arising from the variable rate external bank loans.

For information about derivatives and financial liabilities, refer note 5.1. For information about cash and cash equivalents, refer note 5.2.

Group's interest and other finance income related mainly to foreign exchange gains, interest income of trade receivables and gains on valuation of derivative contracts. They amounted to EUR 215 thousand during 2018 (2017: EUR 457 thousand). Finance costs related mainly to loans from financial institutions and shareholder loans, and losses on valuation of derivative contracts. See the following table:

| EUR thousand   | 2018          | 2017          |
|--|---------------|---------------|
| <b>Finance income</b>  |               |               |
| Interest income  | 0             | 0             |
| Gain on terminated interest rate swap  |               | 146           |
| Fair value gain on interest rate swap  | 121           | 295           |
| Other finance income   | 93            | 15            |
| <b>Total</b>   | <b>215</b>    | <b>457</b>    |
| <b>Finance costs</b>   |               |               |
| Interest and finance charges paid/payable for financial liabilities not at fair value through profit or loss | -2,716        | -5,370        |
| Fair value losses on interest rate swaps   | -265          |               |
| <b>Total</b>   | <b>-2,981</b> | <b>-5,370</b> |
| <b>Finance costs, net</b>  | <b>-2,767</b> | <b>-4,914</b> |

## 5.5 COMMITMENTS AND CONTINGENT LIABILITIES

This note provides information about items that are not recognised in the financial statements as they do not (yet) satisfy the recognition criteria.

These are guarantees, pledges and contingent liabilities.

| EUR thousand                                  | 31-Dec-18  | 31-Dec-17      |
|---|------------|----------------|
| Guarantees and mortgages given on own behalf: |            |                |
| Mortgages                                     | 320        | 169,320        |
| Enterprise mortgages                          |            | 253,500        |
| <b>Total</b>                                  | <b>320</b> | <b>422,820</b> |

| EUR thousand                 | 31-Dec-18 | 31-Dec-17     |
|------------------------------|-----------|---------------|
| Pledges given on own behalf: |           |               |
| Shares in subsidiaries       |           | 96,984        |
| <b>Total</b>                 |           | <b>96,984</b> |

| EUR thousand      | 31-Dec-18 | 31-Dec-17    |
|-------------------|-----------|--------------|
| Other guarantees: |           |              |
| Pledged accounts  |           | 8            |
| Customs guarantee | 30        | 31           |
| Other guarantees  | 12        | 2,502        |
| <b>Total</b>      | <b>42</b> | <b>2,541</b> |

Additionally Harvia Group Oy has guaranteed subsidiary credit limit of which EUR 1,742 thousand was in use as at 31 December 2018.

#### OPERATING LEASE AGREEMENTS

##### Accounting policy

Leases in which a significant portion of the risks and rewards of ownership are retained

by the lessor are classified as operating leases. All lease contracts of the Group have been recognised as operating leases.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows (the Group as a lessee):

| EUR thousand                                | 31-Dec-18  | 31-Dec-17  |
|---|------------|------------|
| No later than 1 year                        | 515        | 406        |
| Later than 1 year and no later than 5 years | 323        | 330        |
| Later than 5 years                          |            |            |
| <b>Total</b>                                | <b>838</b> | <b>737</b> |

Based on operating lease agreements, rents for factory and warehouse properties are paid in Estonia, Austria, United States and China as well as office premises in Hong Kong, Austria, United States and Russia. In addition, rents are paid for cars, apartments and machines. The total lease liability of the operating leases include minimum lease payments for the notice periods of the lease agreements. These are primarily related to Group's operating premises, notice periods of which usually vary from 6 months to 12 months. However, Harvia has lease agreement periods with longer duration compared to the notice periods. The most significant one of these is the lease agreement of the Chinese factory, which has been renewed for a period of 15 years from 1 July 2017 and has a 6-month notice period.

##### Other commitments

In connection with the Sentiotec acquisition, Harvia entered into a three-year supply agreement with Sentiotec's former owner Abatec and this contract includes an annual purchase obligation.

Harvia become involved from time to time in various claims and lawsuits arising in the ordinary course of its business, such as disputes with customers and proceedings initiated by public authorities. During the reporting periods, Harvia has not been a party to legal, arbitration or administrative proceedings which could have a significant impact on the Group's financial position or profitability.



## SECTION 6: OTHER NOTES

This section of the notes includes other information that must be disclosed to comply with accounting standards and other pronouncements.

### 6.1 GROUP STRUCTURE AND CONSOLIDATION

This note provides information of the Group structure and accounting principles for consolidation.

#### Accounting policy

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully

consolidated from the date on which control is transferred to the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. When needed, the financial statements by subsidiaries have been adjusted to conform to the Group's accounting policies.

#### SUBSIDIARIES

The Group's subsidiaries as at 31 December 2018 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and

the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

| Parent company                      | Country of incorporation | Nature of business | Parent ownership (%) | Group ownership (%) | Acquired/ established (month/year) |
|-------------------------------------|--------------------------|--------------------|----------------------|---------------------|------------------------------------|
| Harvia Oyj                          | Finland                  | Parent company     |                      |                     |                                    |
| <b>Subsidiaries</b>                 |                          |                    |                      |                     |                                    |
| Harvia Group Oy                     | Finland                  | Holding            | 100                  | 100                 | 4/2014                             |
| Harvia Finland Oy                   | Finland                  | Manufacturing      |                      | 100                 | 4/2014                             |
| Velha Oy                            | Finland                  | Manufacturing      |                      | 100                 | 4/2014                             |
| Harvia (Hong Kong) Sauna Co. Ltd    | Hong Kong                | Sales              |                      | 100                 | 4/2014                             |
| Guangzhou City Harvia Sauna Co. Ltd | China                    | Manufacturing      |                      | 100                 | 4/2014                             |
| Harvia Estonia Oü                   | Estonia                  | Manufacturing      |                      | 100                 | 12/2014                            |
| LLC Harvia RUS                      | Russia                   | Sales              |                      | 100                 | 6/2015                             |
| Sentiotec GmbH                      | Austria                  | Sales              |                      | 100                 | 11/2016                            |
| Domo Wellness Romania Srl           | Romania                  | Manufacturing      |                      | 100                 | 11/2016                            |
| K&R Imobiliare                      | Romania                  | Real estate        |                      | 100                 | 11/2016                            |
| Saunamax Oy                         | Finland                  | Service            |                      | 56.2                | 3/2017                             |
| Harvia US Holdings Inc.             | United States            | Holding            |                      | 100                 | 11/2018                            |
| Harvia US Inc.                      | United States            | Manufacturing      |                      | 100                 | 11/2018                            |

## 6.2 RELATED PARTY TRANSACTIONS

**This note provides information of Harvia Group's related parties and transactions with related parties. The Group's related parties include the parent company, the Group companies mentioned in note 6.1 above. The related parties include also key management personnel and their family members as well as companies controlled by these. Key management personnel are members of the Board of Directors, Chief Executive Officer and management team.**

Until March 2018, the Group was controlled by CapMan Buyout X Fund A L.P and CapMan Buyout X Fund B Ky, which owned the company's outstanding shares total of 69.5% as at 31 December 2017. In addition, Avus Oy, KTR-Invest Oy, Tiipeti Oy and Mantereenniemi Oy (investment companies of previous owners) have a common significant influence in the Group. The total ownership of these companies in the Group was 17.7% as at 31 December 2017.

In connection with the listing, CapMan Buyout X Fund A L.P and CapMan Buyout X Fund B Ky, which previously had control over the group, sold 679,774 Harvia Plc shares representing 7.0 percent share of the company before the share issue. After the completion of the sale and share issue, the Funds' direct holding in the company is 24.6 percent, and therefore the Funds have a significant influence over the group.

### RELATED PARTY TRANSACTIONS

Harvia's key management personnel, the members of the Board of Directors, and their family members are entitled to purchase sauna products from Harvia in accordance with the policy applying to the entire personnel of Harvia. Transactions with related parties have been made on an arm's length basis.

The following transactions were carried out with related parties:

| EUR thousand                    | 2018 | 2017 |
|---------------------------------|------|------|
| Sales of goods and services     | 8    | 17   |
| Purchases of goods and services | 4    | 1    |

As of 31 December 2017, loans from related parties consisted of shareholder loans granted to the company. Certain Harvia's holding companies, former owners of Harvia, and certain key executives had granted shareholder loans

to Harvia. In connection with the listing of the company, Harvia paid back loans from related parties prematurely in March 2018.

Loans from related parties and their changes:

| EUR thousand                | 2018    | 2017          |
|-----------------------------|---------|---------------|
| At 1 January                | 41,618  | 38,516        |
| Increase in loans           |         |               |
| Loan repayments             | -41,618 |               |
| Accrued interest            | 836     | 3,298         |
| Withholding tax on interest | -42     | -175          |
| Interest paid               | -793    | -21           |
| <b>At 31 December</b>       |         | <b>41,618</b> |

Personnel offering

In connection with the listing, the group's personnel subscribed 144,357 shares in the personnel offering. The subscription price of EUR 4.50 per share was 10% lower than the subscription price for other shares subscribed

in connection with the listing. The discount given to the personnel, EUR 72 thousand, has been accounted for under IFRS as share-based payments and it has been fully recorded as personnel expenses.

**MANAGEMENT HOLDINGS****Accounting estimates and management judgement**Share-based payments

Harvia Group makes judgements on whether an arrangement or a transaction contains a share-based payment. The measurement of

the fair value for the arrangement requires judgement from the management. As per the analysis on grant date valuation, the value of the benefit can be considered to be zero as it is determined that the subscription price corresponds the fair value. Accordingly, no expense is required to be recognised.

Harvia has established a management co-investment arrangement for certain key management personnel of the Group and other key employees. The co-investment arrangements have been made in 2014-2017 with key employees that were employed by the Group or have joined the Group. The co-investment arrangement involves shareholders that were Harvia Finland Oy's shareholders already before the current ownership structure was created, and shareholders that have joined the company as key employees after the arrangement made in 2014. Holdings of key persons who have invested in shares after the 2014 arrangement are within the scope of the IFRS 2 standard.

According to the agreements, the key employees covered by the arrangement have invested in shares and shareholder loans issued by the parent company. Investments made by key employees were carried out at the same valuation basis and substantially on the same terms as the investments made by the controlling owner.

The co-investment arrangement contains a share-based payment, but the valuation at the grant date indicates that the co-investments made and possible proceeds to employees do not contain additional benefit when compared to the controlling owner. As Harvia does not

have a contractual obligation to redeem the leavers in cash, and Harvia has not used its right to redeem the shares of key employees as their employment ends, the arrangement is classified as equity-settled arrangement under IFRS. With the grant date fair value of the share-based payment being zero, no expense has been recognised for this arrangement in the consolidated financial statements.

The following table indicates the ownership interests of the members of the Board of Directors, the Chief Executive Officer and the members of the management team in the parent company's shares outstanding at 31 December 2018:

|                                   |      |
|-----------------------------------|------|
| Members of the Board of Directors | 3.0% |
| Chief Executive Officer           | 1.3% |
| Other Management team             | 3.3% |

**REMUNERATION TO MANAGEMENT**

The Board of Directors decides on the amount of and basis for the remuneration of the Chief Executive Officer (CEO) and the members of the management team. The remuneration of the CEO and the members of the management team consists of a monthly salary plus a bonus. The terms and conditions relating to the bonus

are determined annually by the Board of Directors of the parent company. The bonus to the CEO and the members of the management team is paid based on the achievement of personal objectives as well as objectives relating to profitability for the financial year. The performance-based bonus must not exceed 31% of the fixed salary of the CEO and of other members of the management team.

The CEO of the Group is entitled to statutory pension, and the age of retirement is determined in accordance with the statutory employee pension system. Under the current legislation, the CEO's age of retirement is 63 years. The CEO

has a life insurance and an additional pension insurance provided by Harvia. He is entitled to the additional pension at the age of 63. The term of notice for the CEO has been specified as 6 months, and he is entitled to salary for the term of notice as well as a performance-based bonus up to the date of termination. If the company terminates the employment contract of the CEO, he is, under certain conditions, entitled to a compensation that equals full salary for 6 months.

Harvia's CEO and CFO both received a one-time bonus of EUR 50 thousand when the listing was completed.

#### KEY MANAGEMENT PERSONNEL COMPENSATION

| EUR thousand                                    | 2018       | 2017       |
|---|------------|------------|
| Chief executive officer                         |            |            |
| Salaries and other short-term employee benefits | 514        | 458        |
| Pension costs - defined contribution plans*     | 97         | 87         |
| <b>Total</b>                                    | <b>610</b> | <b>545</b> |

\* Includes costs of voluntary pension plan amounting to EUR 9 thousand in 2018 (2017: EUR 9 thousand).

|   |            |            |
|---|------------|------------|
| Other management team                           |            |            |
| Salaries and other short-term employee benefits | 850        | 803        |
| Pension costs - defined contribution plans      | 130        | 125        |
| <b>Total</b>                                    | <b>980</b> | <b>928</b> |

#### REMUNERATION TO MEMBERS OF BOARD OF DIRECTORS

| EUR thousand                                | 2018       | 2017      |
|---|------------|-----------|
| Olli Liitola (as of 11 March 2014)          | 52         | 15        |
| Anders Björkell (as of 11 March 2014)       |            |           |
| Pertti Harvia (as of 1 July 2016)           | 24         | 24        |
| Ia Adlercreutz (as of 1 September 2016)     | 24         | 24        |
| Ari Hiltunen (as of 9 February 2018)        | 26         |           |
| Simo Lehtonen (11 March 2014 -28 June 2017) |            | 12        |
| <b>Total</b>                                | <b>126</b> | <b>75</b> |

#### Share-based incentive plan

In May, the Board of Directors of Harvia Plc decided, based on authorization, to establish a new share based long-term incentive plan for the CEO and Management Team members. The

plan will form a part of Harvia Plc's remuneration program for its executives, and the aim of the plan is to support the implementation of the company's strategy, to align the interests of the executives with interests of the shareholders to

increase the value of the company, to improve the performance of the company, and to retain the executives.

The long-term incentive plan consists of three performance periods of three calendar years each, 2018-2020, 2019-2021 and 2020-2022. The Board of Directors will decide separately for each performance period the plan participants, performance criteria, and related targets, as well as the minimum, target, and maximum reward potentially payable based on target attainment.

The long-term incentive plan will not have a dilutive effect, because the rewards will be paid with existing shares of the company, which will be purchased from the market, and no new shares will be issued in connection with this plan.

In the first performance period, the plan has 10 participants at most and the targets for the

long-term incentive plan relate to the company's total shareholder return, revenue growth and EBIT margin. The maximum number of shares to be paid based on the first performance period is approximately 125,000 Harvia Plc's shares, which corresponds to approximately EUR 715,000 calculated with the volume weighted average share price on the trading day preceding the Board's decision. This number of shares represents gross earning, from which the withholding tax and possible other applicable contributions are deducted, and the remaining net amount is paid in shares. However, the company has the right to pay the reward fully in cash under certain circumstances. Potential rewards from the first performance period will be paid out during the spring 2021.

In 2018 EUR 50 thousand has been recognised as personnel expenses.

## 6.3 TAXES

This note provides an analysis of the Group's taxes.

### Accounting policy

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated profit or loss statement or if tax relates to items recognised in profit and loss statement or directly in equity, then the related tax is recognised in other comprehensive income or equity correspondingly.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income.

### INCOME TAX EXPENSE

| EUR thousand                          | 2018       | 2017          |
|---------------------------------------|------------|---------------|
| Current tax:                          |            |               |
| Current tax on profits for the year   | -1,115     | -1,303        |
| Adjustments in respect of prior years | -3         | -13           |
| Total current tax expense             | -1,118     | -1,316        |
| Deferred tax:                         |            |               |
| Change in deferred taxes              | 1,289      | -119          |
| <b>Income taxes</b>                   | <b>172</b> | <b>-1,435</b> |

**Reconciliation of income tax expense and taxes calculated at the Finnish tax rate rate 20%**

| EUR thousand   | 2018       | 2017          |
|--|------------|---------------|
| Profit before tax  | 6,609      | 4,349         |
| Tax calculated at Finnish tax rate 20%                     | -1,322     | -870          |
| Effect of other tax rates for foreign subsidiaries         | -4         | 3             |
| Expenses not deductible for tax purposes*                  | -142       | -571          |
| Income not subject to tax                                  | 2          | 2             |
| Previous yers' non deductible inta group interest expenses | 1,637      | 0             |
| <b>Taxes in income statement</b>                           | <b>172</b> | <b>-1,435</b> |

\*Consist in 2017 mainly of intra-group interest expenses that have been non-deductible in taxation.

**DEFERRED TAX ASSETS****Accounting policy**

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the

related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable amounts will be available to utilise those temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**Management judgement**

Determining to which extent deferred tax assets can be recognised requires management judgement. The management of Harvia Group has used judgement when determining if deferred tax asset is recognised for an unused tax loss carryforward or unused tax credits. Recognition is done only to the extent that it is probable that future taxable profits will

be available against which the loss or credit carryforward can be utilised. The Group estimates positions taken in tax return with respect to situations in which applicable tax regulation is subject to interpretation. If necessary, the booked amounts are adjusted to correspond to amounts expected to be paid to the tax authorities.

No deferred tax receivables for intra-group



interest expenses of EUR 8,185 thousand that were non-deductible in taxation for previous years have been recognized in Harvia's Consolidated Financial Statements for the year ended on December 31, 2017. These net interest costs incurred to Harvia Group Oy form intra-group net interest expenses, the deductibility of which are restricted by the applicable tax provisions. The deductibility of these net interest costs and their use in the taxation of following years was thus uncertain and thereby no deferred tax assets were recognized at the end of 2017. In March 2018, majority of intra-group loans of Harvia Group Oy were converted

into the company's unrestricted equity and the company's equity was also strengthened by cash contribution. As a result, Harvia Group Oy will have less intra-group net interest expenses in future. This increases the prospects for Harvia Group Oy to deduct all of its net interest expenses and the likelihood of deduction of the non-deducted net interest expenses from previous years in the taxation of Harvia Group Oy. As a result, an increase in deferred tax assets of EUR 1,637 thousand was recognized in March 2018 and a total of EUR 1,748 thousand in 2018. There is no time limit for the deduction of net interest expenses in taxation.

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within same tax jurisdiction, is as follows:

| EUR thousand                      | At 1 Jan   | Recognised in profit or loss | Recognised in equity | Business combinations | At 31 Dec    |
|-----------------------------------|------------|------------------------------|----------------------|-----------------------|--------------|
| <b>2018</b>                       |            |                              |                      |                       |              |
| <b>Deferred tax assets</b>        |            |                              |                      |                       |              |
| Tax losses and net interest costs | 186        | 1,562                        |                      |                       | 1,748        |
| Internal margin of inventories    | 37         | 7                            |                      |                       | 44           |
| Provisions                        | 90         | -4                           |                      |                       | 86           |
| Derivative financial instruments  | 265        | -265                         |                      |                       | 0            |
| Loans from credit institutions    | 33         | -33                          |                      |                       | 0            |
| Other items                       | 39         | -75                          | 513                  |                       | 477          |
| <b>Total</b>                      | <b>650</b> | <b>1,192</b>                 | <b>513</b>           |                       | <b>2,355</b> |
| Netting of deferred taxes         | -650       |                              |                      |                       | -996         |
| <b>Net deferred tax asset</b>     | <b>0</b>   |                              |                      |                       | <b>1,358</b> |

|                                      |              |               |             |            |              |
|--------------------------------------|--------------|---------------|-------------|------------|--------------|
| <b>2018</b>                          |              |               |             |            |              |
| <b>Deferred tax liabilities</b>      |              |               |             |            |              |
| Intangible assets                    | 326          | -30           |             | 337        | 634          |
| Accumulated depreciation differences | 282          | -42           |             |            | 239          |
| Property, plant and equipment        | 434          | -26           |             |            | 408          |
| Other items                          | 50           | 1             | 1           | 24         | 76           |
| <b>Total</b>                         | <b>1,092</b> | <b>-97</b>    |             | <b>361</b> | <b>1,358</b> |
| Netting of deferred taxes            | -650         |               |             |            | -996         |
| <b>Net deferred tax liability</b>    | <b>442</b>   | <b>-1,289</b> | <b>-513</b> | <b>361</b> | <b>361</b>   |

| EUR thousand                         | At 1 Jan     | Recognised in profit or loss | Recognised in equity | Business combinations | At 31 Dec    |
|--------------------------------------|--------------|------------------------------|----------------------|-----------------------|--------------|
| <b>2017</b>                          |              |                              |                      |                       |              |
| <b>Deferred tax assets</b>           |              |                              |                      |                       |              |
| Tax losses                           | 308          | -122                         |                      |                       | 186          |
| Internal margin of inventories       | 35           | 2                            |                      |                       | 37           |
| Provisions                           | 105          | -15                          |                      |                       | 90           |
| Derivative financial instruments     | 354          | -88                          |                      |                       | 265          |
| Loans from credit institutions       | 30           | 3                            |                      |                       | 33           |
| Other items                          | 32           | 7                            |                      |                       | 39           |
| <b>Total</b>                         | <b>864</b>   | <b>-214</b>                  |                      | <b>0</b>              | <b>650</b>   |
| <b>2017</b>                          |              |                              |                      |                       |              |
| <b>Deferred tax liabilities</b>      |              |                              |                      |                       |              |
| Intangible assets                    | 356          | -30                          |                      |                       | 326          |
| Accumulated depreciation differences | 321          | -39                          |                      |                       | 282          |
| Property, plant and equipment        | 460          | -26                          |                      |                       | 434          |
| Other items                          | 50           |                              |                      |                       | 50           |
| <b>Total</b>                         | <b>1,187</b> | <b>-95</b>                   |                      | <b>0</b>              | <b>1,092</b> |
| <b>Net deferred tax liability</b>    | <b>323</b>   | <b>119</b>                   |                      | <b>0</b>              | <b>442</b>   |

The Group has not recognised deferred tax liability on the undistributed profits of its subsidiaries in the countries where the dividend

distribution causes tax penalties but dividend distribution is considered unlikely.

## 6.4 EQUITY

This note describes what is included in the equity of Harvia Group.

The total equity consists of the share capital, the invested unrestricted equity reserve, currency translation differences and accumulated profits.

### SHARE CAPITAL AND NUMBER OF SHARES

Harvia has one share class and shares entitle the holders equal right to dividends and votes in the general meeting of Harvia.

| EUR thousand                                      | Ordinary shares | Number of shares  |
|---|-----------------|-------------------|
| <b>At 1 January 2017</b>                          | 3               | 9,539,800         |
| Share issue                                       |                 | 140,000           |
| <b>At 31 December 2017</b>                        | 3               | 9,679,800         |
| Increase in share capital through a fund increase | 78              |                   |
| Initial public offering                           |                 | 8,870,079         |
| Personnel offering                                |                 | 144,357           |
| <b>At 31 December 2018</b>                        | <b>80</b>       | <b>18,694,236</b> |

On 20 December 2016, shareholders decided unanimously on directed share issue of 140 000 shares, at the maximum. The shares were registered on 12 June 2017.

On February 9, 2018, the shareholders of the company decided with a unanimous decision to change the form of the company to a public limited liability company and to implement an increase in share capital by a capital increase to meet the required EUR 80,000 limit for a public limited liability company through a fund increase.

In connection with the listing, the company carried out an offering which consisted of

a public offering which increased the amount of shares by 8,870,079 shares in March 2018 and through a personnel offering to employees of the Group by 144,357 shares in April 2018. All shares are fully paid.

#### OTHER RESERVES

The following table shows a breakdown of the balance sheet line item 'other reserves' and the movements in these reserves during the year. A description of the nature and purpose of each reserve is provided below the table.

| EUR thousand                                  | Invested<br>unrestricted<br>equity | Translation<br>differences | Total  |
|---|------------------------------------|----------------------------|--------|
| <b>At 1 January 2017</b>                      | 9,724                              | 484                        | 10,209 |
| Share issue                                   |                                    |                            |        |
| Translation differences                       |                                    | -505                       | -505   |
| <b>At 31 December 2017</b>                    | 9,724                              | -21                        | 9,703  |
| Increase in share capital                     | -78                                |                            | -78    |
| Share issue                                   | 45,000                             |                            | 45,000 |
| Expenses related to the share issue           | -1,671                             |                            | -1,671 |
| Discount related to the personnel share issue | 72                                 |                            | 72     |
| Share-based incentive plan                    | 50                                 |                            | 50     |
| Translation differences                       |                                    | -13                        | -13    |
| <b>At 31 December 2018</b>                    | 53,098                             | -34                        | 53,064 |

#### INVESTED UNRESTRICTED EQUITY RESERVE

Under the Finnish Companies Act, the subscription price of new shares is credited to the share capital, unless it is provided in the share issue resolution that it is to be credited in full or in part to the invested unrestricted equity reserve. Contributions to the reserve for invested unrestricted equity can also be made without share issues.

In connection with the listing, the company carried out an offering which consisted of a public offering in Finland, an institutional offering to institutional investors in Finland and in

accordance with applicable laws, internationally; and personnel offering to employees of the group. With the share issue, the company raised gross proceeds of approximately EUR 45,000 thousand that was recognized to the invested unrestricted equity reserve.

During January-December 2018, the company's listing related fees and expenses amounted to EUR 3,416 thousand, of which EUR 2,089 thousand was recognized as expenses in connection with the offering against the received assets of the invested unrestricted equity reserve, net of EUR 418 thousand deferred taxes.

**TRANSLATION DIFFERENCES****Accounting policy**

Translation differences that arise when translating the financial statements of subsidiaries are recognised in other comprehensive income and accumulated in translation differences reserve in equity.

Exchange rate differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 5.3 and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

**RETAINED EARNINGS**

Movements in retained earnings were as follows:

| EUR thousand                 | 2018   | 2017  |
|------------------------------|--------|-------|
| <b>At 1 January</b>          | 9,570  | 6,656 |
| Adoption of IFRS 9 standard  | -313   |       |
| Adoption of IFRS 15 standard | 5      |       |
| <b>At 1 January 2018</b>     | 9,262  |       |
| Dividend distribution        | -3,365 |       |
| Profit for the period        | 6,780  | 2,914 |
| <b>At 31 December</b>        | 12,678 | 9,570 |

In 2018 Harvia paid a dividend of EUR 0.18 per share, in total EUR 3,365 thousand.

The Board of Directors of Harvia Plc proposes to the Annual General Meeting that a dividend of EUR 0.18 per share be distributed after the Annual General Meeting in April 2019 for the financial period that ended on December 31, 2018.

In addition, the Board of Directors of Harvia Plc requests the Annual General Meeting to authorize the Board to distribute a dividend amounting to a maximum of EUR 0.19 per share in October 2019.

Based on the proposal by the Board of Directors the maximum dividend for the year 2018 would be EUR 0.37 per share, in total EUR 6,917 thousand.

**6.5 EVENTS OCCURRING AFTER THE REPORTING DATE**

There were no significant events to report after the review period.

# PARENT COMPANY FINANCIAL STATEMENTS FAS

## PARENT COMPANY PROFIT & LOSS STATEMENT

| EUR thousand   | 1 Jan - 31 Dec 2018 | 1 Jan - 31 Dec 2017 |
|--|---------------------|---------------------|
| <b>Revenue</b>                                       | <b>1,084</b>        | <b>181</b>          |
| Staff expenses                                       |                     |                     |
| Wages and salaries                                   | -854                | -208                |
| Social security expenses                             |                     |                     |
| Pension expenses                                     | -138                | -37                 |
| Other social security expenses                       | -14                 | -4                  |
| Other operating expenses                             | -1,510              | -689                |
| Depreciation and amortisation                        |                     |                     |
| Depreciation according to plan                       | -522                |                     |
| <b>Operating profit</b>                              | <b>-1,954</b>       | <b>-758</b>         |
| Finance income                                       | 7,198               | 2,296               |
| Finance costs  | -3,005              | -2,743              |
| Finance income and expenses total                    | 4,193               | -448                |
| <b>Profit before income appropriations and taxes</b> | <b>2,239</b>        | <b>-1,206</b>       |
| Appropriations                                       |                     |                     |
| Group contribution                                   | 6,000               | 7,100               |
| Income taxes   | -378                | -1,017              |
| <b>Profit for the period</b>                         | <b>7,861</b>        | <b>4,878</b>        |

## PARENT COMPANY BALANCE SHEET

| EUR thousand                     | 31-Dec-2018    | 31-Dec-2017   |
|----------------------------------|----------------|---------------|
| <b>ASSETS</b>                    |                |               |
| <b>Non-current assets</b>        |                |               |
| Intangible assets                |                |               |
| Intangible rights                | 1,567          |               |
| Investments                      |                |               |
| Holdings in group undertakings   | 85,909         | 12,019        |
| <b>Total non-current assets</b>  | <b>87,476</b>  | <b>12,019</b> |
| <b>Current assets</b>            |                |               |
| Short-term receivables           |                |               |
| Receivables from group companies | 12,009         | 32,465        |
| Other receivables                | 198            | 174           |
| Prepayments and accrued income   | 33             | 17            |
| Cash and cash equivalents        | 2,632          | 1,407         |
| <b>Total current asset</b>       | <b>14,872</b>  | <b>34,063</b> |
| <b>Total assets</b>              | <b>102,348</b> | <b>46,082</b> |

  

| EUR thousand                             | 31-Dec-2018    | 31-Dec-2017   |
|--|----------------|---------------|
| <b>EQUITY AND LIABILITIES</b>            |                |               |
| <b>Equity</b>                            |                |               |
| Share capital                            | 80             | 3             |
| Reserve for invested unrestricted equity | 54,647         | 9,724         |
| Retained earnings                        | 731            | -782          |
| Profit for the period                    | 7,861          | 4,878         |
| <b>Total equity</b>                      | <b>63,318</b>  | <b>13,822</b> |
| <b>Liabilities</b>                       |                |               |
| <b>Non-current liabilities</b>           |                |               |
| Shareholder loans                        |                | 30,148        |
| Loans from credit institutions           | 36,500         |               |
| Amounts owed to group undertakings       | 1,471          |               |
| <b>Total non-current liabilities</b>     | <b>37,971</b>  | <b>30,148</b> |
| <b>Current liabilities</b>               |                |               |
| Trade payables                           | 108            | 523           |
| Amounts owed to group undertakings       | 318            |               |
| Other liabilities                        | 41             | 32            |
| Accrued expenses                         | 593            | 1,557         |
| <b>Total current liabilities</b>         | <b>1,059</b>   | <b>2,111</b>  |
| <b>Total liabilities</b>                 | <b>39,030</b>  | <b>32,260</b> |
| <b>Total equity and liabilities</b>      | <b>102,348</b> | <b>46,082</b> |

## PARENT COMPANY CASH FLOW STATEMENT

| EUR thousand  | 1 Jan - 31 Dec 2018 | 1 Jan - 31 Dec 2017 |
|---|---------------------|---------------------|
| <b>Cash flow from operating activities:</b>                               |                     |                     |
| Profit (loss) before taxes  | 2,239               | -1,206              |
| Adjustments to operating profit (+/-) for:                                |                     |                     |
| Depreciation and amortisation   | 522                 |                     |
| Financial income and expenses   | -4,193              | 448                 |
| Cash flow before working capital changes                                  | -1,432              | -758                |
| Working capital changes:  |                     |                     |
| Increase/decrease in trade and other short-term interest-free receivables | -74                 | -253                |
| Increase/decrease in short-term interest-free liabilities                 | -405                | 1,083               |
| Change in working capital   | -1,911              | 72                  |
| Operating cash flow before financing items and taxes                      | 0                   | 0                   |
| Income taxes paid (-), received (+)                                       | -1,025              |                     |
| <b>Cash flow from operating activities:</b>                               | <b>-2,937</b>       | <b>72</b>           |
| <b>Cash flow from investments</b>   |                     |                     |
| Purchase of tangible and intangible items (-)                             | -2,089              |                     |
| Loans granted   | -1,485              |                     |
| Investment in group companies   | -48,049             |                     |
| Interest received from investments  | 132                 |                     |
| Dividends received  | 2,100               |                     |
| <b>Cash flow from investments</b>   | <b>-49,391</b>      | <b>0</b>            |
| <b>Cash flows from financing activities</b>                               |                     |                     |
| Proceeds from share issues  | 45,000              |                     |
| Proceeds from current interest bearing liabilities                        | 3,000               |                     |
| Repayment of current interest bearing liabilities                         | -3,000              |                     |
| Proceeds from non-current loans   | 37,971              |                     |
| Repayment of non-current loans  | -30,148             |                     |
| Interest and other financing expenses paid (-)                            | -3,005              | -30                 |
| Dividends paid  | -3,365              |                     |
| Group contributions received  | 7,100               |                     |
| <b>Cash flows from financing activities</b>                               | <b>53,552</b>       | <b>-30</b>          |
| <b>Net increase (+) / decrease (-) in cash and cash equivalents</b>       | <b>1,225</b>        | <b>42</b>           |
| <b>Cash and cash equivalents at beginning of period</b>                   | <b>1,407</b>        | <b>1,366</b>        |
| <b>Cash and cash equivalents at end of period</b>                         | <b>2,632</b>        | <b>1,407</b>        |



## NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

### PARENT COMPANY ACCOUNTING POLICIES

Harvia Plc's Financial Statements are presented according to the Finnish Account Standards (FAS). The financial statements are in Euros.

The preparation of Harvia Plc's financial statements requires the use of estimates, judgement and assumptions that may affect the application of accounting policies and the recognised amounts of assets and liabilities at the date of the financial statements. Actual results may differ from previously made estimates and judgements.

#### Non-current assets

Intangible assets are recognised at the acquisition cost less the depreciation according to plan. Acquisition costs consists of direct costs of the acquisition. The depreciation has been calculated straight-line basis over the financial use of the asset. The depreciation period of intangible assets is 3 years.

Investments to group companies are valued at acquisition cost or net realizable value, if the

investment value has deteriorated significantly and permanently.

#### Receivables

Receivables are valued at acquisition cost or the likely recoverable value if lower.

#### Pensions

Pension cover of Finnish employees and possible voluntary pension has been arranged by pension insurances through pension insurance companies.

#### Income taxes

Income taxes have been recognised based on the current year profit according to Finnish tax legislation, with any adjustments resulting from prior years. The parent company does not book deferred taxes.

#### Dividends

Dividend that the Board of Director has proposed has not been booked to the financial statements. The dividends will be booked based on the decisions of Annual General Meeting.

### NOTES TO THE PROFIT AND LOSS STATEMENT

|  | 2018        | 2017        |
|--|-------------|-------------|
| <b>Notes relating to personnel</b>                           |             |             |
| <b>Number of personnel at the end of the financial year</b>  | 2           | 2           |
| <b>Average number of personnel during the financial year</b> |             |             |
| Officers   | 2           | -           |
| <b>EUR thousand</b>  | <b>2018</b> | <b>2017</b> |
| <b>Manangement compensation</b>                              |             |             |
| Members of the Board of Directors and CEO                    | 627         | 70          |
| <b>Auditors' fees</b>  |             |             |
| Statutory audit  | 29          | 5           |
| Auditor's statements   | 7           |             |
| Other services   | 392         | 439         |
|  | <b>428</b>  | <b>444</b>  |

| EUR thousand                               | 2018          | 2017          |
|--|---------------|---------------|
| <b>Finance income and costs</b>            |               |               |
| Dividends from Group companies             | 6,400         |               |
| Other interest income                      |               |               |
| Group undertakings                         | 798           | 2,296         |
| Other than group companies                 | 0             |               |
| <b>Total finance income</b>                | <b>7,198</b>  | <b>2,296</b>  |
| Interest and finance charges               |               |               |
| Group undertakings                         | -1,789        |               |
| Other than group companies                 | -1,217        | -2,743        |
| <b>Total financial expenses</b>            | <b>-3,005</b> | <b>-2,743</b> |
| <b>Total financial income and expenses</b> | <b>4,193</b>  | <b>-448</b>   |
| <b>Income taxes</b>                        |               |               |
| Income taxes for ordinary business         | 378           | 1,017         |

**NON-CURRENT ASSETS**

| EUR thousand   | 2018          | 2017          |
|--|---------------|---------------|
| <b>Intangible assets</b>   |               |               |
| Acquisition cost at the beginning of the financial year                        |               |               |
| Additions  | 2,089         |               |
| Acquisition cost at the end of the financial year                              | 2,089         |               |
| Amortisation for the financial year  | -522          |               |
| Accumulated amortisation and impairment at the beginning of the financial year | -522          |               |
| <b>Book value at the end of the financial year</b>                             | <b>1,567</b>  |               |
| <b>Investments</b>   |               |               |
| Acquisition cost 1 January   | 12,019        | 12,019        |
| Additions  | 73,890        |               |
| Acquisition cost 31 December   | 85,909        | 12,019        |
| <b>Book value 31 December</b>  | <b>85,909</b> | <b>12,019</b> |
| Book value 1 January   | 12,019        | 12,019        |

**HOLDINGS IN GROUP UNDERTAKINGS**

| <b>Group companies</b>              | <b>Parent ownership</b> |      |
|-------------------------------------|-------------------------|------|
| Parent ownership                    |                         |      |
| Harvia Group Oy, Muurame            | 100%                    | 100% |
| Domo Wellness Romania Srl.          |                         |      |
| Guangzhou City Harvia Sauna Co. Ltd |                         |      |
| Harvia Estonia OÜ                   |                         |      |
| Harvia Finland Oy, Muurame          |                         |      |
| Harvia (HK) Sauna Co. Ltd           |                         |      |
| Harvia US Holdings Inc.             |                         |      |
| Harvia US Inc.                      |                         |      |
| K&R Imobiliare                      |                         |      |
| LLC Harvia RUS                      |                         |      |
| Saunamax Oy                         |                         |      |
| Sentiotec GmbH                      |                         |      |
| Velha Oy, Muurame                   |                         |      |

**RECEIVABLES**

| <b>EUR thousand</b>  | <b>2018</b>   | <b>2017</b>   |
|--|---------------|---------------|
| <b>Short-term receivables</b>                                      |               |               |
|  |               |               |
| <b>Receivables from group companies</b>                            |               |               |
| Trade debtors  | 224           | 112           |
| Loans receivable   | 5,785         | 25,253        |
| Other receivables  | 6,000         | 7,100         |
| <b>Total</b>   | <b>12,009</b> | <b>32,465</b> |
| <b>Receivables from others</b>                                     |               |               |
| Other receivables  | 198           | 174           |
| Prepayments and accrued income                                     | 33            | 17            |
|  | <b>231</b>    | <b>191</b>    |
| <b>Material amounts included in prepayments and accrued income</b> |               |               |
| Insurances   | 18            | 16            |
| Others   | 16            |               |
| Social security expenses   |               | <b>1</b>      |
|  | <b>33</b>     | <b>17</b>     |

**LIABILITIES**

| EUR thousand   | 2018          | 2017          |
|--|---------------|---------------|
| <b>Long-term liabilities</b>                                     |               |               |
| <b>Shareholder loans</b>   |               | 30,148        |
| Loans from credit institutions                                   | 36,500        |               |
| Loans from group companies                                       | 1,471         |               |
|  | <b>37,971</b> | <b>30,148</b> |
| Liabilities falling due after five years                         |               |               |
| <b>Shareholder loans</b>   |               | 30,148        |
|  |               | <b>30,148</b> |
| <b>Short-term liabilities</b>                                    |               |               |
| <b>Loans from group undertakings</b>                             |               |               |
| Other liabilities  | 318           |               |
| <b>Liabilities for others</b>                                    |               |               |
| Trade creditors  | 108           | 523           |
| Other liabilities  | 41            | 32            |
| Accruals and deferred income                                     | 593           | 1,557         |
|  | <b>741</b>    | <b>2,111</b>  |
| <b>Material amounts shown under accruals and deferred income</b> |               |               |
| Wages and salaries including social security expenses            | 168           | 139           |
| Income taxes   | 369           | 1,017         |
| Other  | 55            | 401           |
|  | <b>593</b>    | <b>1,557</b>  |

**EQUITY**

| EUR thousand   | 2018          | 2017          |
|--|---------------|---------------|
| <b>Restricted equity</b>   |               |               |
| Subscribed capital 1 January                                       | 3             | 3             |
| Funds issue  | 78            |               |
| <b>Subscribed capital 31 December</b>                              | <b>80</b>     | <b>3</b>      |
| <b>Total restricted equity</b>                                     | <b>80</b>     | <b>3</b>      |
| <b>Unrestricted equity</b>   |               |               |
| Reserve for invested unrestricted equity 1 January                 | 9,724         | 9,724         |
| Share capital  | -78           |               |
| Share issue  | 45,000        |               |
| <b>Reserve for invested unrestricted equity 31 December</b>        | <b>54,647</b> | <b>9,724</b>  |
| Retained earnings from previous financial years 1 January          | 4,096         | -782          |
| Dividend distribution  | -3,365        |               |
| <b>Retained earnings from previous financial years 31 December</b> | <b>731</b>    | <b>-782</b>   |
| <b>Profit (loss) for the financial year</b>                        | <b>7,861</b>  | <b>4,878</b>  |
| <b>Total unrestricted equity</b>                                   | <b>63,238</b> | <b>13,820</b> |
| <b>Total equity</b>  | <b>63,318</b> | <b>13,822</b> |
| <b>Distributable unrestricted equity</b>                           |               |               |
| Reserve for invested unrestricted equity                           | 54,647        | 9,724         |
| Retained earnings from previous years                              | 731           | -782          |
| Profit for the financial year                                      | 7,861         | 4,878         |
| <b>Distributable unrestricted equity</b>                           | <b>63,238</b> | <b>13,820</b> |

**GUARANTEES AND COMMITMENTS**

| EUR thousand                                 | 2018      | 2017     |
|--|-----------|----------|
| <b>Pledges</b>                               |           |          |
| Shares in subsidiaries                       |           | 3        |
|  |           | <b>3</b> |
| <b>Rental payments under lease contracts</b> |           |          |
| Payable during the following financial year  | 12        | 2        |
| Payable in later years                       | 8         |          |
|  | <b>20</b> | <b>2</b> |

**PROPOSAL BY THE BOARD OF DIRECTORS  
FOR DISTRIBUTION OF PROFIT**

The unrestricted equity of Harvia Plc amounts to EUR 63,238 thousand, of which the result for the financial period 2018 amounts to EUR 7,861 thousand. The Board of Directors of Harvia Plc proposes to the Annual General Meeting that a dividend of EUR 0.18 per share be distributed after the Annual General Meeting in April 2019 for the financial period that ended on December 31, 2018. In addition, the Board of Directors of Harvia Plc requests the Annual General Meeting to authorize the Board to distribute a dividend amounting to a maximum of EUR 0.19 per share in October 2019.

The dividends distributed by Harvia for 2018 based on the Board of Director's proposal would amount to a maximum of EUR 0.37 per share, or a maximum of EUR 6,917 thousand in total. There has been no material changes in the financial position of the company after the reporting date. The company's liquidity is solid and the proposed dividend does not risk the solvency of the company.

## **SIGNATURES FOR THE FINANCIAL STATEMENTS AND THE BOARD OF DIRECTORS' REPORT**

In Muurame, 13 February 2019

Olli Liitola  
Chairman of the Board

Pertti Harvia  
Member of the Board

Anders Björkell  
Member of the Board

Ia Adlercreutz  
Member of the Board

Ari Hiltunen  
Member of the Board

Tapio Pajuharju  
CEO

### **AUDITOR'S NOTE**

A report on the audit performed has been issued today.

In Muurame, 26 February 2019

PricewaterhouseCoopers Oy  
Authorised Public Accountants

Markku Launis  
Authorised Public Accountant



## AUDITOR'S REPORT

### (TRANSLATION OF THE FINNISH ORIGINAL)

To the Annual General Meeting of Harvia Oyj

#### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

##### OPINION

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report to the Audit Committee.

##### WHAT WE HAVE AUDITED

We have audited the financial statements of Harvia Oyj (business identity code 2612169-5) for the year ended 31 December 2018. The financial statements comprise:

- the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
- the parent company's balance sheet, income statement, statement of cash flows and notes.

##### BASIS FOR OPINION

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the

Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 2.3 to the Financial Statements.

##### OUR AUDIT APPROACH

###### Overview

- We have applied an overall group materiality of EUR 0,6 million
- The group audit scope includes all significant operating companies in Finland and Austria covering vast majority of revenues, assets and liabilities.
- Valuation of goodwill

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management

made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the

economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

|  |   |
|--|---|
| <b>OVERALL GROUP MATERIALITY</b>                       | EUR 0,6 million   |
| <b>HOW WE DETERMINED IT</b>                            | Net sales   |
| <b>RATIONALE FOR THE MATERIALITY BENCHMARK APPLIED</b> | We chose net sales as the benchmark because, in our view, it best reflects the group's business volume and growth targets. We considered that net sales provides us with a consistent year-on-year basis for determining materiality, and it is a generally accepted benchmark. |

### How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

We have performed audit procedures in the most significant subsidiaries in Finland and Austria. We determined the type of work needed to be performed at group companies by us, as the group engagement team, or by auditors from other PwC network firms operating under our instructions.

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

**KEY AUDIT MATTER IN THE AUDIT OF THE GROUP****Valuation of goodwill**

*Refer to accounting principles of the consolidated financial statements and note 3.2 Intangible assets and Impairment testing*

Refer to accounting principles of the consolidated financial statements and note 3.2 Intangible assets and Impairment testing

At 31 December 2018 the Group's goodwill balance amounted to EUR 60,4 million. As such, goodwill represents 52% of total assets in the balance sheet. Goodwill is allocated to the cash-generating units.

The Company tests goodwill for potential impairment annually and whenever there is an indication that the carrying value may be impaired by comparing the recoverable amount against the carrying value of goodwill.

The recoverable amounts are determined using value in use model. Value in use calculations are subject to significant management judgement in form of estimates of future cash flows, such as estimates of future sales and expenses, and discount rates.

Valuation of goodwill is a focus area in the audit due to the size of balance and the high level of management judgement involved.

**HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER**

Our audit focused on assessing the appropriateness of management's judgement and estimates used in the impairment analysis through the following procedures:

- Our audit focused on assessing the appropriateness of management's judgement and estimates used in the impairment analysis through the following procedures:
- We tested the methodology applied in the value in use calculation by comparing it to the requirements of IAS 36, Impairment of Assets, and we tested the mathematical accuracy of calculations;
- We evaluated the process by which the future cash flow forecasts were drawn up, including comparing them to the budgets and strategic plans approved by the Board of Directors;
- We assessed the reasonableness of cash flow forecasts by comparing the accuracy of prior period revenue growth and operating profit forecasts to actual outcomes and to external forecasts;
- We considered whether the discount rates applied within the model and the sensitivity analysis performed by the management around key assumptions of the cash flow forecast were appropriate; and
- We also considered the appropriateness of the related disclosures provided in note 3.2 in the financial statements.

We have no key audit matters to report with respect to our audit of the parent company financial statements.

There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the consolidated financial statements or the parent company financial statements.

**RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR FOR THE FINANCIAL STATEMENTS**

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors

and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to cease operations, or there is no realistic alternative but to do so.

#### **AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a

material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

## OTHER REPORTING REQUIREMENTS

### APPOINTMENT

We were first appointed as auditors by the annual general meeting on 5.2.2015. Our appointment represents a total period of uninterrupted engagement of 4 years.

### OTHER INFORMATION

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Muurame 26 February 2019

**PricewaterhouseCoopers Oy**

Authorised Public Accountants

Markku Launis

Authorised Public Accountant (KHT)