HARVIA PLC

2018

ANNUAL REPORT

HARVIA

Sauna & Spa

HARVIA IS ONE OF THE WORLD'S LEADING SAUNA AND SPA COMPANIES

Harvia, established in 1950, is one of the world's leading sauna and spa companies. We have a comprehensive one-stop shop offering that meets the needs and demands of the professional and residential sauna and spa market.

Our comprehensive offering covers all three sauna types: traditional sauna, steam sauna and infrared sauna. During the years, we have built a comprehensive and competitive product offering around these sauna types, providing our customers with all essentials from sauna heaters and components to complete sauna and spa solutions.

Our products are sold globally via our partner network in 84 markets. In 2018, our revenue increased to EUR 61.9 million. Our operating profit amounted to EUR 9.4 million and adjusted operating profit amounted to EUR 10.9 million.

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SENTIO by Harvia hybrid sauna

HIGHLIGHTS OF 2018

In 2018 we continued to systematically upgrade and renew our core offering, and by the same token we were able to further enhance the productivity of our operations. Our solid and steady development in profitability and growth continued. Listing on the Nasdaq Helsinki Stock Exchange main list was one of the milestones of the year.

LISTING – A FEEL-GOOD INVESTMENT

Harvia was listed on Nasdaq Helsinki main list in March. The share subscription price was EUR 5.00 per share, and after the listing the company got approximately new 2,000 shareholders. We are very happy that many of our employees both in Finland and Austria subscribed to the company's shares.

The aim of the initial public offering was to improve Harvia's ability to implement its strategy successfully, to provide access to capital markets and strengthen the capital structure as well as to increase the company's recognition. The offering also enabled us to broaden our ownership base and increase the liquidity of the shares.

Trading in the company's shares commenced on March 22, 2018 on the pre-list of Nasdaq Helsinki. Here Pertti Harvia, Tapio Pajuharju and Anders Björkell are ringing the ceremonial bell that commences trading.

HARVIA OFFERING – NEW PRODUCTS AND INNOVATIONS INCREASE THE VALUE OF THE AVERAGE PURCHASE

In 2018 we launched several new and innovative products and concepts. The Wall heater is an easy-to-use and safe high-quality wall-mounted heater, and the range now also includes a combi version equipped with a steam function. Building on the success of the extremely popular Harvia Cilindro pillar heater Harvia launched an upgraded model with design and convenience features under the Cilindro Plus name. In order to further penetrate the premium end of the market, we also launched a higher price point residential product offering under the SENTIO by Harvia brand, and later in the year we complemented the offering by high-power SENTIO by Harvia heaters and components for extremely demanding professional use. The hybrid sauna, developed by Harvia, combines the best features of traditional Scandinavian sauna with the best health and wellness benefits of an infrared sauna.

EXPANDING INTO NEW CHANNELS IN CENTRAL AND SOUTHERN EUROPE

During the year, we deepened and intensified our cooperation with two of the largest operators in the swimming pool sector, i.e. the Spanish origin Fluidra and SCP which is part of the global Poolcorp Group, to enhance the sales of sauna and spa components and solutions in Central and Southern Europe.

INVESTING IN SCANDINAVIA

We upgraded and renewed our Scandinavian offering. At the same time, we also remodeled and updated our in-store presence in the top end of the retail stores in Sweden. In addition, we strengthened our Management Team as Tomas Hjälmeby started as the Sales Director, Scandinavia and a member of the Management Team in November.

ALMOST HEAVEN SAUNA EXPERIENCES FROM THE UNITED STATES

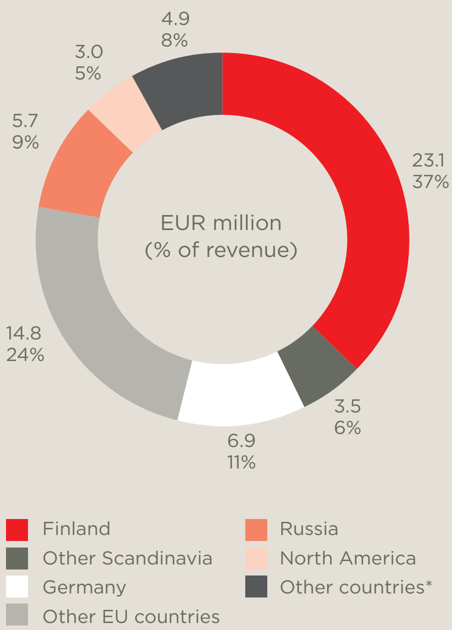
Our growth strategy in the United States became more tangible when we acquired the business operations of Almost Heaven Saunas LLC at the end of the year. The acquisition will enable us to improve our service and expand our offering also to our current customers in the North American market.

INCREASING PROFITABILITY BY IMPROVING EFFICIENCY

The measures to further optimize production and improve its efficiency continued as planned. The Muurame factory implemented new automation solutions, QR code control and an individual tracking system for products and components. In addition to this, the inbound and outbound logistics at the factory were redesigned and optimized. In Romania, we developed the production process and trained personnel. Due to the improvements in factory layout and the completed Lean project at our factory in China, the facility is now highly efficient.

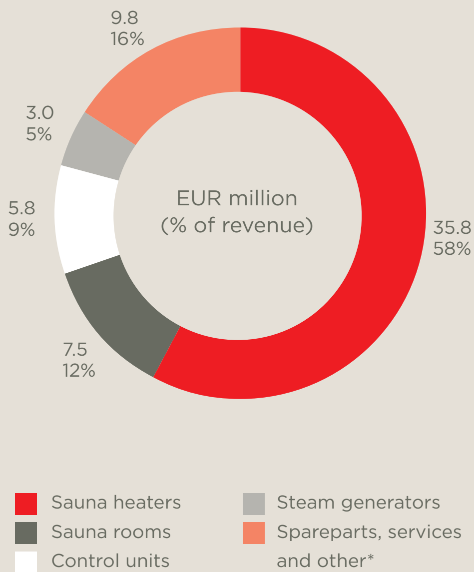
KEY FIGURES IN 2018

Revenue by market area



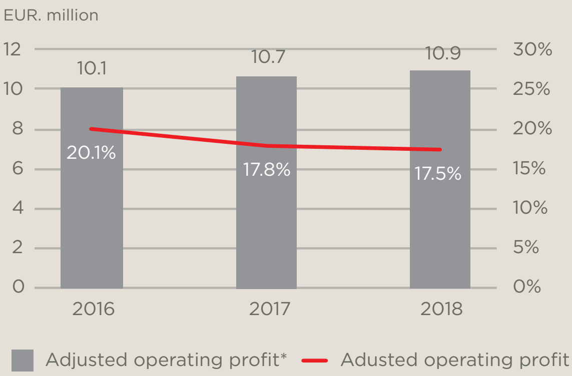
*Of which the largest are the following:
Arab countries, Asia and othe Europe.

Revenue by product group



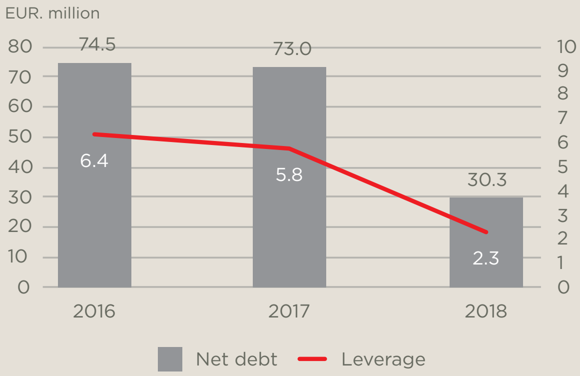
*Includes among others, spa components, infrared radiators and sauna equipment.

Adjusted operating profit and adjusted operating profit margin



* Adjusted by items affecting comparability

Net debt and leverage



KEY FIGURES

EUR million	2018	2017	Change
Revenue	61.9	60.1	3.1%
EBITDA	11.5	11.2	3.1%
% of revenue	18.6%	18.6%	
Items affecting comparability *	1.5	1.4	3.0%
Adjusted EBITDA **	13.0	12.6	3.1%
% of revenue	21.0%	21.0%	
Operating profit	9.4	9.3	1.2%
% of revenue	15.1%	15.4%	
Adjusted operating profit **	10.9	10.7	1.5%
% of revenue	17.5%	17.8%	
Basic EPS (EUR)	0.41	0.30	34.1%
Operating free cash flow	10.0	9.0	10.9%
Cash conversion	77.0%	71.6%	
Investments in tangible and intangible assets	-1.6	-1.2	35.2%
Net debt	30.3	73.0	-58.5%
Leverage	2.3	5.8	
Net working capital	17.5	17.3	1.4%
Adjusted return on capital employed (ROCE)	31.6%	32.7%	
Equity ratio	56.3%	16.9%	
Number of employees at end of period	400	365	9.6%

* Consists of items outside the ordinary course of business that are related to Group's strategic development projects, the listing, acquisitions and loss on sale of fixed assets and affect comparability.
** Adjusted by items affecting comparability.

Our revenue increased from the previous year by

3.1%

to EUR

61.9

million.

At comparable exchange rates, revenue grew by 4.6%

CEO'S REVIEW

Harvia's year 2018 was good and solid. Our total revenue continued to grow by 3.1%, and we reached a growth of 4.6% at comparable exchange rates. We launched new value added products and continued our geographical expansion as well as improved the efficiency of our operations. Listing on the Helsinki Stock Exchange was an important milestone for Harvia.

A YEAR OF STEADY GROWTH

You are reading the first Annual Report of Harvia which successfully listed on the Nasdaq Helsinki Stock Exchange main list in the spring of 2018. The listing process demanded flexibility and resilience from not only those intensely involved, but from the rest of the personnel as well. I am very happy and proud to say that everyone succeeded in taking this important step for Harvia with flying colors, and I want to truly thank everyone for their efforts.

The listing attracted good interest from both international and Finnish investors, and we gained a very good and broad ownership base. I am especially glad that many of our Harvia colleagues both in Finland and Austria participated in the personnel offering. At year-end, the number of our shareholders had already increased to approximately 3,250 shareholders.

Harvia operates in 84 markets. Our successful operations in different parts of the world would not be possible without our extremely talented and committed personnel and partners. We work in very close cooperation both with our customers and suppliers. Our customers both in professional and residential market have an essential role in the implementation of our strategy both in geographical expansion and increasing the value of the average purchase.

UNDERSTANDING AND IMPLEMENTING DIFFERENT SAUNA CULTURES

In November 2016, we acquired the Austrian Sentiotec. This made Harvia even more European as a company. An equally significant step in geographical expansion in 2018 was the acquisition of the business operations of the Almost Heaven Saunas LLC (AHS) in the USA. The company is one of the leading companies specialized in sauna and spa products in the United States, and it has been Harvia's customer since 2013. The strong growth of the company has contributed to the favorable development of our US sales. Together with Harvia's current long-term partners, AHS provides an excellent basis for even better and faster service as well as expanding our offering in North America.

In Sweden, we upgraded and updated our offering. On top of this, we upgraded Harvia's in-store presence in the top end of the DIY retail stores. As a result, we opened Harvia's impressive shop-in-shop solutions in six of the stores. In other EU markets, distribution strengthened as planned, and thanks to the acquisition of Sentiotec, we have been able to get significantly closer to the Central European sauna culture and our key customers. In Central and Southern Europe, we have also increased our cooperation with the two largest operators in the swimming pool sector, Fluidra and SCP. In Russia, in addition to expanding into new regional cities, we have improved our distribution and offering in Moscow and St. Petersburg. In China, we have expanded and upgraded Harvia's offering and further improved the productivity of the highly efficient facility.

HARVIA IS KNOWN FOR ITS EXCELLENT PRODUCTS

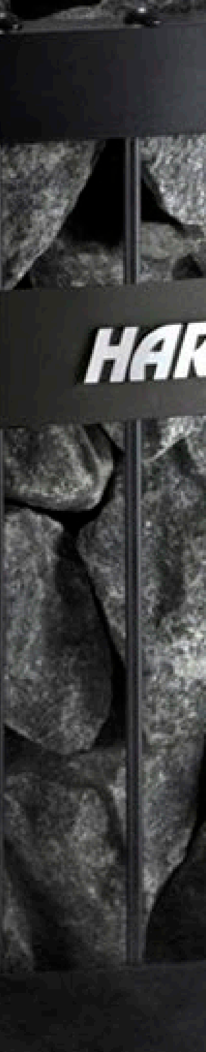
The SENTIO by Harvia core offering was introduced in Finland at the Habitare trade fair. Towards the year end, the high output heavy duty offering became available also to our professional customers. In Helsinki, for example, a SENTIO by Harvia High Power professional sauna heater equipped with a control unit was installed at the Allas Sea Pool at the end of the year. The Wall product family was extended as planned, and we completed The Wall Combi heater with the combi series featuring a steam function. On top of this, high-power models were launched at the end of the year. The extremely popular Harvia Cilindro pillar heater was complemented with an impressive-looking and modern Cilindro Plus model, equipped with an illuminated and childproof built-in control unit. This model also became available at the end of the year.

All of the above-mentioned new products and the favorable development in sales of, for example, infrared saunas, steam generators and spare part sales are implementing our strategy of increasing the value of the average purchase and raising our share in our customers' purchases.

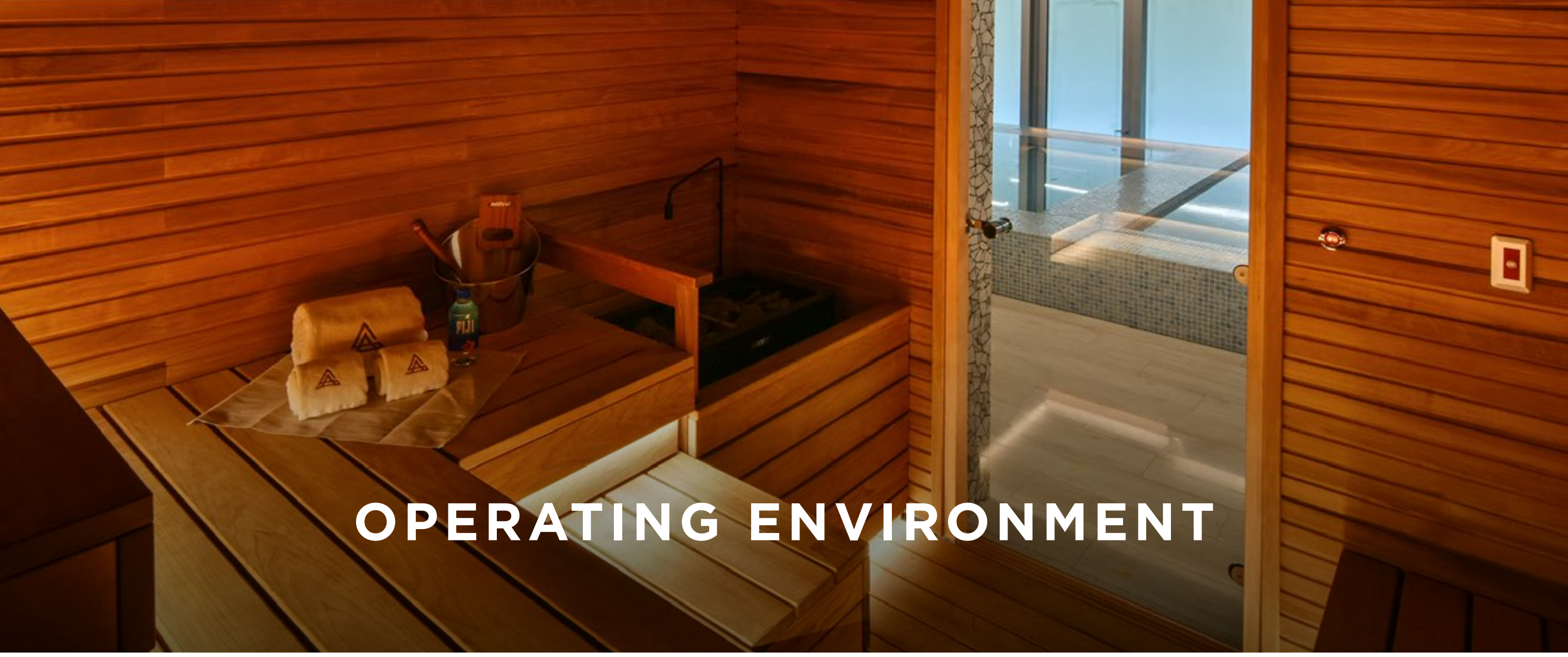
EFFICIENCY INCREASES PROFITABILITY

The continuous and systematic improvement of productivity progressed as planned at all of our production facilities during 2018. At the Muurame factory, we implemented new advanced automation technology which further improves productivity of our component manufacturing. In addition to this, we also implemented a system which improves the accuracy and efficiency of inner and outer logistics by optimizing product flow and the layout of the warehouse. We also implemented a precise QR code-based control system and an individual tracking system for products. In Romania, the focus was on developing the production process and training personnel. In China, we further expanded the product range, optimized the layout and successfully completed the Lean project in order to further drive productivity improvements.

The starting point for the new year remains favorable. We do not anticipate any significant changes in the operating environment, and we believe that the current market sentiment will continue to support the company's business operations also in 2019. The gradual expansion of our sales network continues as we aim to diversify our clientele in the current operating markets and to further expand our geographical operating regions.



Tapio Pajuharju
CEO, Harvia Plc



OPERATING ENVIRONMENT

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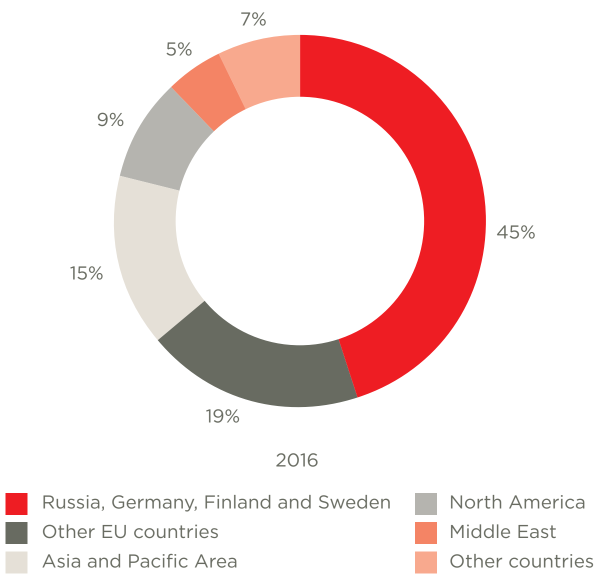
SAUNA AND SPA MARKET HAS HISTORICALLY BEEN RESILIENT

The size of the global sauna and spa market is estimated to be approximately EUR 2.7 billion (2016), of which approximately EUR 380 million consists of heaters and sauna components. Installation, construction and other labor costs are estimated to account for approximately half of the sauna and spa market. In addition, the sauna and spa market comprises sauna and spa rooms and structures as well as control units and other accessories.

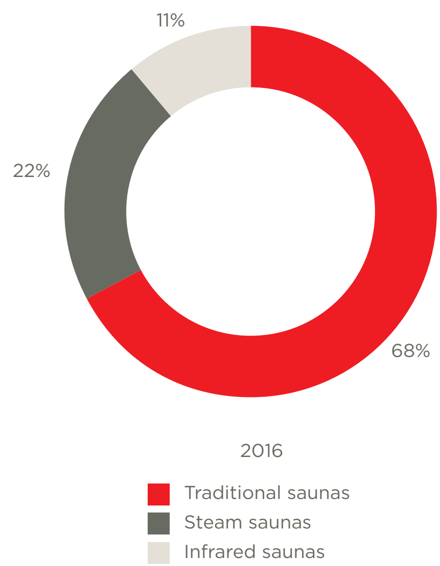
Harvia's target markets are sauna heaters and sauna components including steam generators and infrared radiators, sauna rooms, control units and other sauna related accessories. Harvia also selectively offers heater and sauna maintenance and installation services in Finland.

The sauna and spa market has historically been resilient due to the large amount of existing saunas and in particular the replacement demand arising from the frequent need to replace heaters. The replacement demand of sauna and spa facilities accounted for approximately 61 percent of the global sauna and spa market and approximately 77 percent of the global heater and sauna component market in 2016. Sauna and spa facilities' new build market accounts for approximately 39 percent of the sauna and spa market.

Global sauna and spa market



Sauna type breakdown



THE GLOBAL SAUNA AND SPA MARKET IS PROJECTED TO GROW BY AN AVERAGE OF 5 PERCENT PER YEAR BETWEEN 2016–2022

The key market drivers include the replacement of old saunas, heaters and sauna components and the building of new saunas.

The drivers of new sauna construction are the rise in the awareness of saunas and sauna bathing, the increased residential new build and the increased construction of saunas for commercial use. In addition to the factors driving sauna unit sales volumes, the value of the sauna and spa market is also increased by growth in the average purchase price and the purchase of more extensive sauna solutions.

In the more mature sauna and spa markets, the new build sauna volumes are driven especially by growth in the number of residential buildings and commercial real estates. In the developing sauna and spa markets, the rising awareness of saunas and sauna bathing is driving growth, resulting in growing sauna penetration in both new builds and the existing building stock.

STABLE SAUNA AND SPA MARKET ALSO IN 2018

The sauna and spa market remained stable in 2018. Steady demand continued throughout the year, and no substantial changes took place in the primary markets.

The global heater and sauna component market is approximately EUR **400** million.

The exceptionally hot summer created challenges for the demand of sauna and spa products in all our key markets. Despite that, our sales efforts were very successful, and our revenue developed positively. We estimate that Harvia's market share increased in 2018 owing to successful product launches and geographical expansion.

The company's management estimates that there will be no significant changes in Harvia's operating environment in 2019 and that the market situation supports the group's business operations. The company's management believes that the replacement business will remain stable and that the pipeline renovation related replacement demand will support sales especially in the Finnish sauna and spa market in the coming years.

Estimates of the market in 2016 and the projected growth figures for the global sauna and spa market are based on an analysis carried out by an international management consulting firm in autumn 2017.

STRATEGY AND ITS IMPLEMENTATION

Harvia aims to be the leading player in sauna and heater components as well as one of the leading companies in the sauna and spa market. The key strategic priorities to achieve our objective are increasing the value of the average purchase, geographical expansion, and improving the efficiency of production. In 2018, we implemented our strategy as planned.

INCREASING THE VALUE OF THE AVERAGE PURCHASE

We aim to grow the share of more advanced sauna heaters and components as well as more comprehensive sauna solutions in all different sauna types. In 2018, we launched The Wall Combi heater, equipped with a control unit and a steamer, the Cilindro Plus pillar heater, equipped with illuminated and childproof controls, and the Glow heater series. The latest addition to the Glow series is the Glow Corner corner-installed design heater that was launched in the autumn.

We have also expanded our offering in higher price product segments. The SENTIO by Harvia brand's premium products, launched in 2018 especially for professional customers but also for consumers, serve as a good example.

We seek to increase the value of the average purchase through upselling, such as offering a better equipped heater and pairing it with, for example, a control unit, safety rail, sauna accessories, spare parts, supplies and sauna heater stones. We continue to develop innovations that enhance the customer experience. We also aim to selectively expand the turnkey deliveries offered particularly to professional customers, examples of which are the sauna and spa facilities built in Finnish hotels.

GEOGRAPHICAL EXPANSION

We aim to grow our market share in all our main markets in Finland, Scandinavia, Central Europe, Russia and North America. We focus on constantly developing our retail network and thus improving the scope, availability and visibility of the product range tailored for the market.

A concrete example of our geographical expansion is the acquisition of the business operations of the US-based Almost Heaven Saunas LLC, carried out at the end of 2018. The acquisition will offer Harvia significant opportunities to expand its product range and services in North America.

In Central Europe, we have strengthened our position owing to the Sentiotec acquisition, while also enhancing our cooperation with our key partners. During the year, we also increased our cooperation in Central and Southern Europe with the two largest operators in the swimming pool sector, Fluidra and SCP. Both companies are part of large listed companies with significant distribution power in Central Europe. The companies' main products are related to swimming pools, but sauna products are a synergetic addition to their product portfolios.

In Sweden, we concluded a renewal of our offering and store visibility and strengthened our local organization. In Russia, our other neighboring country, our expansion progressed as planned.

IMPROVING THE EFFICIENCY OF PRODUCTION

The efficiency of our production facilities is at a good level as a whole. We seek to continuously improve our operational efficiency by, for example, optimizing processes and the geographical structure of production and by enhancing the efficiency of purchasing and logistics. In addition, we seek to optimize our product offering by decreasing overlaps and the volume of slow-turnover products, which helps to reduce inventory levels. With regards to efficiency, it is also essential that we design our products to be easy to manufacture, increase our capacity utilization rate and introduce a higher degree of automation at our production facilities.

According to our estimate, Harvia's facilities in Muurame are highly efficient and its operations are flexible. As part of improving the efficiency of production, in the last quarter of 2018 the Muurame factory adopted, among other things, a new robotic beveling machine to produce sauna heater parts. We also invested in manufacturing our own tools, which has led to shorter manufacturing times for products.

There are approximately

15

million saunas in the world.

The market's annual growth rate is approximately

5%.

An internal logistics development project focused on directing and optimizing flow of goods at the Muurame factories proceeded to implementation in 2018, and all inbound and outbound logistics were transferred into the new digital system. Adoption of QR codes improves the efficiency of both the collection of product components at the factory as well as the tracking of the end-product. The system improves the efficiency and real-time management of logistics as well as automated communications between the factory and the customer. The project will continue in 2019, focusing on the factory's internal logistics.

Optimizing the layout of the different work stages at the Muurame factory has led to shorter pick-up and transportation hauls for production stage components, which in turn has decreased production times.

At our Romanian production facility, we focused on developing the manufacturing process while also harmonizing the procurement process.

Measures to improve efficiency at our production facility in China progressed as planned in 2018. The entire manufacturing process and the layout of work stages were renewed.

FINANCIAL TARGETS

Harvia's long-term financial targets are:

- **GROWTH:** annual revenue growth of more than 5% on average
- **PROFITABILITY:** adjusted operating profit margin of 20% [1]
- **LEVERAGE:** net debt/adjusted EBITDA between 1,5x–2,5x [2]

1) Adjusted operating profit is operating profit before items affecting comparability.
2) Excluding the future impacts of changes in IFRS reporting standards.

In 2018, our revenue grew by 3.1%, adjusted operating profit was 17.5% and the net debt/adjusted EBITDA ratio was 2.3. Harvia does not publish a short-term outlook.

HARVIA'S BUSINESS OPERATIONS

LEADING MANUFACTURER OF SAUNA PRODUCTS

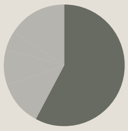
Established in the 1950s, Harvia's comprehensive product offering meets the needs of the international sauna and spa market, both professionals and consumers alike. The product offering covers all three sauna types: traditional saunas, steam saunas and infrared saunas. Harvia's products are distributed globally via our network of distributors.

AN EXTENSIVE PRODUCT OFFERING FOR ALL SAUNA-RELATED NEEDS

Harvia's product offering features sauna heaters and components, including steam generators and infrared radiators, sauna rooms, control units and other accessories. The company's sauna accessory and component offering covers all sauna-related needs across different sauna cultures. The product range contains products in various price categories and allows the integration of the products to the end customer's existing solutions. In some market regions, Harvia also offers maintenance and installation services for saunas and sauna heaters.

SAUNA HEATERS

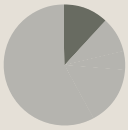
- The largest product group: accounted for 58% of the revenue in 2018.
- Harvia manufactures electric and wood-burning sauna heaters. Most of the sales of heaters consist of electric heaters, heater accessories and combination heaters.
- The competitive advantage of Harvia's heaters is their ease of use combined with their high quality and functionality.



Share
of revenue
58%

SAUNA ROOMS

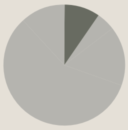
- The sauna product group comprises both individual sauna interior products as well as ready-made saunas.
- Sauna interior products include, for example, sauna doors, benches, paneling and other components required in the structures of the sauna room.
- Most of the product group's revenue is generated by the sales of sauna interior products.



Share
of revenue
12%

CONTROL UNITS

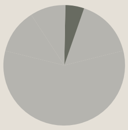
- A control unit may be used to control the sauna's temperature, operating time, lighting, ventilation and music, as well as humidity in saunas with a combi heater and the infrared radiator in infrared saunas.
- Harvia provides control units to electric heaters, combi heaters, infrared saunas and hybrid saunas.
- Sauna control units are very widespread in the Central European market as an accessory to mid-priced and premium heaters and as an interface for saunas.



Share
of revenue
9%

STEAM GENERATORS

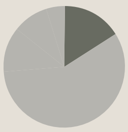
- Steam generators are used as a heat source in steam saunas instead of a traditional heater, and they generate the necessary steam and heat.
- Harvia's steam generator offering is focused mainly on steam generators for residential use.
- The offering also includes professional steam generators used in spas, hotels and fitness clubs.



Share
of revenue
5%

SPARE PARTS, SERVICES AND OTHER PRODUCTS

- The product group includes, for example, sauna heater resistors and other spare parts, sauna stones, hot water containers, sauna lighting fixtures, waterproof sauna speakers and various kinds of sauna accessories, such as sauna scents, buckets, ladles and thermometers.
- The product group also includes sauna-related services such as maintenance, installation, upkeep and repair services. Infrared radiators and different spa modules are also included in the product group.



Share
of revenue
16%

COMPREHENSIVE DISTRIBUTION NETWORK

Harvia's products are sold globally via a distribution network to both professionals and consumers alike. Our main markets are in Finland, Central Europe, Russia, Sweden and the United States. Due to the acquisition of Sentiotec in 2016, Harvia now has a stronger presence in Germany and Central Europe, such as Austria, Switzerland and the Benelux countries. Harvia also has long-term customer relationships in its export markets in North America, Asia and Russia.

Harvia's share

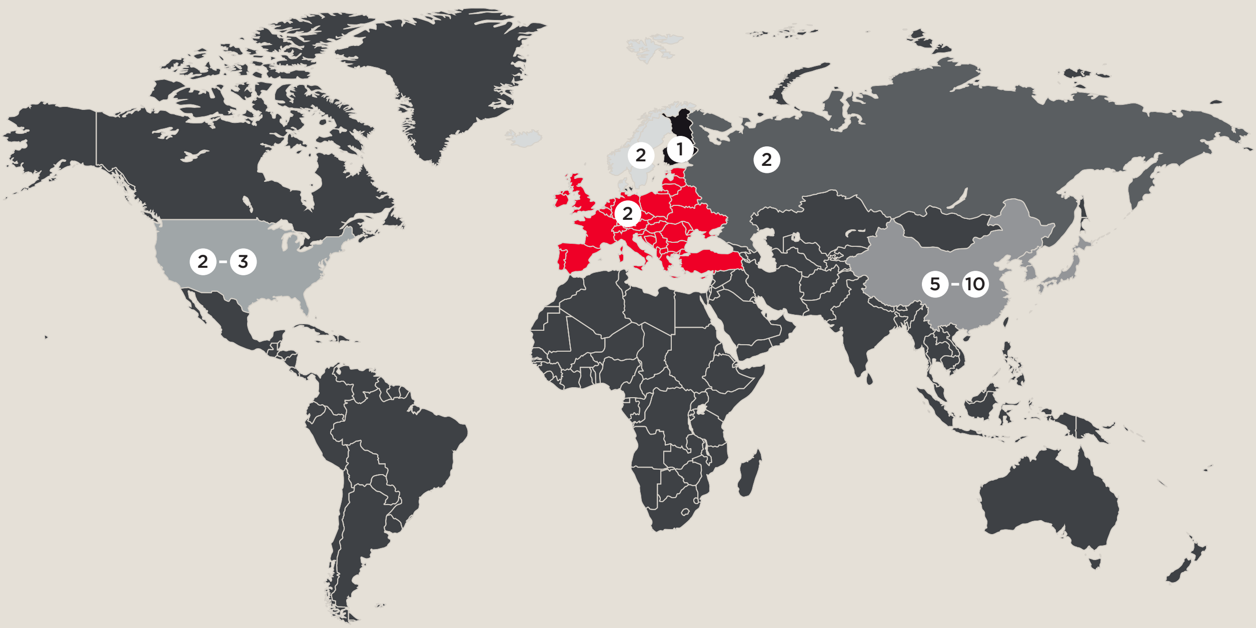
~2% of the sauna and spa market

~11% of the sauna heater and component market

We aim to grow our market share in all our markets. The focal point in successful geographical expansion is the continuous development of the distribution network as well as improving the availability and visibility of product suites tailored to Harvia's main markets. Harvia has long-term customer relationships in all main regions of the sauna and spa markets, and its brands are the best known in the industry. The largest customer group are retailers and wholesalers, who sell the company's products to constructors and end customers. The key distribution channels also include industrial sauna builders, and Harvia also engages in direct sales to end customers, such as hotels.

Harvia will continue the systematic development and expansion of its distribution network also in 2019 to attract a more versatile customer-base in its current operating areas and to extend its geographic operating area.

HARVIA'S MARKET POSITION IN ITS KEY MARKETS



The revenue-based market positions are founded on an analysis conducted by an international management consulting firm in autumn 2017. Due to the acquisition of the business operations of Almost Heaven Saunas LLC, Harvia is now one of the three largest players in the US sauna and spa market.

BUSINESS IN 2018

A YEAR OF STEADY GROWTH

2018 was a year of steady growth for Harvia. We increased our revenue and succeeded in maintaining good profitability. During the past year, we launched several new products and finalized the acquisition of the business operations of the US based Almost Heaven Saunas LLC. At the same time, we implemented the corner stones of our strategy: increasing the value of the average purchase, geographical expansion and improving the efficiency of production.

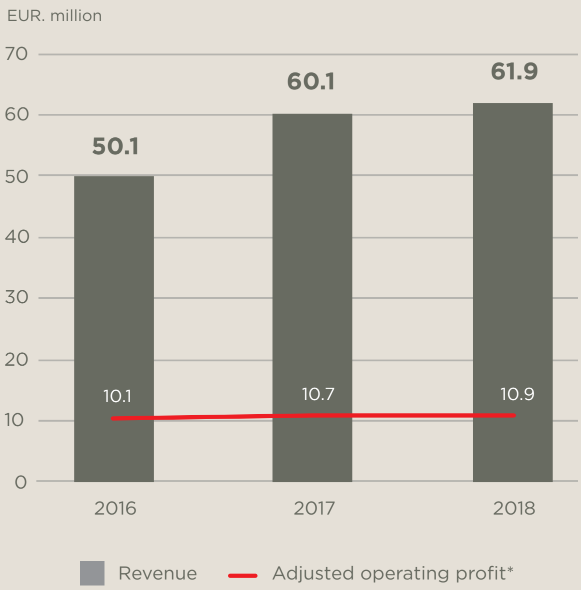
REVENUE DEVELOPED positively in many of our target markets, especially in Finland, other Scandinavian countries and in several countries in Central Europe. The rising wellness trend as well as the positive reception of the new products we launched contributed to the sales.

The exceptionally hot summer created demand challenges in all our key markets, but despite that and unfavorable exchange rates, we achieved a 3.1% growth in revenue during the year. The growth amounted to 4.6% at comparable exchange rates.

In 2018 Harvia's revenue grew by
3.1%
from the previous year to EUR
61.9 million.

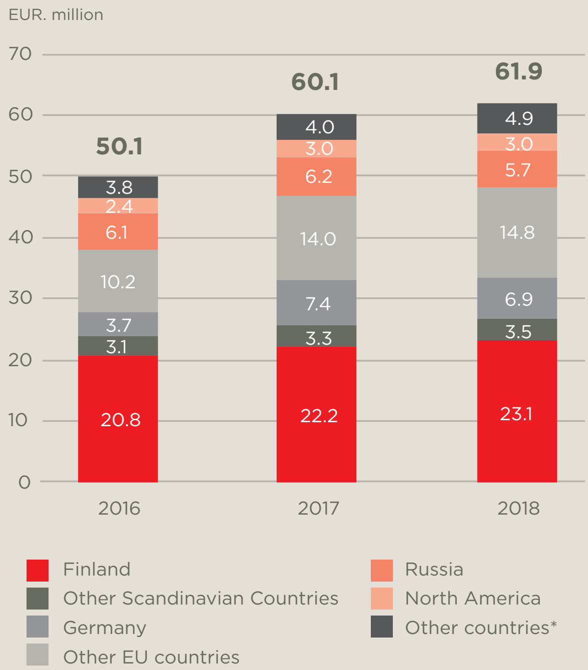
Adjusted operating profit was EUR
10.9
million, making up
17.5%
of the revenue.

Revenue and adjusted operating profit



*Adjusted by items affecting comparability

Development of revenue geographically



*The largest of which: Arab countries, Asia and the rest of Europe.

HARVIA'S GEOGRAPHICAL EXPANSION PROGRESSED AS PLANNED IN 2018. A significant step in developing our business in North America was the acquisition of the business operations of Almost Heaven Saunas LLC, a leading company specialized in sauna and spa products in the United States, which was finalized at the end of December 2018. The acquisition supports our growth strategy in North America and enables more extensive and faster service for our current North American key customers. In Central Europe, we successfully increased our market share by optimizing the distribution strategies of Harvia and Sentiotec and by utilizing cross-selling.

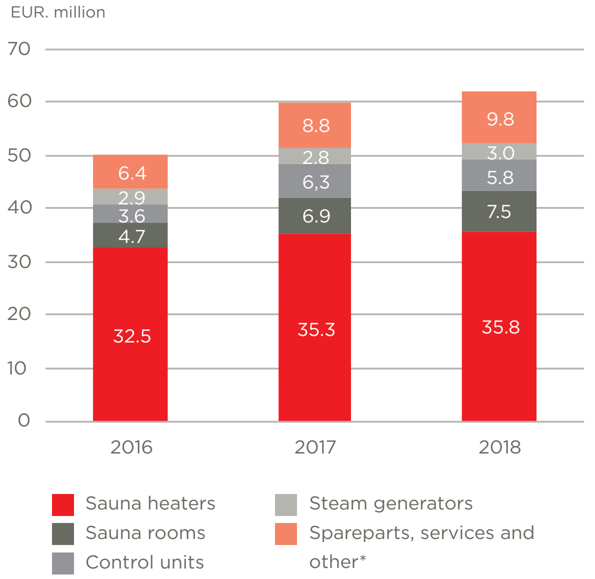
THE YEAR WAS ALSO ACTIVE IN TERMS OF PRODUCT LAUNCHES. In the autumn of 2018, we launched our SENTIO by Harvia key offering, and the products became available for our professional customers at the end of the year. The SENTIO by Harvia brand combines Harvia's strong expertise in saunas and high-level technological know-how. The Wall product family grew as planned and we completed, for example, The Wall Combi heater, equipped with a steamer, as well as higher power models. The popular Harvia Cilindro pillar heater was complemented with an impressive Cilindro Plus model, equipped with an illuminated childproof control unit, which became available in our key markets at the end of the year. We also launched higher price range Harvia Glow and Harvia Glow Corner pillar heaters.

We also launched a hybrid sauna, which combines the qualities and benefits of an infrared sauna and a traditional electric sauna. Hybrid saunas can also be retrofitted with infrared components which meet the Scandinavian building regulations. For steam saunas, Harvia brought the Harvia HGD steam generator, targeted at consumer markets, which offers features for demanding professional use such as a large-capacity tank and durable titanium resistors. These new products serve as good examples of Harvia's strong product development competence as well as the seamless and profitable collaboration of our production, marketing and development.

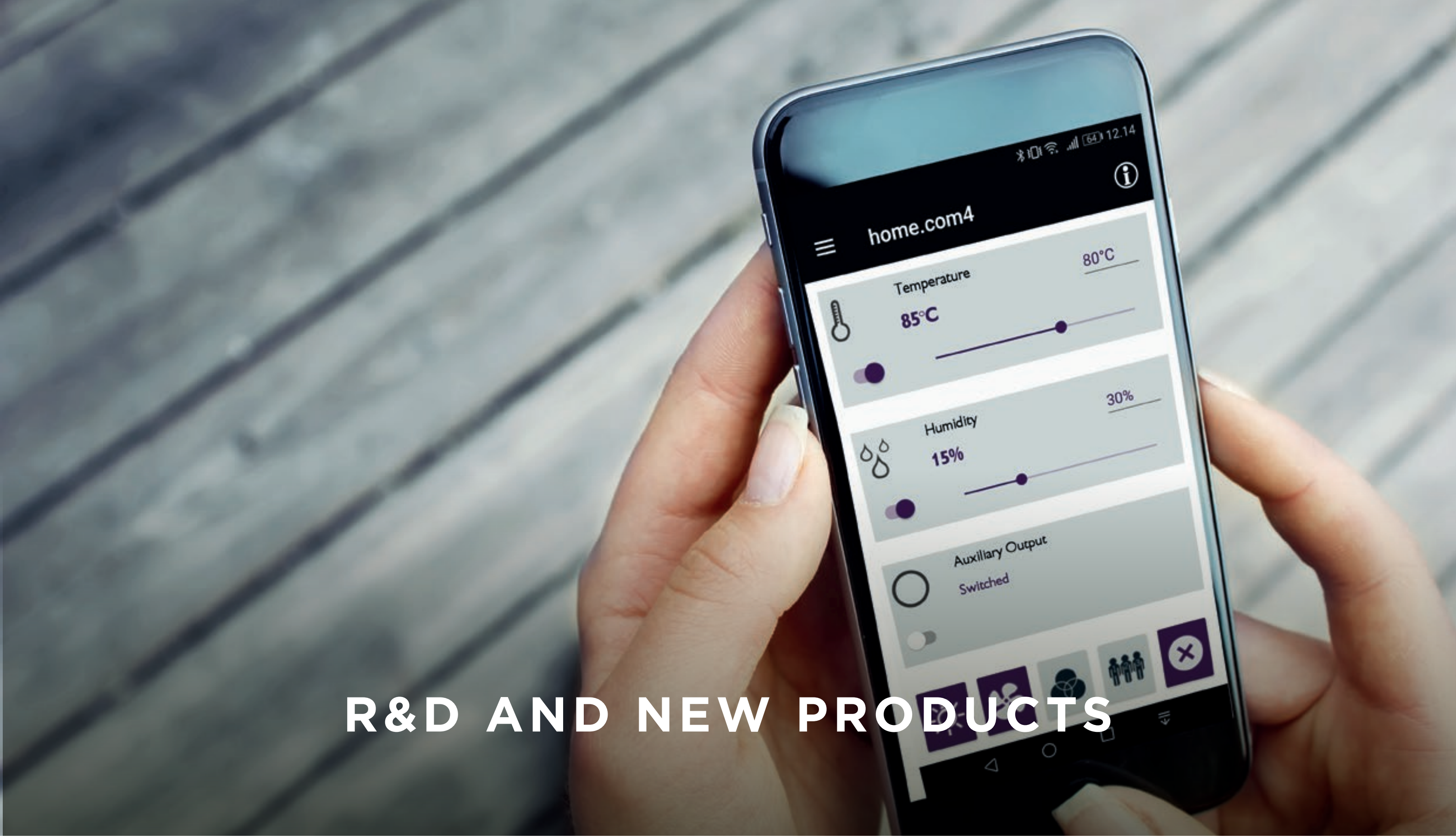
During the year we also continued to develop innovations that improve customer experience. At the center of the development work were solutions that utilize digital content and improve safety and usability.

In the past year, Harvia promoted its comprehensive offering and new products at several fairs. In September, Harvia participated in the Habitare and Finnbuild fairs in Finland. Harvia's comprehensive sauna and spa offering was also well presented at notable international industry events, such as the Interbad fair in Stuttgart, Germany and the Piscine fair in Lyon, France.

Development of revenue by product group



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



R&D AND NEW PRODUCTS

PRODUCT DEVELOPMENT FOLLOWS SAUNA TRENDS

One key to Harvia's success is our understanding of different sauna cultures and the ability of our product development to react quickly and cost-efficiently, enabling us to offer customers the exact products they need. In 2018, the products proceeding from development phase to production were The Wall Combi heater, the Cilindro Plus pillar heater as well as the Glow Corner design heater.

HARVIA'S objective is to design and produce sauna heaters that are easy and safe for consumers to use and that offer each bather the best sauna experience possible.

Harvia's product development focuses on identifying and solving customers' needs. A product development project is a joint effort between our product development, sales, marketing and production, and each has their own important role in it. The seamless and target-oriented team work generates results. The product development is mainly conducted in Finland and China. Electronic design is partly done in Austria.

Our product development takes into consideration different sauna cultures and thus also different wishes of professional and private customers. The customers' habits and wishes differ between markets. For example, in Central Europe customers appreciate control units and so-called combi heaters with steamers, which increases the products' average price significantly.

Our product development knows Harvia's factories and their machines and methods extremely well. Harvia's product design strives for a simple, sustainable and functional solution, which in turn facilitates the cost-efficient manufacturing of products in our own production facilities. This includes, for example, optimizing the number of individual parts and producing our own special tools to minimize the number of manual work steps. Existing products are adapted to be better suited for professional use and for new geographical markets.

SAFETY AND DIGITALIZATION ARE REFLECTED IN PRODUCT DEVELOPMENT

The safe use of our products is essential for us. The products are always designed so that they cannot cause any damage, whether used in a correct or unintentionally incorrect way. Our new sauna heaters launched in 2018 have many new safety features that also add to the ease of use of the heaters.

Cilindro Plus pillar heater is equipped with an illuminated child-proof operating switch. The functions of The Wall Combi heater are controlled with a control unit and draining water from the steamer's water tank is easy and safe.

The product development also reflects the increasing digitalization, driven by various smart home interfaces. The sauna is increasingly perceived as part of interior decoration, tightly connected to the experiences it offers: soundscapes, lighting and design.

SAUNA BATHING IS HEALTHY, ACCORDING TO RESEARCH

Harvia and its partners have actively taken part in the University of Eastern Finland's Sauna and Cardiovascular Health research project, in which the physiological mechanisms through which sauna bathing protects the human body were studied in an experimental setting. The study indicates that sauna bathing may have a positive effect on the prevention of cardiovascular diseases and memory disorders. The study, conducted with a hundred subjects, showed that 30 minutes of sauna bathing lowers blood pressure and increases the elasticity of blood vessels. Sauna bathing also increased the heart rate similarly to medium intensity exercise. People bathing in sauna 2–3 times a week had a 20% lower risk of cardiovascular disease compared to people sauna bathing once a week.

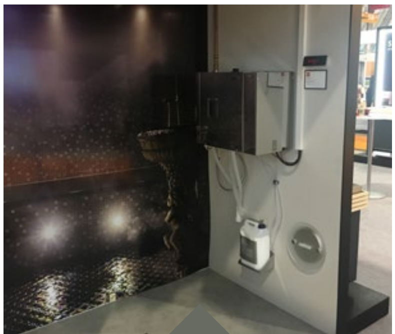
The researchers estimate that the health benefits are based on, for example, the sauna's relaxing atmosphere that fosters wellbeing as well as the improved elasticity of blood vessels which reduces stress and lowers blood pressure, which in turn has effects on cardiac function and memory disorders.

THE HARVIA CILINDRO PLUS ELECTRIC SAUNA HEATER is an impressive pillar heater consisting of a massive amount of stones. The new model has an illuminated child-proof operating switch for added safety. The Cilindro Plus model can also be purchased with a separate control unit and can be embedded beautifully into the lower bench.

THE GLOW CORNER is a corner-installed pillar heater for small and medium-sized saunas. The heater itself is already a stunning interior element.

A HYBRID SAUNA combines the traditional sauna with the soft warmth of the infrared sauna. In a hybrid sauna, one sauna room can have two sources of heat, both a sauna heater as well as an infrared radiator, which can be used at the same time or separately. Hybrid saunas combine the benefits of two heat sources and offer even more diverse sauna bathing experiences.

Sauna bathing with **THE WALL COMBI SAUNA HEATER** is a multisensory experience that allows people to enjoy the sauna in many ways: using the steamer in lower temperatures for a gentle and humid sauna experience, or not using the steamer for a traditional hot sauna. Humidity and temperature are easily and accurately controlled with the control unit.



HARVIA HGD STEAM GENERATOR is a source of well-being and relaxation. Thanks to its easy-care structure and large water container, HGD is also excellently suited for heavy-duty spa use.

LISTING 2018

HARVIA'S PUBLIC LISTING

The listing on the stock exchange in March was a significant step forward in the realization of Harvia's growth strategy. The listing offers strong support on the path towards profitable growth and strengthens Harvia's brand and attractiveness as an employer.

THE OBJECTIVE OF THE LISTING was to improve the company's ability to implement its strategy successfully and to strengthen the company's capital structure. The listing offered Harvia access to capital markets, allowed the expansion of the company's ownership base, increased the liquidity of the shares in the company, and enabled the use of the company's shares as means of consideration in potential acquisitions and in the remuneration of the company's key personnel.

> Our capital structure was significantly strengthened, and we are now even better prepared to cement Harvia's leading position as an international supplier of sauna and spa products.

Trading in the company's shares commenced on March 22, 2018 on the pre-list of Nasdaq Helsinki and on March 26, 2018 on the official list of Nasdaq Helsinki. The company received gross proceeds of approximately EUR 45 million from the IPO.

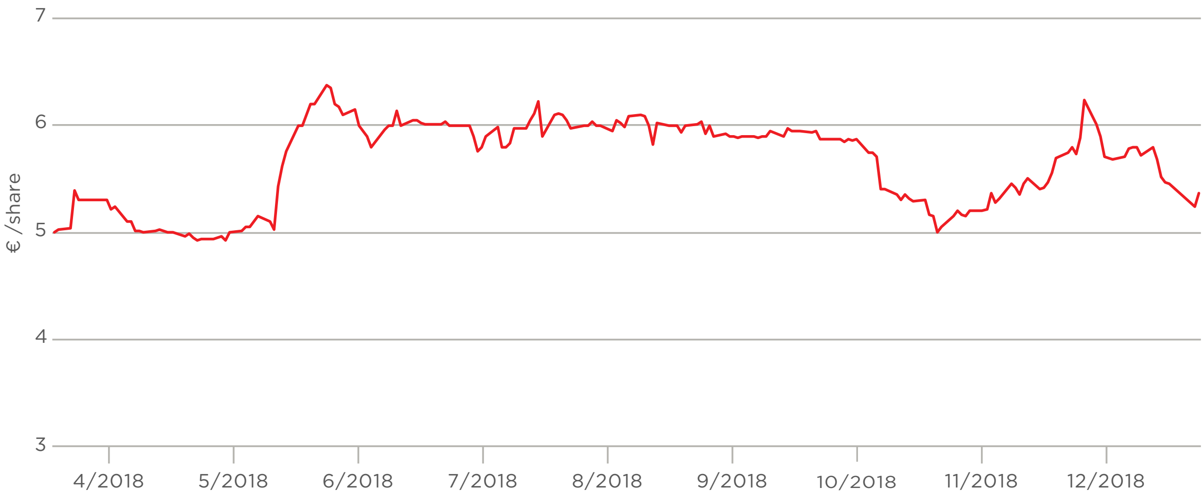
THE SHARES WERE OFFERED to private individuals and entities in Finland, to Harvia's employees and to institutional investors in Finland and abroad. Investors showed great interest towards the IPO and Harvia's growth story, and the IPO was oversubscribed. The final subscription price of the shares was EUR 5.00 per share. Harvia gained over 2,000 new shareholders and a good, international ownership base which includes a large group of Harvia's personnel both in Finland and in Austria. By the end of 2018, Harvia had a total of 3,248 registered shareholders.

Harvia's market value at the end of 2018 was EUR

100.4

million.

Harvia's share price March 22–December 31, 2018



THE NET PROCEEDS FROM THE IPO will be used to support Harvia's strategy and to strengthen its capital structure. A strong capital structure will provide better conditions to promote growth in accordance with our strategy in the future.

WE WANT TO BE a good dividend payer for our shareholders. We target a regularly increasing dividend with a bi-annual dividend payout of at least 60 percent of the net income. For 2018, the Board of Directors has proposed that a dividend of EUR 0.18 per share be paid after the Annual General Meeting in April 2019. In addition, Harvia's Board of Directors requests the Annual General Meeting to authorize the Board to distribute a dividend amounting to a maximum of EUR 0.19 in autumn 2019.

SHARE DATA

- **Market:** Nasdaq Helsinki
- **Listing date:** March 22, 2018
- **List:** Small Cap
- **Sector:** Personal & Household goods
- **Ticker symbol:** HARV
- **ISIN:** FI4000306873
- **Reuters symbol:** HARV.HE
- **Bloomberg symbol:** HARV:FH

HARVIA AS AN INVESTMENT

STABLE GROWTH, STRONG PROFITABILITY AND CAPITAL EFFICIENCY

HARVIA OPERATES IN A RESILIENT AND GROWING MARKET

- Due to strong replacement demand, the sauna and spa market has historically seen stable development irrespective of economic cycles. Replacement demand accounts for approximately 61 percent of the global and 77 percent of the Finnish sauna and spa market. In the sauna heater and component market, replacement demand accounts for an even greater share: an estimated 77 percent globally and 87 percent in Finland.
- In 2010–2016, the global sauna and spa market grew at an average rate of 5 percent per year. The same pace of growth is expected to continue, supported by the rising wellness trend, increased sauna awareness and higher average purchase.

LEADER IN MAIN MARKETS

- Harvia has nearly 70 years of experience in the sauna and spa industry.
- Measured by revenue, Harvia is the global leader in heater and sauna component manufacturing, with a market share of approximately 11 percent.
- Measured by revenue, Harvia is the largest company in the Finnish sauna and spa market and the second largest in the Swedish, German and Russian sauna and spa markets.
- Harvia occupies the position of a strong challenger in the new and emerging sauna and spa markets of the United States and Asia-Pacific region. In 2018, Harvia strengthened its position in the United States by acquiring the business of Almost Heaven Saunas LLC. Through the acquisition, Harvia can offer better service and a more extensive range of products to its customers in North America.

STRONG BRAND AND DIVERSE AND COMPREHENSIVE PRODUCT OFFERING

- Harvia's offering of products and services is one of the most comprehensive in the market, and Harvia is the most often recognized international sauna brand among Finnish, Swedish, German, Russian and US consumers. In the Finnish domestic market, Harvia clearly has the highest name recognition.

- Harvia, Sentiotec and SENTIO by Harvia products have received numerous industry awards for innovation and product design, including the Red Dot Design Award 2013 and the IF Design Award 2018 and 2014 (Sentiotec/SENTIO by Harvia). In addition, Harvia's Smart Fold sauna received multiple recognitions in 2015 from the international press and industry trade fairs (Schwimmbad + Sauna, Finnbuild). At the 2018 Habitare interior design and furniture fair, we received the Cara McCarty recognition in the Next category.

reddot design award
winner 2013

product design award
2014

INTEGRATED AND EFFICIENT BUSINESS MODEL

- Apart from the production facility and logistics center located at the Muurame headquarters, Harvia also has production facilities in Romania, China, Estonia and a contract manufacturer in Russia as well as a logistics, sales and customer service office in Austria. Following the business acquisition in December 2018, the company also has a production facility in the United States.
- Harvia's production and operational efficiency are enhanced by the company's lengthy experience and expertise in the industry, close cooperation between sourcing, production, product development and sales, and modern production facilities.
- Harvia seeks to improve the availability of competitive raw materials and to ensure cost efficient production. Production is centralized to specific products and to production facilities best suited to manufacturing them.

LONG-STANDING CUSTOMER RELATIONSHIPS AND DIVERSE DEALER CHANNELS

- Harvia maintains strong, long-standing customer relationships in all its main markets. The duration of the company's most significant customer relationship exceeds 30 years, and the longest-standing customer relationships in the company's key export markets have been in place for over 20 years.
- Harvia has a diverse customer base consisting of hardware and retail stores, sauna specialist stores, wholesalers, sauna integrators and sauna builders, and construction companies. In addition, Harvia sells products directly to end users.
- One of Harvia's strengths is its ability to serve different kinds of customers flexibly in accordance with customer needs and local requirements. The company has a particularly good relationship with its retail network.

STABLE AND STRONG PROFITABILITY AND CASH FLOW

- Harvia has been steadily growing its revenue both organically and supported by acquisitions.
- The company sees that its strong cash conversion ratio and low investment needs create good conditions for the ability to distribute dividends.

SKILLED AND EXPERIENCED MANAGEMENT TEAM AND PERSONNEL

- The extensive and lengthy experience of Harvia's management of the sauna and spa business and of the consumer products market generates a significant competitive advantage in the market.
- Behind Harvia's success is a competent and motivated staff that creates the best customer experience and ensures good productivity.

Estimates of the sauna and spa market and projected growth figures for the global sauna and spa market are based on an analysis carried out by an international management consulting firm in autumn 2017.

CORPORATE RESPONSIBILITY

RESPONSIBLE SAUNA BATHING

As a traditional sauna and sauna heater manufacturer, Harvia has carried the responsibility of its operations and products already since 1950. Harvia has a long history as a responsible family business and we implement our responsibility today as a listed company by following the same path. As part of this process, we are developing our data collection related to key responsibility figures as well as making the management and monitoring of responsibility more systematic in the entire Harvia Group and supply chain.

This is Harvia's first public corporate responsibility report. We seek to develop our responsibility reporting and communication in the coming years to better meet the different stakeholders' interests and need for knowledge.

Harvia designs and manufactures its products responsibly, respecting nature and people. In order to make our responsibility operations even more transparent, systematic and target-oriented, in 2018 we began a process that identified key themes in Harvia's operations in terms of responsibility. We also developed our data collection related to key responsibility figures as well as made the management and monitoring of responsibility more systematic in the entire Harvia Group and supply chain.

The most important impacts our operations have on the environment, people and society originate from the primary production of raw materials and other materials used in production, our own production facilities, our operations as an employer as well as the use of our products.

The most important expectations of our stakeholders include, among others, topics related to the prevention of global warming, product quality and safety for users as well as respecting human rights and managing risks throughout the entire value chain.

OUR CODE OF CONDUCT

Harvia's own operations are guided by Harvia Code of Conduct. Training on Harvia's ways of working and ethical principles is organized for the management and personnel. In 2018, we organized three trainings, two for the Management Team and one for the entire sales team as well as some of other employees. We take anti-corruption work seriously, and corruption and bribery are unequivocally forbidden in our operations. We also do not participate in political activities or support political parties.

We strive to prevent and reduce any negative impacts our operations might have on the environment and society, as well as to advance efficient use of natural resources. We respect and promote human rights as they are defined in United Nations' Universal Declaration of Human Rights (UDHR). We also do not accept the use of child or forced labor nor working conditions that do not comply with international agreements, practices or our own ethical standards.

We focus on responsibility in the design, production and logistics of our products. A significant part of the materials we use are recyclable. We conduct continuous development and research to ensure that our products are always safe and healthy to use and increase the well-being of the users. We are a responsible partner. It is important for us to develop our products to meet our customers' needs and to serve our customers as well as possible.

RESPONSIBLE PROCUREMENTS

To produce heaters and saunas, we need especially steel, electronic and electrical components, such as control units and resistors for heaters, as well as wood. In addition, we also procure stone, glass and significant volumes of other materials necessary for production.

We expect all our sole suppliers to adhere to responsible operations. At the end of 2018 we adopted ethical operating principles for our suppliers (Harvia Supplier and Partners' Code of Conduct), to which all our suppliers must commit. We want to be aware of our products' origin and be ensured that the manufacturing methods respect the environment and people. For example, at the beginning of 2019 approximately 90% of all the wood we purchase will be PEFC certified, and our aim is that all the wood we purchase will be certified by the end of the year.

Harvia deems it important to have reliable supply of raw materials and packaging material close to the production facilities, which shortens the transportation distances. For example, all the steel used in the Muurame factory for sauna heaters is purchased from Finland and elsewhere in Europe. The stones originate from Finland. In China, local steel and stones are used for the heaters. In Romania, saunas are built from trees growing near the factory.

PRAGMATIC PRODUCT DEVELOPMENT

We design our products to be manufactured as simply and efficiently as possible, which on one hand improves the efficiency of production and on the other hand makes the repairing of products and offering spare parts easier. Efficient use of raw materials is profitable both financially and environmentally.

The aim of product development is also to ensure product quality, safety and positive health benefits. For example, we have participated in a research project conducted by the University of Eastern Finland studying the protective effect of sauna bathing on the human body. Harvia also actively participates in the standardization of the industry. We are involved, for example, in developing product safety and energy efficiency and improving the efficiency of wood-heated sauna heaters and decreasing fine particulate emissions.

A current topic concerning product development is the discussion on the emissions of wood-heated sauna heaters. We have participated as an expert in an initiative studying and defining comparable measuring methods for heaters' particulate emissions.

EFFICIENT PRODUCTION

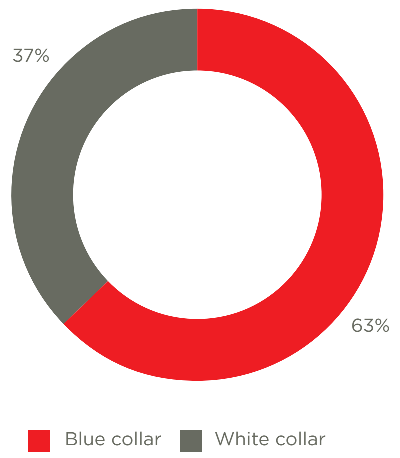
We need electricity, heat and propane for our production, as well as smaller quantities of natural gas and fuels for our cars and forklifts. Heat generated in the production is recovered and utilized in heating the facilities, which has translated to a decrease in the amount of purchased heat in recent years. Majority of our greenhouse gas emissions are caused by the consumption of purchased electricity and heat. Our carbon dioxide emissions decreased clearly in 2017 after the Muurame factory shifted to using electricity that is produced using only renewable energy forms and is thus emission-free.

Our production generates some waste and losses. The largest waste sections generated by production are metal, over 500 tons of which is created annually at the Muurame factory alone, as well as wood and cardboard. The waste is sorted as carefully as possible and delivered to appropriate processing or recycling. For example, all metal is recycled. No water is used in the production, except for washing and maintenance. We strive for efficiency and recyclability in choosing our packaging materials. The products are packaged for transportation so that the finished products do not get damaged or scratched. For overseas transport, heaters are wrapped in plastic in addition to cardboard packaging to protect them from the salty and humid sea air.

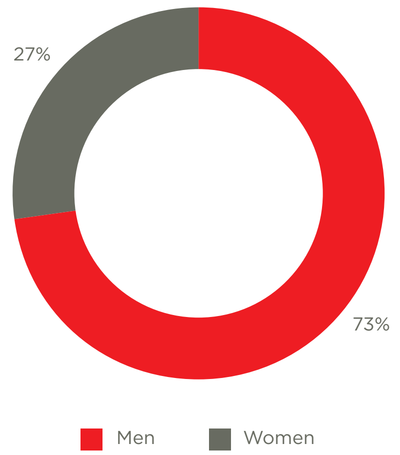
PERSONNEL

Behind Harvia's success is a competent and motivated personnel, whose well-being we look after. Most of our employees work in Finland, Romania, China and Hong Kong. Employment relationships at Harvia are mostly long-term and permanent. We are constantly paying attention to cooperation between different operations and continuous development of competence.

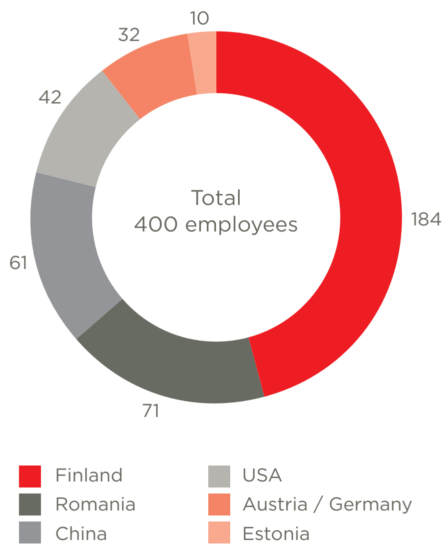
Structure of personnel



Distribution of personnel by gender



Personnel December 31, 2018



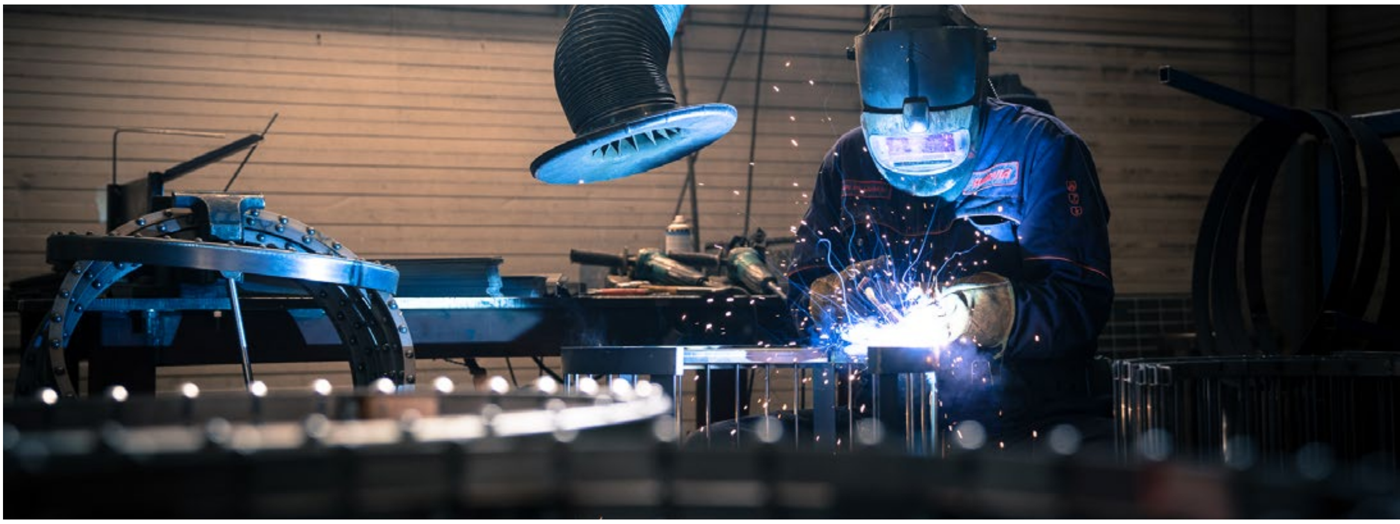
Safety at work and related risk management are very important at Harvia, as approximately 60% of our personnel work in production. Occupational safety is monitored closely and also near-miss incidents are reported. We conduct annual risk analyses in our factories to help us recognize and prevent risk situations. We are improving occupational safety also by investing in machines that enable automation of ergonomically challenging production stages. Ergonomics of clerical workers is also appropriately taken care of.

Harvia's personnel has not had any serious accidents in the recent years. The most common injuries include, for example, cuts in fingers or pieces of waste scratching the eye.

RESPONSIBLE AND SAFE PRODUCTS

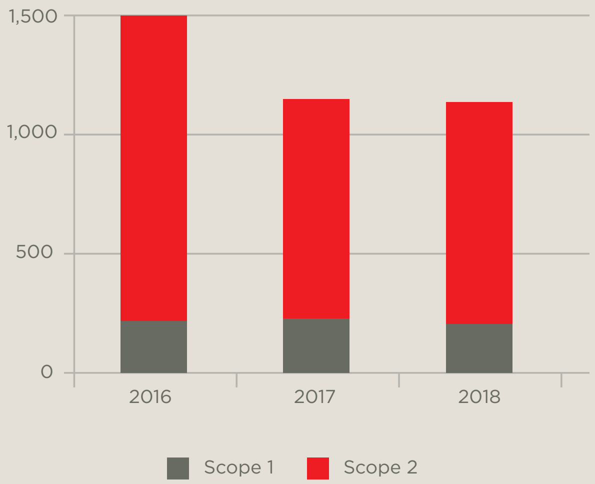
Product quality, safety and reliability are Harvia's key priorities. All sauna heaters we manufacture fulfill the legislative requirements in the target market as well as strict electric safety standards. We guide our customers in using our heaters and other products correctly and safely, as well as develop new solutions, such as remote control units for heaters and child-proof locks that enhance product safety.

We offer our customers expert product support. In addition to technical support and comprehensive training, we are responsible for the product repairs under warranty and for delivering spare parts to customers. We also take care of the recyclability of our products on our part. For example, most of the metal used in heaters is recycled, and all electric heaters in Finland can be returned to a recycling point for electrical and electronic devices and all wood-burning sauna heaters to a recycling point for metal items.



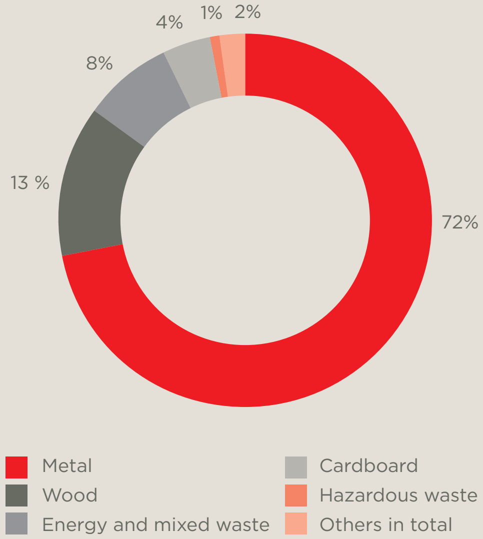
KEY INDICATORS

Harvia Group, CO_2 emissions (tCO_2)

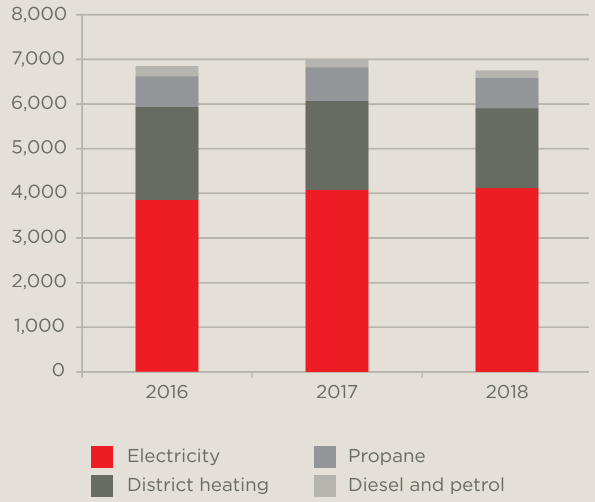


Scope 1: Emissions generated by the fuel and propane we use
Scope 2: Emissions generated by the production of the electricity and heat we purchase

Waste breakdown of the Muurame factory



Harvia Group, energy consumption in 2018



Our most important impacts originate from the primary production of raw materials and other materials, our own production facilities, our operations as an employer as well as the use of our products.

CORPORATE GOVERNANCE STATEMENT 2018

Seth Ascetic, Taiwan

INTRODUCTION

Harvia Plc's ("Harvia" or "the company") corporate governance complies with the Finnish Limited Liability Companies Act and Securities Markets Act, regulations concerning listed companies, the company's Articles of Association, and rules and regulations of Nasdaq Helsinki Ltd. The company also adheres to the Finnish Corporate Governance Code 2015 set by the Securities Market Association (www.cgfinland.fi).

This Corporate Governance Statement is available on Harvia's website at www.harvia.fi. The Corporate Governance Statement is issued as a separate statement and is published together with the financial statement, annual report and the remuneration report on the company's website at www.harvia.fi.

GENERAL MEETING

The General Meeting of shareholders is the highest decision-making body of Harvia that decides on matters stipulated by the Finnish Limited Liability Companies Act and the company's Articles of Association. The Annual General Meeting is held annually on the date set by the Board of Directors within six months of the end of the financial period. An Extraordinary General Meeting can be convened to discuss a specific issue if the Board of Directors deems it necessary or it is otherwise required by law. Harvia's General Meeting is held in Muurame, where the company is registered, or in Helsinki, and is convened by the Board of Directors.

The Annual General Meeting decides on

- Adoption of the financial statements and use of profit shown in the balance sheet;
- Discharging of the members of the Board of Directors and the CEO from liability;
- Election of the members of the Board of Directors and deciding on their remuneration;
- Election of the auditor and deciding on their remuneration;
- Changes to the Articles of Association;
- Purchase of own shares;
- A share issuance or issuance of other specific rights entitling to shares as well as authorization for the Board of Directors to resolve these matters.

The notice of the General Meeting is published on the company's website or by a newspaper announcement which is published in at least one widely circulated daily newspaper chosen by the Board of Directors. The notice shall be delivered to shareholders no earlier than three months and no later than three weeks before the meeting, and in any case at least nine days before the record date.

The notice includes the agenda for the General Meeting, proposals by the Board of Directors and Committees as well as the meeting registration and participation instructions. To be entitled to participate in the General Meeting, a shareholder needs to be registered in the company's shareholder register at least eight (8) business days prior to the General Meeting as well as register their participation in the meeting in the manner specified in the meeting notice. Holders of nominee-registered shares may also attend the General Meeting by registering themselves in the register of shareholders on a temporary basis.

A shareholder may attend the General Meeting either in person, or via a representative authorized by the shareholder. In the General Meeting, all shareholders are entitled to raise questions and propose resolutions regarding issues on the agenda. Harvia has one share class, and every share entitles to one vote in the General Meeting.

BOARD OF DIRECTORS

Harvia's Board of Directors consists of three to six members. The members are elected in the Annual General Meeting for a one-year term which expires at the end of the Annual General Meeting following their election. The Board of Directors elects a Chairperson from among its members. The majority of the Board members shall be independent of the company, with at least two of these members also being independent of the major shareholders of the company. In the selection of members, attention shall be paid to members' mutually complementary experience and competence in the company's business area and its development stage.

Rules of procedure of the Board of Directors

The duties and activities of the Board of Directors are defined by the Finnish Limited Liability Companies Act, the Finnish Corporate Governance Code 2015, other applicable legislation, Harvia's Articles of Association and the Rules of Procedure of the Board of Directors.

The Board of Directors has drafted written Rules of Procedure that define its key duties and operating principles. The Board of Directors approves Harvia's strategy and supervises its implementation. The duties of the Board of Directors include approving the company's financial statements and interim reports and monitoring the appropriateness of accounting and the company's financial management. The Board of Directors decides on significant loans, acquisitions and investments, and approves annual and long-term business plans and budgets as well as the principles of risk management. The Board of Directors also decides on the principles according to which the management may make decisions regarding investments, acquisitions and divestments and issuing of guarantees. The Board of Directors approves the Group's long- and short-term remuneration schemes and their realization. The Board of Directors appoints Harvia's CEO and decides on the terms of the CEO's employment contract.

The Board of Directors assesses its operations and ways of working annually as an internal self-assessment. The self-assessment was carried out also in 2018.

The Board of Directors in 2018

The members of the Board of Directors in 2018 were 1 January–8 February 2018 Olli Liitola (Chairperson), Anders Björkell, Pertti Harvia and Ia Adlercreutz. Ari Hiltunen was elected as member of the Board on 9 February 2018. In the Annual General Meeting held on 2 March 2018 Anders Björkell, Pertti Harvia, Ia Adlercreutz and Ari Hiltunen were re-elected as members of the Board. The Annual General Meeting elected Olli Liitola as the Chairperson of the Board of Directors.

In 2018, the Board of Directors convened 18 times in total, with an average attendance rate of 97.8 percent. The members attended the meetings as follows: Olli Liitola (18/18), Anders Björkell (18/18), Pertti Harvia (18/18), Ia Adlercreutz (16/18) and Ari Hiltunen (17/17).

MEMBERS OF THE HARVIA BOARD OF DIRECTORS DECEMBER 31, 2018

OLLI LIITOLA

Chairman of the Board
Master of Science in Engineering
born 1957, Finnish citizen
Chairman of the Board of Directors from 2014, member of the Board of Directors from 2014
Member of the Board's Audit Committee
Independent of the company but not independent of the company's major shareholders
Shares: 100,000

WORK HISTORY:
CapMan Oyj Senior Advisor 2017–, Senior Partner 2010–2017, Deputy CEO 2005–2009 and CFO 1991–2007.

POSITIONS OF TRUST:
Chairman of the Board of Tilaisuuksien ideointi- ja toteuttamistoimisto Tapaus Oy from 2014, of Oy Lunawood Ltd from 2012, of Bright Group Oy from 2011. Member of the Board of Directors of Nice Entertainment Group Oy in 2008–2013. Chairman of the Board of Directors of MOM Invest Oy from 2009 and of Momea Invest Oy from 1982.

ANDERS BJÖRKELL

Board member
Master of Science in Engineering, Master of Science in Economics and Business Administration
born 1969, Finnish citizen
Member of the Board of Directors from 2014
Member of the Board's Audit Committee
Independent of the company but not independent of the company's major shareholders
Shares: 0

WORK HISTORY:
CapMan Capital Management Oy Partner from 2001 and in different positions from 1997. Consultant at Energia-Ekono Oy, part of Pöyry Group, in 1993–1997.

POSITIONS OF TRUST:
Member of the Board of Directors of Bright Group Oy from 2019, of Walki Holding Oy 2016–2018 (Walki Group Oy 2007–2018), of Acona Invest AS from 2015, of Havator Group Oy from 2010 and of MPT Intressenter AB in 2012–2016.

PERTTI HARVIA

Board member
post-secondary level degree in Engineering
born 1950, Finnish citizen
Member of the Board of Directors from 2016
Independent of the company's major shareholders but not independent of the company
Shares: 429,290

WORK HISTORY:
CEO of Harvia Oy in 2013–2016, Technical Director of Harvia Oy in 1973–2013.

POSITIONS OF TRUST:
Chairman of the Board of Directors of Tiipeti Oy from 2014.

IA ADLERCREUTZ

Board member
Master of Arts, Master of Business Administration (MBA)
born 1971, Finnish citizen
Member of the Board of Directors from 2016
Independent of the company and its major shareholders
Shares: 21,000

WORK HISTORY:
CEO of Co-founders Oy from 2016, Director of Brand and Marketing (Functional Products EMEA) of Fiskars Finland Oy in 2014–2016, Head of Brand and Concept Development of Fiskars Home Oy in 2012–2014 and various marketing management posts at Kekkilä Oy in 2004–2012.

POSITIONS OF TRUST:
Chairwoman of the Board of Directors of Spikesafe Oy from 2015, member of the Board of Directors of Co-founders Oy from 2016, of Detapo Oy from 2015 and of Turvanasta Oy from 2012.

ARI HILTUNEN

Board member
Master of Science in Economics and Business Administration
born 1964, Finnish citizen
Member of the Board of Directors from 2018
Member of the Board's Audit Committee
Independent of the company and its major shareholders
Shares: 1,500

WORK HISTORY:
CEO of Central Finland Chamber of Commerce from 2017, CEO of Jyväskylä Regional Development Company Jykes Ltd. in 2011–2017 and sales director in Pohjola Insurance Ltd in 2005–2011.

POSITIONS OF TRUST:
Chairman of the Board of Directors in JyväsSeedFund Oy 2013–2015, Chairman and deputy Chairman of the Board of Directors of Jyväskylä Congress Center Ltd in 2011–2017, member of the Board of MidInvest Oy in 2013–2017 and KasvuOpen Ltd. in 2016–2017.

Diversity of the Board

A person elected as a member of the Harvia's Board of Directors must have qualifications required for the task as well as adequate availability for carrying out the duties of a Board member. When electing Board members, attention shall be paid to members' mutually complementary experience and competence from the perspective of the company's business area and its development stage. Varied professional and educational backgrounds support the diversity of the Board. The goal is to promote gender equality in the selection of Board members.

When electing Board members, the objective is to ensure that the Board of Directors as a whole enables efficient management of the Board's responsibilities and supports the development of Harvia's business.

In 2018, both genders were represented in the company's Board of Directors. Ari Hiltunen was elected as a member of the Board in 2018, who reinforces Harvia's Board, especially as a member who is independent of the company and its major shareholders. In addition, he brings his experience from local (Central Finland) business, business development and interest promotion to the Board.

Audit Committee

To enhance the efficiency of its work, the Board of Directors has set up an Audit Committee. The Committee has no independent decision-making authority; it functions as a preparatory body, and the matters it addresses are brought to be decided on by the Board of Directors.

The Board of Directors annually elects from among its members the chairperson and members of the Committee and confirms its written Rules of Procedure. The Audit Committee consists of a minimum of three Board members. The majority of the members of the Committee shall be independent of the company, with at least one member also being independent of the major shareholders of the company. At least one member of the Audit Committee shall also have expertise in accounting or auditing.

When it comes to the company's financial reporting and auditing, the duties of the Audit Committee consist particularly of monitoring and assessing the company's financial reporting system, the efficiency of its internal control and audit as well as that of the risk management systems, and the independence of the auditor and especially the non-auditing services provided by the auditor. In addition, the Audit Committee is tasked with monitoring the company's audit and preparing the selection of the company's auditor.

In 2018, the Board of Directors appointed from its members Olli Liitola (Chairperson), Anders Björkell and Ari Hiltunen to the Audit Committee.

In 2018, the Audit Committee convened four times in total, with an average attendance rate of 100 percent. The members attended the meetings as follows: Olli Liitola (4/4), Anders Björkell (4/4) and Ari Hiltunen (4/4).

CEO

The Board of Directors appoints and, if necessary, dismisses the CEO and decides on the CEO's terms of employment, defined in a written service contract approved by the Board. The CEO is appointed for the post until further notice. The Board of Directors evaluates the CEO's work and performance in achieving the assigned targets. The CEO cannot be elected as Chairperson of the Board of Directors.

The CEO is responsible for the day-to-day management of the company. The CEO is responsible for ensuring that the targets, plans, guidelines and goals set by the Board are carried out within Harvia. According to the Finnish Limited Liability Companies Act, the CEO ensures that the accounting practices of the company comply with the law and that asset management is arranged in a reliable manner.

Tapio Pajuharju acts as the CEO of Harvia, appointed by the Board of Directors.

MANAGEMENT TEAM

The Management Team supports the CEO and is responsible for the development and operational management of the Group, in accordance with the goals set by the Board of Directors and the CEO. The Management Team also defines the operating principles and procedures in line with the direction given by the Board of Directors.
The Management Team convenes monthly and when needed and focuses on strategic questions concerning the Group and businesses. Questions concerning financial development, governance, corporate responsibility and development projects are regularly on the agenda. The CEO acts as the chairperson of the Group's Management Team.

MEMBERS OF THE MANAGEMENT TEAM DECEMBER 31, 2018

TAPIO PAJUHARJU
CEO
Master of Science degree in Economics and Business Administration
born 1963, Finnish citizen
CEO and member of the Management Team from 2016
Member of the Board of Directors of Harvia in 2014–2016
Shares: 240,000

WORK HISTORY:
CEO of Hartwall Ab Oy in 2014–2016, CEO of Lumene Oy in 2004–2014. Management positions at Huhtamäki Group in 1988–2004.

POSITIONS OF TRUST:
Chairman of the Board of Directors of Varamiespalvelu Group Oy in 2011–2017, member of the Board of Directors since 2009. Member of the Board of Directors of Forshire Midco Oy and Forshire Bidco Oy since 2017, of Walki Group Oy in 2016–2018, of Halti Oy in 2012–2014 and Jääkiekon SM-liiga Oy in 2013–2017.

ARI VESTERINEN
Chief Financial Officer
Master of Science degree in Engineering and a Master of Business Administration (MBA) degree
born 1963, Finnish citizen
Chief Financial Officer and member of the Management Team since 2014
Shares: 131,666

WORK HISTORY:
Management consultant at LEAD Partners Oy in 2011–2014, Chief Financial Officer at TylöHelo Group in 1995–2011 and various positions in the group companies, such as Chief Financial Officer at Saunatec Oyj while the company was listed on the Helsinki Stock Exchange, along with his position as Chief Financial Officer. CEO of Helo Oy in 2010–2011 and as the CEO of Helo GmbH in 1993–2006.

POSITIONS OF TRUST:
Member of the Board of Directors of TylöHelo Group Oy 2009–2011 and in several TylöHelo Group companies.

DAVID AHONEN
Export Director
Vocational qualification in business and administration
born 1966, Finnish citizen
Export Director since 2016
Member of the Management Team since 2014
Shares: 135,000

WORK HISTORY:
Harvia's Export Manager in 1996–2016.

POSITIONS OF TRUST:
Chairman of the Board of Directors of Kiinteistö Oy Killerin Tenniskeskus since 2010, member of the Board of Directors of Benlop Oy since 2012.

TIMO HARVIA
Director, Research & Development and Quality
Master of Science degree in Engineering
born 1978, Finnish citizen
Director, Research & Development and Quality since 2016
Member of the Management Team since 2014
Shares: 128,750

WORK HISTORY:
Research & Development Director of Harvia Oy in 2014–2016, Research & Development Manager in 2010–2014 and as a Product Designer in 2004–2010.

POSITIONS OF TRUST:
Deputy member of the Board of Directors of Tiipeti Oy since 2014.

TOMAS HJÄLMEBY
Sales Director, Scandinavia
Technical education and professional experience in construction of wooden houses
born 1968, Swedish citizen
Sales director in Scandinavia since November 2018
Member of the Management Team since November 2018
Shares: 0

WORK HISTORY:
Scandinavian Sales Director at TylöHelo AB in 2015–2018, regional Sales Manager at Inwido Sweden AB in 2013–2015, Sales Manager at GGM Plast AB in 2011–2013. Various sales and marketing management positions in companies providing construction equipment.

SAMI LINNA
Marketing Director
Master of Science degree in Economics and Business Administration
born 1978, Finnish citizen
Marketing Director since 2017
Member of the Management Team since 2017
Shares: 556

WORK HISTORY:
Product Line Manager at Orkla Confectionery & Snacks Finland Ab in 2014–2017, Product Line Manager at Oy Panda Ab in 2010–2014. Various positions as Marketing Manager and Product Manager at Robert Bosch Oy in 2002–2010.

ANSSI PELKONEN
Sales Director, Finland
Vocational qualification in business and administration
born 1964, Finnish citizen
Sales Director in Finland
Member of the Management Team since 2014
Shares: 65,000

WORK HISTORY:
Harvia's Sales Director in Scandinavia in 2014–2018, Shop Manager at Carlson Oy in 2010–2014, Sales Manager at Harvia Oy in 2000–2010. Sales Representative at Black & Decker Oy in 1995–1999.

MIKA SUOJA
Production and Sourcing Director
Master of Engineering degree
born 1975, Finnish citizen
Production and Sourcing Director
Member of the Management Team since 2016
Shares: 40,000

WORK HISTORY::
Director, Materials Administration at the Central Finland Health Care District in 2016, Chief Operating Officer at Pikval Oy in 2015–2016 and company's Production Director in 2012–2015, Technology Director at Kojair Tech Oy in 2010–2012 and Production Manager at Sovella Oy in 2004–2009.

MARKUS WÖRMANSEDER
Sales Director, Central Europe
Technical chemistry, Johannes Kepler University Linz, Austria
born 1974, Austrian citizen
Sales Director, Central Europe since 2017, Managing Director of Sentiotec GmbH since 2007
Member of the Management Team since 2017
Shares: 111,111

WORK HISTORY:
Sales and marketing positions at AXAVIA Software GmbH, BEKO Engineering and Cadison Software GmbH.

FINANCIAL REPORTING

Harvia compiles its financial reporting in accordance with the International Financial Reporting Standards (IFRS), the Finnish Securities Markets Act, the Finnish Accounting Act and the guidelines and statements of the Finnish Accounting Board, while also complying with the rules and regulations of the Financial Supervisory Authority and the rules of the Helsinki Stock Exchange. The principles, instructions, practices and areas of responsibility in internal auditing and risk management relating to the company's financial reporting process are aimed at ensuring that the company's financial reporting is reliable and that the financial statements have been prepared in accordance with applicable laws, regulations and the company's operating principles. Harvia's financial reporting is supervised on two levels, in a separate company and at the group level. On both levels, control measures and analyses are carried out to ensure the validity of financial reporting. The Audit Committee is responsible for overseeing the financial reporting process.

OVERVIEW OF RISK MANAGEMENT

Risk management is part of Harvia's business management. Harvia Group's risk management is guided by the Risk Management Policy. The purpose of risk management is to promote the identification of risks and their preventive management, to ensure an adequate level of risk management, and to include risk management as part of the company's business.

Harvia has a group level risk assessment and reporting model. The Group carries out a comprehensive risk assessment annually, in which the most relevant risks to the realization of the Group's strategy or other objectives are evaluated based on their likelihood and impact on business operations. The annual risk assessment also evaluates the company's risk management measures. The Group's Management Team is responsible for the risk assessment. If needed, the risk assessment is updated, for example, for the risk assessment included in interim reports. The results of the risk assessment are reported to the Group's Board of Directors.

The Group's Management Team is responsible for the execution of risk management. The Audit Committee of the Board of Directors supervises the efficiency and expediency of the Group's risk management.

INTERNAL CONTROL AND AUDIT

The objective of internal control at Harvia is to ensure the realization of the company's strategic, financial, operational and procedural targets, and to ensure compliance with applicable laws and regulations in the Group. Internal control is an essential part of business management and in ensuring that the set objectives are reached. Internal control is aimed to be organized efficiently, so that any deviations from targets can be detected as early as possible or that they can be prevented.

Harvia's tools of internal control include internal policies, guidelines and instructions, together with manual controls as well as controls built into systems. In addition, internal control is implemented in the form of various monitoring reports and meetings.

The Board of Harvia is responsible for organizing the internal control and the Audit Committee oversees the efficiency of internal control. The Group Management Team and the CEO of each Group company are responsible that functioning control procedures are in use.

Harvia Group does not have its own internal audit function. The Board will annually assess the need for internal audit procedures and, if needed, may use internal company resources or external service providers for internal audit measures.

AUDIT

The statutory audit covers the company's accounting, financial statements and administration for the financial year. In addition to the annual auditor's report, the auditors regularly report their auditing observations to the Board of Directors and participate in the meetings of the Board's Audit Committee.

The company shall have an auditor, which is an auditing organization approved by the Finnish Patent and Registration Office. The term of the auditor expires at the conclusion of the Annual General Meeting following their election.

The company's Audit Committee prepares a proposal on the auditor and the remuneration of the auditor to the General Meeting. The General Meeting elects the auditor and decides on their remuneration.

Audit in 2018

PricewaterhouseCoopers Oy acted as the company's auditor in 2018 with Markku Launis, Authorized Public Accountant, acting as the principal responsible auditor. In 2018, the auditors were paid a total of EUR 75,000 for auditing services and a total of EUR 409,000 for other non-auditing services.

INSIDER MANAGEMENT

Harvia complies with the Market Abuse Regulation ((EU) No. 596/2014, "MAR"), including its amendments, and regulations issued under it, instructions issued by the authorities, including the insider guidelines of Nasdaq Helsinki Ltd. In addition, the company has supplemented Nasdaq Helsinki Oy's insider guidelines with its own insider guidelines.

The company maintains a list of employees and service providers who have access to insider information. The company's insider list comprises of one or more project-based insider lists. The company has estimated that it does not have insiders who would require a separate supplement to the insider list.

The company has appointed a person in charge of insider issues, who is responsible for maintaining insider lists, handling trading restrictions and the management of the obligation to notify and disclose transactions, internal communications related to insider issues, training on insider issues and the supervision of insider issues.

Harvia has internal procedures for publishing insider information, possible delayed disclosure of insider information and the maintaining of project-specific insider lists.

Management transactions

Harvia has determined that managers, whose transactions shall be notified, includes members of the Board of Directors, the CEO, and members of the Management Team. These persons and their closely associated persons are required to notify the company and the Financial Supervisory Authority of every transaction conducted on their own account relating to the shares, debt instruments, derivatives or other financial Instruments of Harvia. Harvia discloses the information via a stock exchange release without delay, at the latest within three business days following the execution of the transaction.

Managers may not conduct any transactions on their own account or for the account of a third party, directly or indirectly, relating to Harvia's shares, debt instruments, derivatives or other financial instruments during a closed period of thirty (30) calendar days before the publication of an interim financial report, half-year report or year-end report.

Trading restrictions

Harvia observes the trading ban on managers (closed window) specified in MAR article 19(11). In addition, the company has separately defined specific individuals who participate in preparing financial reports, or who have access to information related to such reports, as being restricted by a trading ban of similar length and content (closed window).

REMUNERATION REPORT 2018

The Remuneration Report 2018 of Harvia Plc ("the company" or "Harvia") complies with the Finnish Corporate Governance Code for Listed Companies (2015). The company publishes the Remuneration Report on its website.

The objective of Harvia's remuneration program is to promote the company's competitiveness and to support the execution of the company's strategy. Furthermore, the remuneration programs aim to retain key persons and the whole staff for long-term work in order to achieve shared goals and to create shareholder value.

REMUNERATION OF THE BOARD OF DIRECTORS

According to the Finnish Limited Liability Companies Act, the Annual General Meeting decides on the remuneration of Harvia's Board of Directors. The Board prepares the presentation for Board remuneration to the General Meeting.

The remuneration for the Board of Directors and members of the Audit Committee is monetary. Board members are not compensated separately for Board meetings. Travel expenses resulting from Board meetings will be compensated against reasonable invoices. Remuneration for the company's Board members does not include pension payments.

Members of the Board of Directors are not included in Harvia's short- or long-term incentive programs.

REMUNERATION OF THE CEO AND MANAGEMENT TEAM

The company's Board of Directors determines the salary, remuneration and other benefits received by the CEO and the members of the Management Team. The remuneration of the CEO and the members of the Management Team consists of a fixed monthly salary and a bonus. The CEO possesses supplementary pension insurance.

The company's Board of Directors determines annually the conditions of the bonus. The Board of Directors monitors the realization of the conditions of the bonus scheme.

Under the 2018 program, the bonuses of Harvia's CEO and Management Team are based on personal targets and certain profitability targets set for the financial year. The fulfilment of these conditions supports Harvia's long-term financial success.

The maximum performance bonus is equivalent to a two months' full salary, and a maximum personal target bonus equivalent to one month's full salary. In addition, members of the management team who are employed by Harvia Plc, Harvia Group Oy or Harvia Finland Oy, are part of the performance bonus system where the performance bonus is a maximum of six percent of annual salary, based on the achievement of certain profitability targets.

The CEO and other members of the Management Team are entitled to a mobile phone benefit. In addition, the CEO and some members of the Management Team possess a car benefit, and the CEO and the CFO possess an apartment benefit.

CEO'S AND MANAGEMENT TEAM'S TERMS OF SERVICE

The CEO's contract contains a mutual six-month period of notice, and a 12-month non-compete period upon its termination. If the company terminates the contract of employment, the CEO is entitled to a severance payment corresponding to six months' full salary plus potential bonuses.

The period of notice for other members of the Management Team varies between three to six months. Members of the Management Team are entitled to a salary from their period of notice.

The group CEO and Management Team are entitled to a statutory pension and their retirement age is determined within the framework of the work pensions system. In accordance with applicable legislation, the CEO's retirement age is 63 years. The CEO possesses life insurance and supplementary pension insurance provided by Harvia. The CEO receives his supplementary pension upon turning 63 years old. The supplementary pension agreement is a defined contribution plan.

SHARE-BASED INCENTIVE PROGRAMS

The Board of Directors of Harvia Plc decided on 21 May 2018 to establish a new share-based long-term incentive scheme for the CEO and Management Team members. The scheme will form a part of Harvia Plc's remuneration program for its management, with the objective of supporting the implementation of the company's strategy, aligning the interests of the management with the interests of shareholders, increasing the company's value, improving the company's performance, and retaining the management personnel.

The long-term incentive scheme 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 amount of the reward paid to the participants depends on achieving the predefined targets. No reward will be paid if targets are not met or if the participant's employment or service ends before reward payment. If the targets of the plan are reached, rewards will be paid to the participants during the spring following the end of the given performance period.

The long-term incentive plan will not have a dilutive effect, because the rewards will be paid with existing shares in the company, which will be purchased from the market, and no new shares will be issued in connection with this scheme. In the first performance period, the plan has 10 participants at most, and the targets for the long-term incentive scheme 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 shares in Harvia Plc, which corresponds to approximately EUR 715,000 calculated with the volume weighted average share price on the trading day preceding the decision date. This number of shares represents gross earning, from which withholding tax and possible other applicable contributions are deducted and the remaining net amount is paid in shares. However, the company is entitled to pay the reward fully in cash under certain circumstances. Potential rewards from the first performance period will be paid out during the spring of 2021.

CO-INVESTMENT ARRANGEMENTS

Harvia Holding Oy (present Harvia Plc) 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 who were employed by the Group or have joined the Group.

Under to the arrangement, the key employees of the company included in the arrangements invested in shares and shareholder loans of Harvia Holding Oy (current Harvia Plc). The shareholder loans in question matured in connection with the listing and were repaid.

REMUNERATION REPORT 2018

REMUNERATION OF THE BOARD OF DIRECTORS IN 2018

By shareholder decision at Harvia's Annual General Meeting held on 2 March 2018, it was decided that the Chairperson of the Board of Directors will be paid EUR 3,500 monthly and that the members of the Board EUR 2,000 monthly. In addition, the Audit Committee's Chairperson will be paid EUR 1,300 monthly, and each member of the Audit Committee will be paid EUR 650 monthly. Member of the Board of Directors Anders Björkell will not be paid for his membership in the Board nor for his membership of the Audit Committee.

During the financial year 2018, the members of the Board of Directors were paid the following remuneration:

Board member	Remuneration paid 2018, EUR	Committee membership, EUR	Total, EUR
Olli Liitola	40,000	11,700	51,700
Anders Björkell			
Pertti Harvia	24,000		24,000
Ia Adlercreutz	24,000		24,000
Ari Hiltunen	20,000	5,850	25,850
Total	108,000	17,550	125,550

REMUNERATION OF THE CEO AND MANAGEMENT TEAM MEMBERS IN 2018

During the financial year 2018, the CEO and other members of the Management Team were paid the following remuneration and fringe benefits:

	CEO, EUR	Other Management Team members total, EUR	Total, EUR
Salary, including benefits	437,968	742,392	1,180,360
Pension costs (defined contribution plans)	8,500		8,500
Bonuses	75,822	107,505	183,327
Total	522,290	849,897	1,372,187

The salary with fringe benefits paid to the CEO in 2018 totaled in EUR 437,968. Paid bonuses totaled in EUR 75,822. The annual cost of CEO's voluntary pension insurance acquired by the Company, was EUR 8,500 in 2018. The Company is also committed to purchasing life insurance for the CEO.

The salary and fringe benefits paid to the company's Management Team (excluding the CEO) in 2018 totaled EUR 742,392. Paid bonuses totaled EUR 107,505. Other members of the Management Team do not have supplementary pension insurances.

REPORT BY THE BOARD OF DIRECTORS AND CONSOLIDATED FINANCIAL STATEMENTS 2018

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REPORT BY THE BOARD OF DIRECTORS FOR 2018

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 devided to five gategories, 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
Key statement of comprehensive income indicators			
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
Key cash flow indicators			
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
Financial position key figures			
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.

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 excecute 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 Ia Adlercreutz. During 9 February – 31 December 2018 the members of the Board of Directors were Olli Liitola, Anders Björkell, Pertti Harvia, Ari Hiltunen and Ia 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
Total	**100**	**18,694,236**

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 PAJUHARJU	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
Total	**9,257,074**	**49.5**

* 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
Total	**3,249**	**100.0**	**18,694,236**	**100.0**

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
Operating profit	9,376	9,263
Depreciation and amortisation	2,158	1,921
EBITDA	11,533	11,184
Items affecting comparability		
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
Total items affecting comparability	1,476	1,434
Adjusted EBITDA	13,009	12,617
Depreciation and amortisation	-2,158	-1,921
Adjusted operating profit	10,852	10,696
Finance costs, net	-2,767	-4,914
Adjusted profit before income taxes	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
Revenue	2.1	**61,942**	**60,107**
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
Operating profit		**9,376**	**9,263**
Finance income	5.4	215	457
Finance costs	5.4	-2,981	-5,370
Finance costs, net		-2,767	-4,914
Profit before income taxes		**6,609**	**4,349**
Income taxes	6.3	172	-1,435
Profit for the period		**6,780**	**2,914**
Attributable to:			
Owners of the parent		6,780	2,914
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods:			
Translation differences	6.4	-13	-505
Other comprehensive income, net of tax		-13	-505
Total comprehensive income		**6,767**	**2,409**
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
ASSETS			
Non-current assets			
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 recevables	6.3	1,358	
Total non-current assets		**80,710**	**77,163**
Current assets			
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
Total current asset		**36,230**	**36,830**
Total assets		**116,939**	**113,993**

EUR thousand	Note	31-Dec-18	31-Dec-17
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
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
Total equity		**65,822**	**19,276**
Liabilities			
Non-current liabilities			
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
Total non-current liabilities		**38,787**	**75,313**
Current liabilities			
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
Total current liabilities		**12,331**	**19,404**
Total liabilities		**51,117**	**94,716**
Total equity and liabilities		**116,939**	**113,993**

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
Equity at 1 January 2017	6.4	**3**	**9,724**	**484**	**6,656**	**16,868**
Profit for the period					2,914	2,914
Other comprehensive income				-505		-505
Total comprehensive income		0	0	-505	2,914	2,409
Equity at 31 December 2017		**3**	**9,724**	**-21**	**9,570**	**19,276**

		Attributable to owners of the parent				
EUR thousand	Note	Share capital	Invested unrestricted equity reserve	Translation differences	Retained earnings	Total
Equity at 1 January 2018	6.4	**3**	**9,724**	**-21**	**9,570**	**19,276**
Adoption of IFRS 9 standard	1.3				-313	-313
Adoption of IFRS 15 standard	1.3				5	5
Equity at 1 January 2018		**3**	**9,724**	**-21**	**9,262**	**18,968**
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	**6,767**
Equity at 31 December 2018		**80**	**53,098**	**-34**	**12,678**	**65,822**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR thousand	Note	2018	2017
Cash flows from operating activities			
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
Net cash from operating activities		**8,820**	**8,029**
Cash flows from investing activities			
Purchases of tangible and intangible assets	3.2, 3.3	-1,617	-1,196
Sale of tangible and intangible assets		14	30
Net cash from investing activities		**-1,603**	**-1,166**
Cash flows from financing activities			
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	
Net cash from financing activities		**-7,297**	**-4,882**
Net change in cash and cash equivalents		-80	1,980
Cash and cash equivalents at 1 January	5.2	8,345	6,568
Exchange gains/losses on cash and cash equivalents		3	-204
Cash and cash equivalents at 31 December		**8,268**	**8,345**

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 Unites 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.

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 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. Comaparative figures fro 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 IFRS 9	Jan - Dec 2017 IAS 39
At January 1 - under IAS 39	63	69
Impact of the increase in the loss allowance on the opening balance	391	
Opening loss allowance at January 1 calculated under IFRS 9	**454**	
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**	
Total	374	63

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 under IFRS 15	Impact on retained 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.

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.

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 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.

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.

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%
Operating profit	**9,376**	15%	**9,263**	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%
Total	**61,942**	100%	**60,107**	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%
Total	**61,942**	100%	**60,107**	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	
Total non-current assets	**79,351**	**77,163**

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
Total	**13,063**	**12,305**

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
Total	**11,679**	**11,855**

* 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 compnay 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
Depreciation by class		
Buildings and constructions	617	604
Machinery and equipment	906	858
Other tangible assets	107	72
Total property, plant and equipment	1,630	1,535

EUR thousand	2018	2017
Amortisation by class		
Development costs	285	193
Customer relationships	49	49
Brand	59	59
Technology	11	11
Other intangible assets	122	74
Total intangible assets	527	386
Total depreciation and amortisation	**2,158**	**1,921**

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
Basic earnings per share, EUR	**0.41**	**0.30**
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
Diluted earnings per share, EUR	**0.41**	**0.30**

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 ís 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 Noth 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 Januray 2018, it would have increased consolidated revenue by EUR 7.7 milllon 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 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
2018								
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
Net book amount at 1 January	**59,224**	**540**	**849**	**683**	**521**	**101**	**304**	**62,223**
Net book amount at 31 December	**60,421**	**1,043**	**273**	**849**	**1,423**	**164**	**437**	**64,610**

EUR thousand	Goodwill	Development expenditure	Advance payments	Customer relationships	Brand	Technology	Other intangible assets	Total
2017								
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
Net book amount at 1 January	**58,857**	**595**	**538**	**733**	**580**	**113**	**191**	**61,606**
Net book amount at 31 December	**59,224**	**540**	**849**	**683**	**521**	**101**	**304**	**62,223**

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
Total	**60,421**	**59,224**

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
Long-term growth rate	1.0%	1.0%
Average revenue growth for the forecast period		
Finland	4.8%	5.1%
Central Europe	8.3%	6.7%
Average EBITDA for the forecast period (% of revenue)		
Finland	22.5%	24.4%
Central Europe	20.0%	10.1%
Pre-tax discount rate		
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
Finland		
EBITDA margin decrease	-7.7%	-9.5%
Change in discount rate	5.0%	6.3%
Central Europe		
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
2018						
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
Net book amount at 1 Jan	**1,249**	**10,135**	**3,144**	**232**	**181**	**14,939**
Net book amount at 31 Dec	**1,249**	**9,620**	**3,243**	**399**	**230**	**14,741**

EUR thousand	Land	Buildings and structures	Machinery and equipment	Other tangible assets	Construction in progress	Total
2017						
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
Net book amount at 1 Jan	**1,256**	**10,695**	**3,540**	**298**	**1**	**15,790**
Net book amount at 31 Dec	**1,249**	**10,135**	**3,144**	**232**	**181**	**14,939**

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
At 31 December	**430**	**449**
of which		
current	215	225
non-current	215	225
Total	**430**	**449**

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
Net working capital		
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
Total	**17,500**	**17,255**
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
Total	**14,526**	**14,143**

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
Total	**12,152**	**12,738**

Material items included in prepayments and accrued income:

EUR thousand	31-Dec-18	31-Dec-17
Social costs	126	63
Other	191	353
Total	**317**	**416**

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
Total	**9,178**	**9,626**

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
Total	**3,201**	**3,718**

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 profit or loss	Other financial liabilities at amortised cost
31-Dec-18		
Liabilities per balance sheet		
Shareholder loans		
Loans from credit institutions		38,526
Other loans		369
Trade and other payables		9,601
Derivative financial instruments	1,471	
Total	**1,471**	**48,496**

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

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 ita 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 beared 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
Amounts recognised in profit or loss		
Net foreign exchange gains/losses included in operating income/ expenses	-305	-507
Net foreign exchange gains/losses included in finance income/ costs	39	-113
Total net foreign exchange gains/losses recognised in profit before income tax for the period	**-265**	**-620**
Gains/losses recognised in other comprehensive income		
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 IFRS 9	Jan - Dec 2017 IAS 39
At 1 January - under IAS 39	63	69
Impact of the increase in the loss allowance on the opening balance	391	
Opening loss allowance at 1 January calculated under IFRS 9	**454**	
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	
Total	374	63

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 **EUR thousand**	**Gross book value**	**Allowance for bad debt**
Not due	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
Total	11,420	374

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.

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 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.

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 6 months**	**6 – 12 months**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total contractual cash flows**	**Carrying amount**
31-Dec-18							
Non-derivatives							
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
Total non-derivatives	**7,207**	**112**	**395**	**36,513**		**44,227**	**44,059**
Derivatives							
Interest rate swaps	206	209	829	484		1,727	1,471
Total derivatives	**206**	**209**	**829**	**484**		**1,727**	**1,471**

EUR thousand	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount
31-Dec-17							
Non-derivatives							
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
Total non-derivatives	**9,566**	**5,049**	**5,814**	**84,716**		**105,145**	**86,958**
Derivatives							
Interest rate swaps	219	223	223	662		1,327	1,327
Total derivatives	**219**	**223**	**223**	**662**		**1,327**	**1,327**

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
Net debt	**30,258**	**72,985**

Reconciliation of net cash flow to movement in net debt:

EUR thousand	Cash and cash equivalents	Loans from credit institutions due within 1 year	Loans from credit institutions due after 1 year	Shareholder loans due after 1 year	Total net debt
At 1 January 2017	**6,568**	**-6,954**	**-35,553**	**-38,516**	**-74,455**
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
At 31 December 2017	**8,345**	**-8,394**	**-31,318**	**-41,618**	**-72,985**
Cash flows	-80	6,636	-4,733	41,618	43,441
Acquisitions		-397			-397
Exchange differences	3				3
Other non-cash movements			-320		-320
At 31 December 2018	**8,268**	**-2,155**	**-36,371**	**0**	**-30,258**

5.4 FINANCE INCOME AND COSTS

TThis 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
Finance income		
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
Total	215	457
Finance costs		
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	
Total	-2,981	-5,370
Finance costs, net	**-2,767**	**-4,914**

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
Total	**320**	**422,820**

EUR thousand	31-Dec-18	31-Dec-17
Pledges given on own behalf:		
Shares in subsidiaries		96,984
Total		**96,984**

EUR thousand	31-Dec-18	31-Dec-17
Other guarantees:		
Pledged accounts		8
Customs guarantee	30	31
Other guarantees	12	2,502
Total	**42**	**2,541**

Additionally Harvia Group Oy has guaranteed sybsudary 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		
Total	**838**	**737**

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			
Subsidiaries					
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
Witholding tax on interest	-42	-175
Interest paid	-793	-21
At 31 December		**41,618**

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.

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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
Total	**610**	**545**

* 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
Total	**980**	**928**

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
Total	**126**	**75**

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
Income taxes	**172**	**-1,435**

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 subsidaries	-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
Taxes in income statement	**172**	**-1,435**

*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
2018					
Deferred tax assets					
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
Total	650	1,192	513		2,355
Netting of deferred taxes	-650				-996
Net deferred tax asset	**0**				**1,358**

EUR thousand	At 1 Jan	Recognised in profit or loss	Recognised in equity	Business combinations	At 31 Dec
2018					
Deferred tax liabilities					
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
Total	1,092	-97		361	1,358
Netting of deferred taxes	-650				-996
Net deferred tax liability	**442**	**-1,289**	**-513**	**361**	**361**

EUR thousand	At 1 Jan	Recognised in profit or loss	Recognised in equity	Business combinations	At 31 Dec
2017					
Deferred tax assets					
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
Total	864	-214		0	650

EUR thousand	At 1 Jan	Recognised in profit or loss	Recognised in equity	Business combinations	At 31 Dec
2017					
Deferred tax liabilities					
Intangible assets	356	-30			326
Accumulated depreciation differences	321	-39			282
Property, plant and equipment	460	-26			434
Other items	50				50
Total	1,187	-95		0	1,092
Net deferred tax liability	**323**	**119**		**0**	**442**

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
At 1 January 2017	3	9,539,800
Share issue		140,000
At 31 December 2017	3	9,679,800
Increase in share capital through a fund increase	78	
Initial public offering		8,870,079
Personnel offering		144,357
At 31 December 2018	80	18,694,236

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 unrestricted equity	Translation differences	Total
At 1 January 2017	9,724	484	10,209
Share issue			
Translation differences		-505	-505
At 31 December 2017	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
At 31 December 2018	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
At 1 January	9,570	6,656
Adoption of IFRS 9 standard	-313	
Adoption of IFRS 15 standard	5	
At 1 January 2018	9,262	
Dividend distribution	-3,365	
Profit for the period	6,780	2,914
At 31 December	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 PROFIT & LOSS STATEMENT

EUR thousand	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Revenue	**1,084**	**181**
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	
Operating profit	**-1,954**	**-758**
Finance income	7,198	2,296
Finance costs	-3,005	-2,743
Finance income and expenses total	4,193	-448
Profit before income appropriations and taxes	**2,239**	**-1,206**
Appropriations		
Group contribution	6,000	7,100
Income taxes	-378	-1,017
Profit for the period	**7,861**	**4,878**

PARENT COMPANY BALANCE SHEET

EUR thousand	31-Dec-2018	31-Dec-2017
ASSETS		
Non-current assets		
Intangible assets		
Intangible rights	1,567	
Investments		
Holdings in group undertakings	85,909	12,019
Total non-current assets	**87,476**	**12,019**
Current assets		
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
Total current asset	**14,872**	**34,063**
Total assets	**102,348**	**46,082**

EUR thousand	31-Dec-2018	31-Dec-2017
EQUITY AND LIABILITIES		
Equity		
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
Total equity	**63,318**	**13,822**
Liabilities		
Non-current liabilities		
Shareholder loans		30,148
Loans from credit institutions	36,500	
Amounts owed to group undertakings	1,471	
Total non-current liabilities	**37,971**	**30,148**
Current liabilities		
Trade payables	108	523
Amounts owed to group undertakings	318	
Other liabilities	41	32
Accrued expenses	593	1,557
Total current liabilities	**1,059**	**2,111**
Total liabilities	**39,030**	**32,260**
Total equity and liabilities	**102,348**	**46,082**

PARENT COMPANY CASH FLOW STATEMENT

EUR thousand	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Cash flow from operating activities:		
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 an 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	
Cash flow from operating activities:	**-2,937**	**72**
Cash flow from investments		
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	
Cash flow from investments	**-49,391**	**0**
Cash flows from financing activities		
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	
Cash flows from financing activities	**53,552**	**-30**
Net increase (+) / decrease (–) in cash and cash equivalents	**1,225**	**42**
Cash and cash equivalents at beginning of period	**1,407**	**1,366**
Cash and cash equivalents at end of period	**2,632**	**1,407**

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 divideds will be booked based on the decisions of Annual General Meeting.

NOTES TO THE PROFIT AND LOSS STATEMENT

	2018	2017
Notes relating to personnel		
Number of personnel at the end of the financial year	2	2
Average number of personnel during the financial year		
Officers	2	-

EUR thousand	2018	2017
Manangement compensation		
Members of the Board of Directors and CEO	627	70
Auditors' fees		
Statutory audit	29	5
Auditor's statements	7	
Other services	392	439
	428	444

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

NON-CURRENT ASSETS

EUR thousand	2018	2017
Intangible assets		
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	
Book value at the end of the financial year	**1,567**	
Investments		
Acquisition cost 1 January	12,019	12,019
Additions	73,890	
Acquisition cost 31 December	85,909	12,019
Book value 31 December	**85,909**	**12,019**
Book value 1 January	12,019	12,019

HOLDINGS IN GROUP UNDERTAKINGS

Group companies		Parent ownership
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

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

LIABILITIES

EUR thousand	2018	2017
Long-term liabilities		
Shareholder loans		30,148
Loans from credit institutions	36,500	
Loans from group companies	1,471	
	37,971	**30,148**
Liabilities falling due after five years		
Shareholder loans		30,148
		30,148

EUR thousand	2018	2017
Short-term liabilities		
Loans from group undertakings		
Other liabilities	318	
Liabilities for others		
Trade creditors	108	523
Other liabilities	41	32
Accruals and deferred income	593	1,557
	741	**2,111**
Material amounts shown under accruals and deferred income		
Wages and salaries including social security expenses	168	139
Income taxes	369	1,017
Other	55	401
	593	**1,557**

EQUITY

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

GUARANTEES AND COMMITMENTS

EUR thousand	2018	2017
Pledges		
Shares in subsidiaries		3
		3
Rental payments under lease contracts		
Payable during the following financial year	12	2
Payable in later years	8	
	20	**2**

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.

OVERALL GROUP MATERIALITY	EUR 0,6 million
HOW WE DETERMINED IT	Net sales
RATIONALE FOR THE MATERIALITY BENCHMARK APPLIED	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	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
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.	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.

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.

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 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)

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HARVIA
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