HARVIA PLC

2019

ANNUAL REPORT

HARVIA

Sauna & Spa

CONTENTS


Kämp Spa, Helsinki, Finland

HIGHLIGHTS OF 2019

PROFITABLE GROWTH

On top of the strong growth, we were able to strenghten the profitability as well as drive the continous improvement of productivity as planned. We experienced solid growth in all product groups. The last quarter was especially strong in the sauna room category and we posted a healthy +124% growth thanks largely to the US and Central Europe.

STRENGHTENING AND EXPANDING THE DISTRIBUTION NETWORK

We were successful in opening new distribution channels both in Scandinavia as well as in the US. This had a favorable impact on sales performance. We also continued our work to optimize distribution strategies in all our key markets and successfully leveraged cross-selling.

DEVELOPING AHS BUSINESS MODEL AND OPERATIONS

The integration of the US-based Almost Heaven Saunas LLC, acquired at the end of 2018, progressed as planned during 2019, and the profitability of operations has improved more than anticipated. In the course of the year, we renewed AHS's offering and pricing, streamlined purchasing and achieved very good operational efficiency of production.

NEW AND ADVANCED PRODUCTS AND SOLUTIONS

During 2019, Harvia launched many technologically advanced sauna and spa products and solutions. This included the wireless remote-controlled Harvia Cilindro Plus Spot, which was well received by the market, and the outdoor sauna collection's Solide Compact design sauna, which combines the traditional Finnish sauna culture with modern Scandinavian design.

EUROPEAN SMALL AND MID-CAP AWARDS 2019

Harvia was a finalist and among the top three companies in the International Star category of the European Small and Mid-Cap Awards, organized by e.g. the European Commission. The aim of the competition is to highlight new small and mid-sized listed companies, and the nomination was based on Harvia's impressive results in terms of international sales, profit and demonstration of strong and solid strategy for internationalization.

HARVIA WAS ADDED TO THE OMX HELSINKI BENCHMARK

On December 2, 2019, Harvia's stock was added to the OMX Helsinki Benchmark index portfolio of Nasdaq Helsinki. OMXHB includes some of the largest and most actively traded stocks on Nasdaq Helsinki from all ten ICB industries.

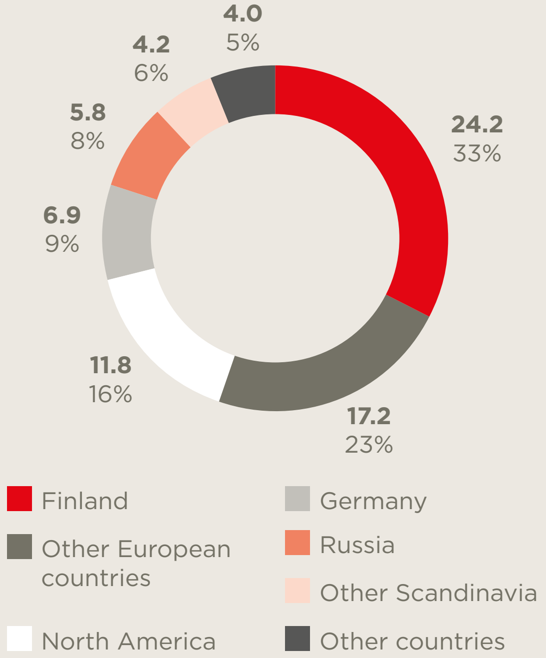
FAMILY-OWNED ONVEST OY BECAME THE LARGEST OWNER OF HARVIA

Onvest Oy, a Finnish family-owned company focused on investment operations and real estate business, acquired private equity investment company CapMan's entire ownership in Harvia in November. Through the acquisition, Onvest received a 12.3% ownership, making it the largest shareholder in Harvia. Onvest did not previously own any shares in Harvia.

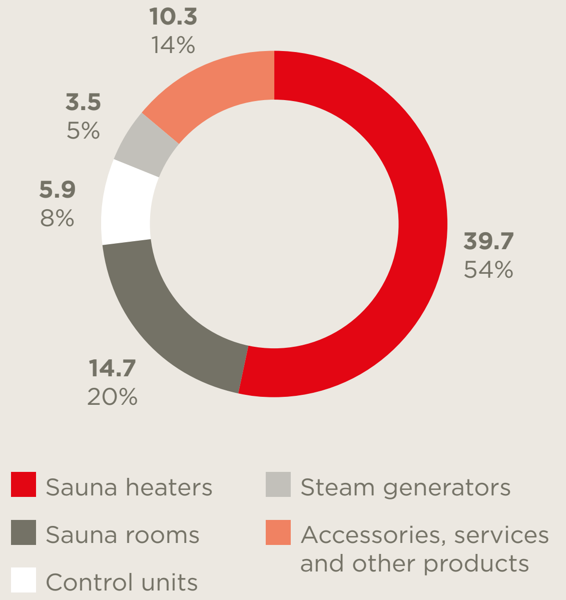
KEY FIGURES IN 2019

The Bands / AHO Oslo School of Architecture, Vestvågøy, Norway

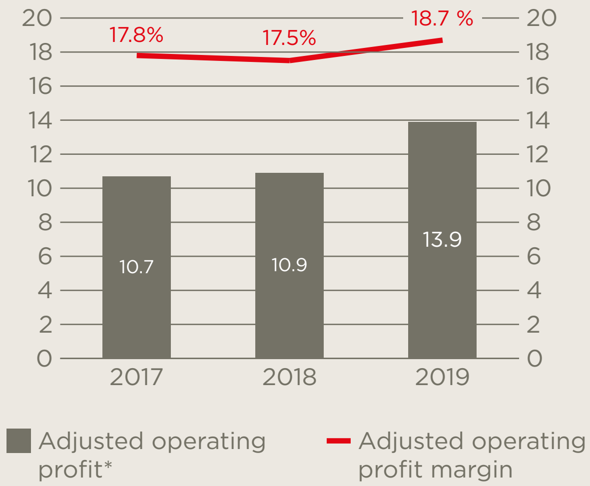
Revenue by market area EUR million / %



Revenue by product group EUR million / %

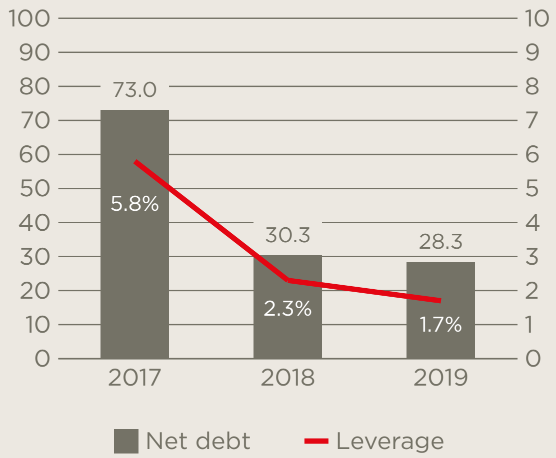


Adjusted operating profit (EUR million) and adjusted operating profit margin



* Adjusted by items affecting comparability

Net debt (EUR million) and leverage

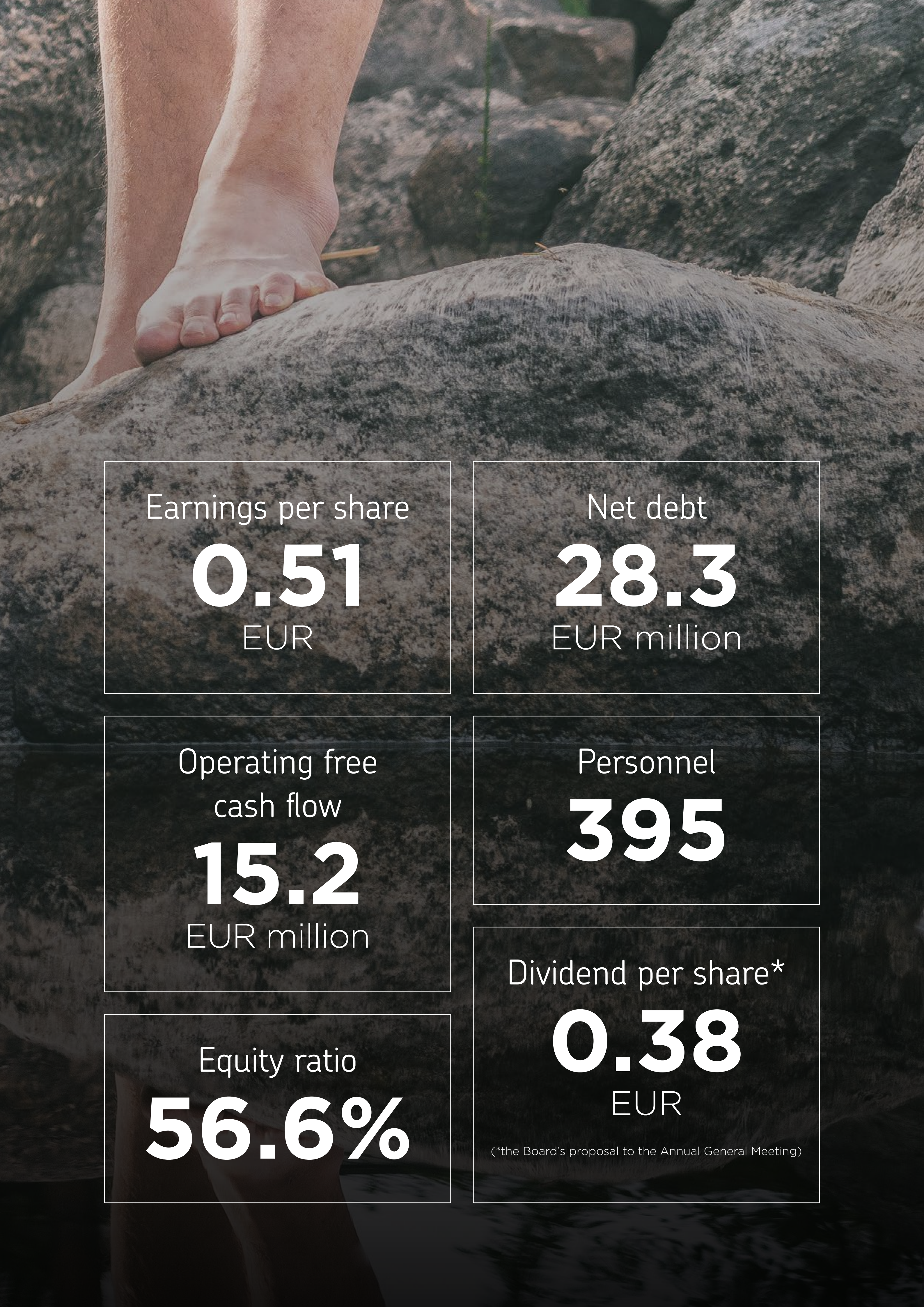


Revenue
74.1
EUR million

Adjusted operating profit
13.9
EUR million (+27.9%)

Revenue growth
19.6%

Adjusted operating profit margin
18.7%



Earnings per share
0.51
EUR

Net debt
28.3
EUR million

Operating free cash flow
15.2
EUR million

Personnel
395

Equity ratio
56.6%

Dividend per share*
0.38
EUR

(*the Board's proposal to the Annual General Meeting)

CEO'S REVIEW

Harvia's growth during 2019 was strong in all product groups and almost all our key markets. We achieved a revenue of EUR 74.1 million, growing 19.6 percent year on year. Growth was especially strong during the final quarter.

A YEAR OF STRONG GROWTH

Our journey into a comprehensive one-stop shop operator in the sauna and spa market is proceeding as planned. During the financial period, revenue growth was especially strong in Finland, other Scandinavian countries, North America and other markets, such as France, Switzerland, the UK, Benelux countries, Poland and Arab countries.

Together with our key customers and partners, our personnel have done an excellent job. I am especially pleased with the improved profitability of our business, in addition to strong growth. In 2019, the adjusted operating profit amounted to EUR 13.9 million (10.9). The adjusted operating profit for the fourth quarter increased by 46.0 percent year on year, amounting to EUR 4.2 million (2.9). Our relative profitability has also had a positive trend.

During 2019, the continuous improvement of productivity proceeded as planned in all our production facilities. We have succeeded especially well in improving productivity in our sauna heater and equipment factory in Muurame, Finland and in our Guanzhou factory in China. The integration of the business operations in the US has proceeded ahead of schedule, and we have taken measures at the Renick factory to improve productivity.

GROWTH ACROSS ALL PRODUCT GROUPS

The sales of all our product groups increased, but growth in the sauna rooms product group was especially accelerated by the North American and Central European markets. The sauna rooms product group experienced an excellent 124 percent growth in the fourth quarter. In addition to sauna rooms, the sauna heater product group grew in both professional and consumer channels, resulting in 18.2 percent growth in the final quarter. The demand in steam generators was also favorable, and the product group grew by 31.6 percent year on year.

SAUNA INTRIGUES DOMESTIC AND FOREIGN CONSUMERS ALIKE

Demand in the domestic market remained steady, and we reinforced our position in both professional and consumer markets. Our recently launched new products and solutions have enjoyed a positive reception in the market. In other Scandinavian countries, we have

"In addition to strong growth, we have succeeded to improve the profitability of our business operations."

succeeded in improving the quality and amount of our distribution together with our partners. This is also directly reflected in our growing sales.

The Central European market developed as planned, even though the German market has not yet reached its normal growth rate. The performance in the German market is also partially reflected in control unit sales. The Russian market remained relatively stable, but the market's sensitivity continued throughout the year. Demand in the US market accelerated towards the end of the year in sauna heaters, components and especially in the sauna rooms category. In the sauna rooms market, we have updated and complemented our Almost Heaven Saunas product offering and further expanded our distribution.

SUSTAINABILITY HAS BECOME PART OF OUR EVERYDAY LIFE

Sustainability has for a long time been part of Harvia's way of working. Our safe and durable products are manufactured sustainably. During the past year, we have taken steps to further enhance sustainability. For example, we have prioritized recycling and recyclability in our raw materials and other materials. Our key partner's stainless steel, with 85% recycled material, serves as an example. We have also used recycled fiber as a replacement for plastic and paid more attention to the efficiency and purity of burning, of which we will revisit this spring.

INNOVATIONS ADD VALUE TO THE GLOBAL MARKET

The year 2019 is an excellent example of how determined and systemic cooperation with our key customers, strategic partners and Harvia's truly professional team works. Together we have developed and prepared to take the sauna and spa market to the next level in the coming years. We aim to be agile in bringing new innovations and concepts to the market that create added value and well-being as well as support the global growth of the sauna and spa market.

We remain humble but keep our determined focus on the cornerstones of our strategy and its systematic implementation: increasing the value of the average purchase, geographical expansion and continuous improvement of productivity. In addition to organic growth, we are actively looking into suitable opportunities to grow in the sauna and spa market through business acquisitions.

Tapio Pajuharju
CEO, Harvia Plc

OPERATING ENVIRONMENT AND MEGATRENDS

Pattaya, Thailand

In 2019, the sauna and spa market continued their historically resilient business cycle, due to the large amount of existing saunas and the demand arising from the need to replace heaters.

According to an international management consulting firm's report, there are approximately 15 million saunas in the world. This large sauna base also provides a steady demand for the replacement of saunas and sauna heaters. The global sauna and spa market is expected to grow annually by an average of 5% in 2016–2022.

The size of the market is approximately EUR 2.7 billion (2016), of which demand arising from replacements accounts for 61%. Measured by revenue, Harvia is the global leader in the heater and component market and one of the leading companies in the sauna and spa market. Harvia's share of the heater and sauna component market is approximately 11% and its share of the sauna and spa market is approximately 2%.

THE CURRENT HEALTH TREND SUPPORTS THE SAUNA MARKET'S GROWTH

Well-being has become one of the most significant trends of the 2010s, and we believe the trend will continue well into the future. People feel a greater need to improve both their physical and mental health. Most of the global growth in the sauna market is based on this specific trend. In Harvia's operations, this is reflected in the significant growth in sales of sauna solutions in the American and Chinese markets, for example.

The term "well-being" is extensive and covers many areas, such as exercise, nutrition, rest and mental health. The trend is a backlash against restless, hectic and in many ways a demanding lifestyle. Sauna offers a way to relax and unwind, but it is also good for health. According to research, sauna is good for cardiovascular health and helps with sleeping difficulties as well as relaxes muscles and affects the body similar to exercise. The increasing wellness trend spreads awareness of the positive health benefits of sauna, which is expected to have a favorable impact on the awareness of sauna as a whole.

LONGER LIVES – LONGER ENJOYMENT

Our longer life expectancy is a megatrend that impacts the sauna market. During the past ten years, the aging population has become more aware of their own well-being and factors affecting it. They know how to leverage and enjoy the experiences enabled by technology and, most importantly, are ready to invest in health and well-being. We at Harvia acknowledge this group's special needs by manufacturing safe and easy-to-use products and accessories, such as railings, benches and control units.

THE GROWING MIDDLE CLASS HAS PURCHASING POWER

The growth of the middle class and the subsequent increase of purchasing power is a global phenomenon. Especially in China, the middle class has begun to prosper, which together with the wellness trend has opened many growth opportunities for Harvia. The middle class is ready to invest in themselves. They have an eye for details, they want high-quality products and appreciate the benefits provided by accessories, both in terms of ease-of-use and aesthetics. They are also ready to try out new things that improve well-being.

Allas Sea Pool, Helsinki, Finland

DIGITAL FEATURES ARE EVERYWHERE – INCLUDING SAUNAS

The breakthrough of digital features is strongly reflected in homes, which are slowly turning into smart homes. Digitization aims to facilitate people's lives. Remote control of home appliances, such as the sauna heater, is both convenient and energy-saving; the sauna is ready as you return home. Digital features can also be a part of the enjoyable experience, such as listening to your favorite music in the sauna or choosing a calming color scheme through LED lightning.

ENVIRONMENTAL CONSCIOUSNESS GUIDES CONSUMER CHOICES

Environmental consciousness impacts the everyday choices of an increasing number of consumers, and people are concerned about their carbon footprint. We at Harvia do our best to decrease the carbon footprint of our products and solutions by paying attention to the energy consumption, material choices and recyclability during production. We also work in a global level to decrease the particulate emissions deriving from burning wood in woodburning sauna stoves.

STRATEGY
AND ITS IMPLEMENTATION

Harvia's goal is to be the leading player in the sauna and spa market. Harvia also aims to grow the market as well as to increase its market share in all of the company's key markets.

Harvia's journey from a traditional sauna heater company into a comprehensive and international one-stop shop operator in the sauna and spa market has proceeded as planned. Harvia's key strategic priorities are increasing the value of the average purchase, geographical expansion and improving productivity. Development work is also focused on products that improve safety.

INCREASING THE VALUE OF THE AVERAGE PURCHASE

Harvia's goal is to increase the sales of more advanced sauna heaters, such as Combi heaters equipped with a steamer as well as more extensive sauna solutions, and to develop the sales of premium products. The company aims to increase the value of the average purchase with accessories, such as pairing a sauna heater with a control unit, sauna equipment or other accessories increasing product safety and sauna comfort.

Developing innovations that improve the customer experience are at the core of our strategy, and we also aim to selectively expand our turnkey deliveries in order to increase the value of the average purchase.

During 2019, we developed our product offering and increased the market presence of our premium products. Increasing the value of the average purchase proceeded as planned, which showed as positive development in the sales of sauna rooms, steam generators and accessories, for example. In 2019, revenue growth was strong in all product groups, as well as in most of our key markets.

GEOGRAPHICAL EXPANSION

Harvia aims to increase its market share in all of the company's key markets by developing its distributor network and thus improve the availability and visibility of the product offering. During the past year, we succeeded in increasing our geographical presence in almost all our key markets. A concrete example of this is the integration of the US-based Almost Heaven Saunas during 2019.

In order to achieve its strategic goal related to geographical expansion, Harvia focuses on the continuous strengthening of its distributor network. Distribution in the Nordic countries has increased; during 2019, we opened multiple new sales channels in the region, leading to an increased number of distribution partners and customers. In the US, we opened new channels for the sauna sales of Almost Heaven Saunas, which has led to a positive development in additional sales. During the year, we have worked systematically to optimize our distribution strategies across all our key markets as well as successfully leveraged cross-selling opportunities.

OUR MISSION

Harvia's mission is to allow everyone across the globe to experience the healing and relaxing effects of taking a sauna. We do this by enabling sophisticated and versatile sauna treatments, which take care of both body and mind.

OUR VISION

We are a trusted partner in creating diverse sauna experiences that promote natural well-being. We are the market leader in all sauna categories across all continents due to our extraordinary level of innovation and insight.

CONTINUOUS IMPROVEMENT OF PRODUCTIVITY

We aim to continuously improve our operational efficiency by optimizing processes and the geographical structure of production, as well as by enhancing the efficiency of purchasing and logistics. During 2019, we have made significant progress in improving efficiency of production, and the development work to improve productivity has been successful.

Developing logistics at the Muurame factory has continued favorably during 2019, and development work related especially to material management and the accuracy of estimating material requirements has been successful. At our warehouses, the service level and reliability of deliveries have improved significantly, and the capacity utilization rate has increased considerably.

During the past year, we have also concentrated and streamlined our sourcing processes and operations. In addition, we have successfully improved productivity at our factories in Muurame, Finland, Guangzhou, China and Renick, US. Investments in machines as well as increasing automation in our production facilities have also impacted the improved productivity. The year 2019 has been a very strong demonstration of systematic and continuous improvement of operations.


Fitness-Partner AG, Switzerland

HARVIA'S BUSINESS OPERATIONS IN 2019

INTERNATIONAL PLAYER IN THE SAUNA AND SPA MARKET

With experience spanning over seven decades, Harvia is one of the world's leading sauna and spa companies. The company has grown from a sauna heater manufacturer into an internationally recognized brand, with technologically advanced sauna and spa products and solutions exported to over 80 countries.

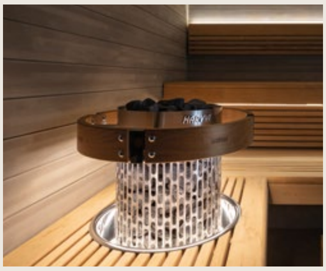
WE ACKNOWLEDGE DIFFERENT SAUNA CULTURES

Harvia's product offering covers all three sauna types: traditional saunas, steam saunas and infrared saunas. We have built a comprehensive and competitive product offering around these types, providing our customers with all the necessary products from sauna heaters and components to complete sauna solutions.

In addition to sauna heaters, we develop and manufacture sauna rooms, infrared and steam saunas, spa modules, control units and sauna equipment that suit the needs of different sauna and spa cultures around the world. Harvia's offering also includes sauna interior solutions from benches to speakers and lighting solutions. We offer comprehensive solutions for sauna bathing and spa experiences for all needs and spaces. Harvia's product development team continuously creates new ways of building sauna and spa experiences for all senses.

AHS is the market leader in outdoor saunas and the largest sauna manufacturer by volume in the United States. In China, Harvia is the leading sauna heater brand.

Långvik, Kirkkonummi, Finland



SAUNA HEATERS

- Harvia's largest product group: accounted for 54% of the revenue in 2019.
- The offering comprises electric, woodburning and combi heaters as well as related accessories.
- Competitive advantages: easy to use, high quality, design and safety.

Share of revenue
54%

SAUNA ROOMS

- The sauna room product group comprises sauna interior products and saunas for both indoor and outdoor use.
- The sauna interior product group includes e.g. complete sauna bench sets or custom-made benches and panels, as well as glass doors and walls.
- Most of the product group's revenue comes from the sales of sauna rooms.

Share of revenue
20%

CONTROL UNITS

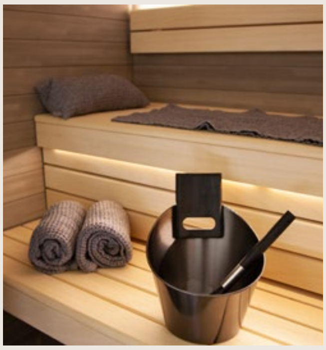
- Harvia offers control units for both electric and combi heaters as well as for steam, infrared and hybrid saunas.
- One of the new products of 2019 is Harvia Spot, featuring an easy and wireless installation.
- A control unit may be used to control the sauna's temperature, operating time, lighting, ventilation and music, as well as humidity in saunas with a combi heater, steam generators in steam saunas and the infrared radiator in infrared saunas.

Share of revenue
8%

STEAM GENERATORS

- Steam generators work as the heat and steam source in steam saunas.
- The product offering includes steam generators for private households, creating a relaxing home spa environment.
- Harvia provides steam generators for professional use in spas, hotels and fitness clubs.

Share of revenue
5%



ACCESSORIES, SERVICES AND OTHER PRODUCTS

- The product group includes, for example, sauna heater spare parts, sauna stones, hot water containers, steam room elements, sauna lighting solutions, waterproof sauna speakers and various kinds of sauna accessories, such as sauna scents, buckets, ladles and thermometers.
- In 2019, the offering was expanded with Harvia by Luhta sauna textiles.

Share of revenue
14%

STRENGTHENING OUR GLOBAL MARKET POSITION

In Finland, Harvia's country of origin, sauna bathing is part of the cultural heritage, but the sauna bathing and spa experiences intrigue people all over the world. The researched health impacts, increasing interest towards well-being and growing purchase power of the middle class ensure that more and more of the over 15 million saunas in the world are built somewhere else than Finland, the origin of sauna.

Harvia has production facilities in Finland, Estonia, China, Romania and the United States. The Muurame factory is the world's largest sauna heater factory. The sauna heater and component factory in China serves the entire Asian market, which, thanks to the middle class, is constantly gaining in purchasing power. The components manufactured in China are also used in Harvia's other production facilities. At the Renick factory in the US, we manufacture complete sauna solutions for both indoor and outdoor uses. In the US, an active outdoor lifestyle is gaining in popularity. Home backyards are considered as a second living room, and barrel saunas fit well with this trend.

Harvia's products are sold in over 80 countries via our network of retailers. By developing the retailer network, we can improve both the availability and visibility of the product offering. During the past year, we have opened new sales channels in Scandinavia, which has increased the number of both our distribution partners and customers. In Sweden, we strengthened our position significantly in the premium and professional channel and by the end of the year, our efforts bore fruit also in Denmark and Norway.

In the US, we opened new channels for the sauna sales of Almost Heaven Saunas, and we are especially pleased with the strong development of our direct sales. In China, we opened three franchise showrooms that serve consumers directly.

We have worked systematically to optimize our distribution strategies across all our key markets and have successfully leveraged cross-selling opportunities.

PROFITABLE GROWTH IN NORTH AMERICA

As a result of the determined work by our long-standing North American partners, we have succeeded in increasing our sauna heater and component sales both in the US and Canada.

In accordance with our strategy, we have strived to grow our revenue both organically and through business acquisitions. Acquiring the business operations of the US-based Almost Heaven Saunas serves as an excellent example of the determined implementation of Harvia's growth strategy and an ability to smoothly carry out the integration phase of a business acquisition.

Almost Heaven Saunas has been Harvia's customer since 2013, and it is the market leader in the American sauna and spa market as well as the largest sauna manufacturer in the US. The company employs 40 people and has a sales office in Holland, Michigan and a production facility in Renick, West Virginia.

The acquisition offered significant opportunities for Harvia to expand its product range and services in North America. The sauna culture in the US differs from the traditional Finnish sauna culture, but the reasons behind the spread of the sauna culture and the increased awareness of sauna are mostly the same: the globally increasing wellness trend as well as maximizing one's own physical and mental health are the main factors driving the growing demand for saunas.

"The health trend increases the popularity of sauna also in the US."

– George Chesebro,
Chief Operations Officer, Harvia US Inc.

The Point Retreats, Minnesota, United States

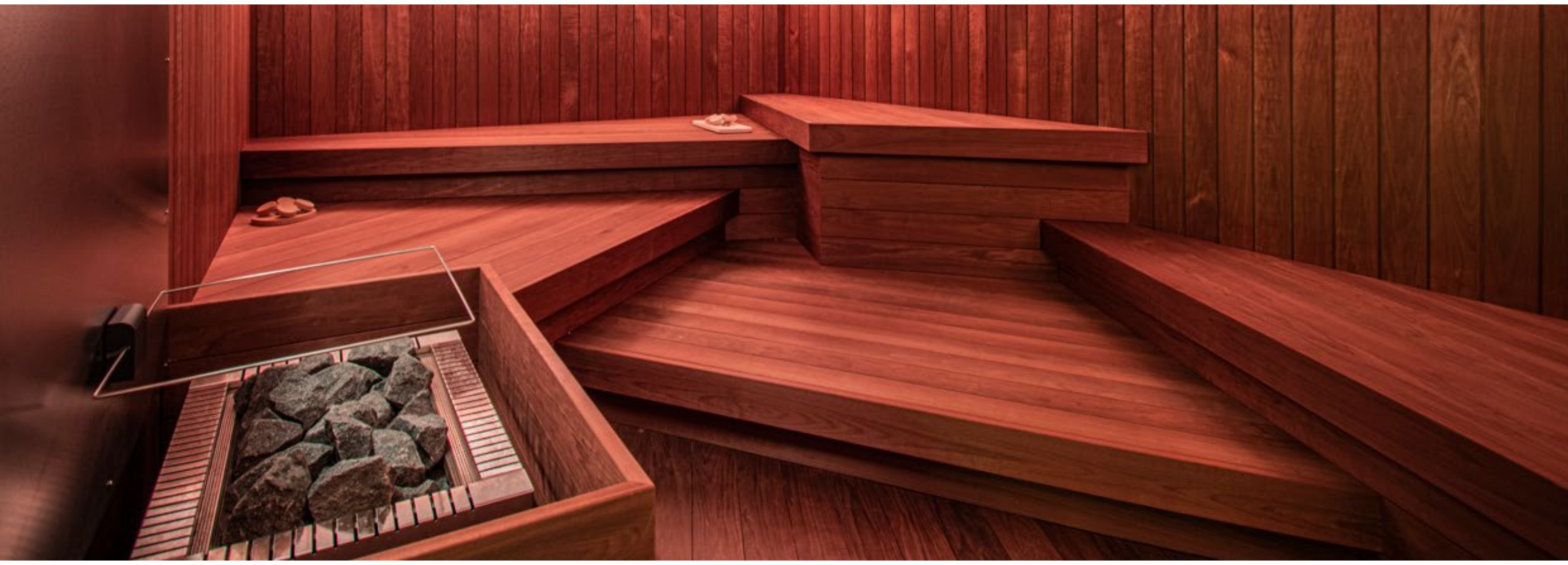
Optimizing synergies from the combining of AHS and Harvia's business operations and practices was the key priority in 2019, and development actions to improve the profitability of AHS commenced immediately after the acquisition was completed. The integration of Almost Heaven Saunas was completed as planned during 2019, which allowed us to develop the company's operational profitability even slightly more efficiently than originally planned. In addition, AHS's offering and distribution was expanded.

In April 2019, Harvia acquired AHS's production and logistics facility from its previous owners, and at the beginning of the year we hired a new Production Manager for AHS's production. By the end of the year, operational efficiency of Almost Heaven Saunas in terms of purchasing and production had reached a good level, and the growth of Harvia's business operations in the US are expected to continue, driven by strong demand.

R&D AND NEW PRODUCTS

CONVENIENT AND SAFE SAUNA AND SPA EXPERIENCES

In 2019, Harvia conducted development work related to the entire product offering. Our aim is to further improve the usability of our products, of which the wireless Harvia Spot control switch serves as a great example. We have made continuous development efforts in cleaner burning heaters. In addition to Harvia's own development work, we also proactively participate in initiatives advancing industry-wide practices.



The convenience and safety of sauna bathing are at the core of Harvia's product development. Technologically advanced products offer customers relaxing sauna and spa experiences. In 2019, Harvia launched new Cilindro Plus Spot heaters, featuring the stylish and fully wireless Harvia Spot control switch. Another new and affordable product that makes heating up the sauna easier is the Shelly® mobile application, which can turn the sauna on from anywhere, anytime. The user only needs a mobile switch compatible with the control unit that is connected to the apartment's WLAN network. With the mobile app, the user can switch the sauna on even before arriving home. Using the mobile app is safe thanks to the control unit's attachable security device, as the door and safety switches together with the overheat protection feature ensure that the sauna warms up safely.

In the woodburning stoves category, the Harvia Pro stoves have an improved visual look. The stoves' front and top as well as the ash pan are made of stainless steel, so they are easy to keep clean. The Pro stoves are easy to install thanks to their adjustable legs, and the stoves can also be equipped with an attachable protective sheath. The stoves' fire chamber and combustion air channels are designed so that the sauna warms up quickly and the burning is cleaner.

CLEANER BURNING

Emissions, and small particle emissions especially, produced by fireplaces and woodburning stoves have been generating public discussion in Finland for a long time. Harvia has long traditions and strong competence in clean burning. In 2019, Harvia invested more heavily in the research and development of woodburning stoves. We developed the GreenFlame fire chamber, which results in cleaner burning of wood and reduced particulate emissions. There is also a new way of directing combustion air from the fire chamber, while the stove's remodeled hatch also directs combustion air. In addition, improvements have been made to the stove's heat exchanger, transferring heat from the burning into the stones and the sauna room. Harvia Legend GreenFlame stoves will hit the market in spring 2020.

Harvia is participating in the Kiuas 2 initiative at the University of Eastern Finland, researching the particulate emissions from woodburning stoves, developing stoves, preparing a test methods and aiming to establish criteria for a voluntary particulate label.

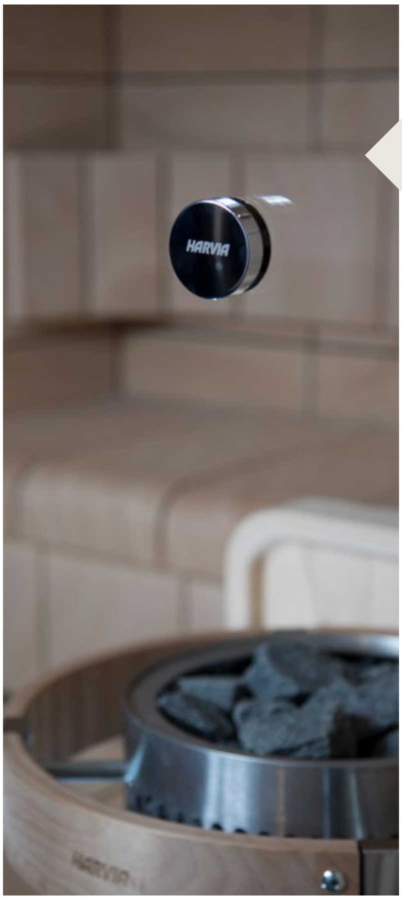
TOGETHER WE ARE MORE

In 2019, product development at Harvia's unit in China has been more extensively utilized in all of the Group's projects. At the moment, the machines in China are capable of producing a larger selection of heaters, steam generators and components. We also opened three franchise showrooms in China, serving consumers directly.

In the US, we expanded and renewed our sauna room offering in 2019. Barrel saunas are the market's main product. The priority in 2019 was improving the efficiency of production. We improved the capacity of production and will gradually improve it further through future investments.

"The heart of the Muurame factory are not the machines and facilities but the people and assembly processes."

— Mika Suoja, Operations and Sourcing Director



THE HARVIA CILINDRO PLUS SPOT® heaters feature a new, fully wireless Harvia Spot® control switch. The wireless control switch is easy and safe to use: the control switch can be mounted on a desired surface and spot.

Harvia's heaters are easy to control via all mobile devices. **THE REMOTE-CONTROLLED CONTROL UNIT** is operated via the low-cost Shelly® mobile application. The user only needs a mobile switch compatible with the control unit that is connected to the apartment's WLAN network. The sauna can be switched on from anywhere.

THE SOLIDE COMPACT design sauna combines the Finnish sauna tradition and modern Scandinavian design. The stylish and cozy Solide brings the feeling of summer cottage also to urban homes.

In 2019, the **HARVIA PRO** woodburning stoves have an improved look. The classic stove's front and top as well as the ash pan are made of stainless steel, so they are easy to keep clean. The Pro stove creates crisp steam quickly and efficiently.

HARVIA
AS AN INVESTMENT

Seth Ascetic, Taichung City, Taiwan

Harvia is the most often recognized international sauna brand among Finnish, Swedish, German, Russian and US consumers.

STEADY GROWTH IN THE SAUNA AND SPA MARKET

Due to the strong replacement demand in the traditional sauna market, the international sauna and spa market have historically been very resilient. The global sauna and spa market are estimated to grow at an average rate of 5 percent per year, and the growth is supported by the increased awareness of sauna and sauna culture as well as the strengthening global health and wellness trend.

Harvia's non-cyclical nature and stability created by the replacement demand combined with the steady market development of the sauna and spa market create a strong foundation for the company's profitable growth also in the future.

STRONG POSITION IN MAIN MARKETS

Harvia is the leading player in its main markets and has 70 years of experience in operating in the international sauna and spa market. The company has historically had an especially strong position in large markets that focus on traditional sauna culture, and the company is working systematically to expand geographically through organic growth and business acquisitions.

The universal market development trends, such as the growing health and wellness market and quality awareness, strengthen Harvia's position in its main markets. Harvia's key export markets include North America (16%), Russia (8%), Germany (9%) and other European countries (23%).

STRONG BRAND AND COMPREHENSIVE PRODUCT OFFERING

Harvia has strong brand awareness and position in the company's main markets and especially in the traditional sauna and spa market areas. Harvia is the most often recognized international sauna brand among Finnish, Swedish, German, Russian and US consumers.

Harvia's brands and product offering are well known in the market. The comprehensive product offering aims to meet the needs of the international sauna and spa market, targeting both professionals and consumers alike. The product offering comprises all sauna types and different price ranges. Products can complement the end customer's current solutions. In addition, the company's sauna equipment and component offering meets the needs of different sauna cultures and requirements.

EFFICIENT BUSINESS MODEL

Harvia is continuously developing its operational efficiency by for example concentrating its operations and streamlining production processes and logistics. 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's business is also very capital efficient due to low investment needs, efficient and modern production facilities as well as a flexible production model. Thanks to the mutually supportive and completing production models in the Muurame and China factories, Harvia's production capacity increases based on demand and without any significant investments.

Number of shareholders on Dec 31, 2019

5,249

(+61.7%)

Earnings per share

0.51

EUR

Harvia's market value at the end of 2019 was

195.4

EUR million

Dividend policy

- Regularly increasing dividend
- Bi-annual payout
- At least 60% of net income in total

LONG-STANDING CUSTOMER RELATIONSHIPS AND DIVERSE DISTRIBUTION CHANNELS

Harvia has long-standing and strong customer relationships in all its key sauna and spa markets. The company's large and diverse customer base consists of hardware and retail stores, sauna specialist stores, wholesalers, sauna integrators and sauna builders as well as construction companies. Harvia's products are mainly sold globally via our retailer network as well as directly to end users through Harvia's own webstore.

Retailers and wholesalers make up our largest customer group, and one of Harvia's strengths is its ability to serve different kinds of customers flexibly in accordance with customer needs and local requirements. Continuously expanding our retailer network in order to gain a more diverse customer base in our current markets as well as expanding geographically is at the core of Harvia's strategy.

STRONG PROFITABILITY AND CASH FLOW

In addition to strong organic growth and business acquisitions increasing revenue, the profitability of Harvia's business has historically remained on a good level. Harvia is a stable and profitable company with strong cash conversion and low investment needs that create good conditions for the ability to distribute dividends. Harvia targets a regularly increasing dividend with an at least bi-annual dividend payout of at least 60 percent of net income, in total. In 2019, Harvia distributed a total of EUR 6.9 million in 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 B2B and consumer products market generates a significant competitive advantage in the market. The management's solid expertise in business integrations combined with the personnel's ability to adapt to change create a strong foundation for Harvia's journey towards global market leadership.

FINANCIAL TARGETS

Growth	Profitability	Leverage
>5%	**20%**	**1.5x-2.5x**
Average annual revenue growth	Adjusted operating profit [1]	Net debt/adjusted EBITDA [2]

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

HARVIA'S SHARE PRICE INCREASED 88% IN 2019


SUSTAINABILITY

SUSTAINABLE SAUNA BATHING

Sustainability is a part of our everyday life. We have sustainably developed our operations, products and solutions for already 70 years, as Harvia has developed from a traditional sauna and heater manufacturer into a leading player in the international sauna and spa market.

Harvia manufactures durable and safe products sustainably. For a long time, we have invested in taking environmental aspects into consideration all the way from designing to production, logistics, use and recycling. In 2019, we compiled an environmental manual to support us in managing and developing our operations with due consideration to environmental aspects. We are actively examining our processes, products and services in order to decrease their environmental impacts.

In 2019, we summarized our responsibility into four areas: environmental impacts of production, personnel, products and a responsible code of conduct.

CODE OF CONDUCT

- Ethical and responsible operations
- Anti-corruption
- Good and transparent governance
- Information security and data protection

PERSONNEL

- Well-being and job satisfaction
- Attracting talent and commitment
- Respecting the human rights of personnel
- Occupational health and safety

ENVIRONMENTAL IMPACTS OF PRODUCTION

- Environmental program
- Efficient use of materials/ resources in production
- Energy consumption and energy sources
- CO_2 emissions
- Production quality and efficiency

PRODUCTS

Purchases

- Origin of raw materials and certifications
- Ethical and responsible purchases
- Quality and security of supply of purchases

Products

- Durable and recyclable products
- Product safety
- Health impacts of products

Customers

- Customer satisfaction
- Instructions on the correct use of products

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. Producing heaters and saunas requires steel, electronic and electrical components, as well as wood. In addition, we procure stone, glass and significant volumes of other materials necessary for production.

OUR SUSTAINABLE OPERATIONS

Harvia's own operations are guided by *Harvia Code of Conduct*. The code of conduct is part of the orientation program for new employees.

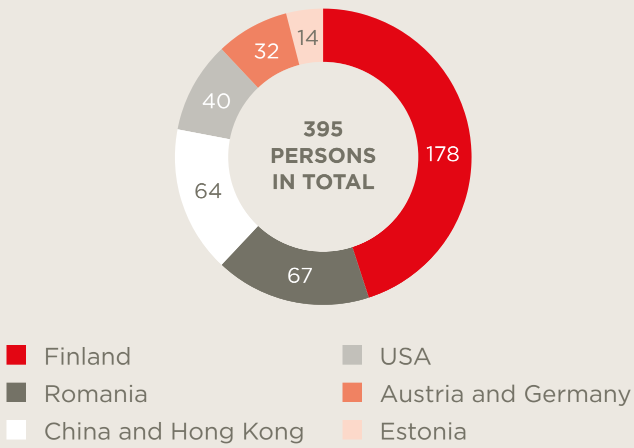
It defines our approach on political activity and human rights, as well as our rejection of corruption, bribery or the use of child and forced labor.

SKILLED PERSONNEL IS AT THE CORE OF OUR OPERATIONS

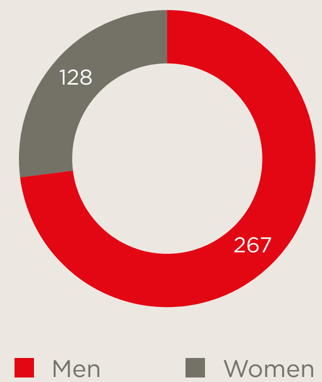
Behind Harvia's success are competent and motivated personnel, whose well-being is of primary importance. In addition to Finland, we have personnel in Austria and Germany, China and Hong Kong, Romania, Estonia and the US. Employment relationships at Harvia are mostly long-term and permanent. We make sure to continuously develop the competence of our personnel.

Safety at work and related risk management are very important at Harvia, as approximately two thirds of our personnel work in production. Monitoring, reporting as well as annual risk analyses are a key part of Harvia's occupational safety that help us identify and prevent risk situations. We are improving occupational safety also by investing in machines that enable

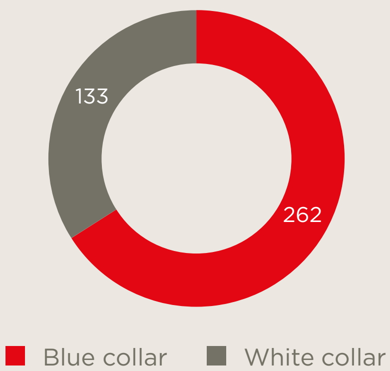
Number of personnel on Dec 31, 2019



Distribution of personnel by gender



Structure of personnel



automation of ergonomically challenging production stages. Ergonomics of white collar workers is also appropriately taken care of.

Harvia's personnel did not have any serious accidents at work last year. The most common injuries include cuts in fingers or pieces of waste scratching the eye.

ETHICAL AND RESPONSIBLE SOURCING

We expect all our sole suppliers to adhere to responsible operations. We expect all our suppliers to commit to adhering to the Harvia Supplier and Partners' Code of Conduct, which is divided into ethics, corruption, labor force, health and safety, as well as environment. The Harvia Supplier and Partners' Code of Conduct was adopted at the end 2018, and by the end of 2019 approximately 70 percent of our suppliers had committed to adhering to the code of conduct.

During 2019, we reached our goal of using only PEFC- or FSC-certified wood in Finland. Some of our wood suppliers in Romania and the US are not yet certified, but we are exploring opportunities to increase the amount of certified wood also in the production facilities in these markets. In Romania, saunas are built from trees growing near the factory.

We have prioritized recycling in our selection of raw materials and other materials. For example, the stainless steel supplied by our main partner is manufactured with 85 percent recycled steel. Stainless steel itself is 100 percent recyclable.

In order to decrease the environmental impacts resulting from the transportation of products, we have increased our cooperation with a partner that aims to have emission-free operations by 2050.

In Finland, we purchase our workwear from a domestic partner who is also responsible for their washing and drying, which is several times more environmentally-friendly than washing them at home. The workwear are durable and repairable, thus lasting longer. Our partner also takes care

The Bands / AHO Oslo School of Architecture, Vestvågøy, Norway of the recycling and disposal of the workwear after they have reached the end of their lifespan.

QUALITY AND SAFE USE OF PRODUCTS

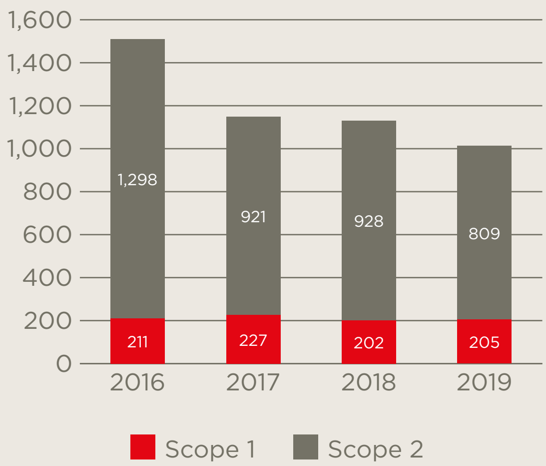
The aim of product development is to ensure product quality, safety and positive health benefits. We focus on responsibility in the design, production and logistics of our products. A significant part of the materials we use are recyclable. We conduct continuous development and research to ensure that our products are always safe to use and increase the well-being of the users.

> We conduct continuous development and research to ensure that our products are always safe to use and increase the well-being of the users.

Harvia is an active participant in the development of the industry's standardization. In Finland, the University of Eastern Finland launched the "Kiuas 2" initiative in 2019, in which Harvia also participates. The initiative is researching the particulate emissions from woodburning stoves, developing stoves, preparing test methods and aiming to establish criteria for a voluntary particulate label.

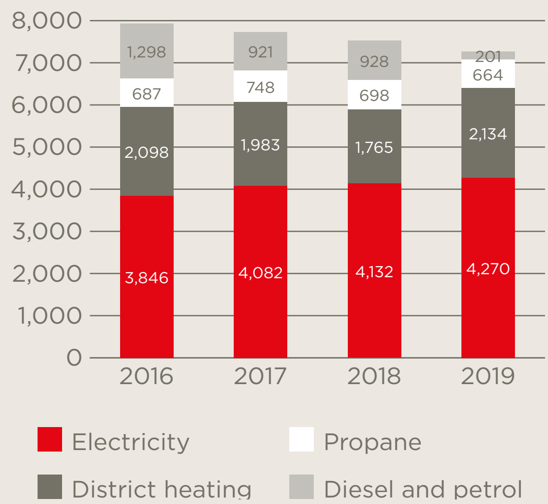
KEY INDICATORS

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

Harvia Group, energy consumption (MWh)



All sauna heaters, infrared heaters and steam generators fulfill the applicable product standard requirements. We guide our customers in using our heaters and other products correctly and safely, as well as develop new solutions that enhance product safety.

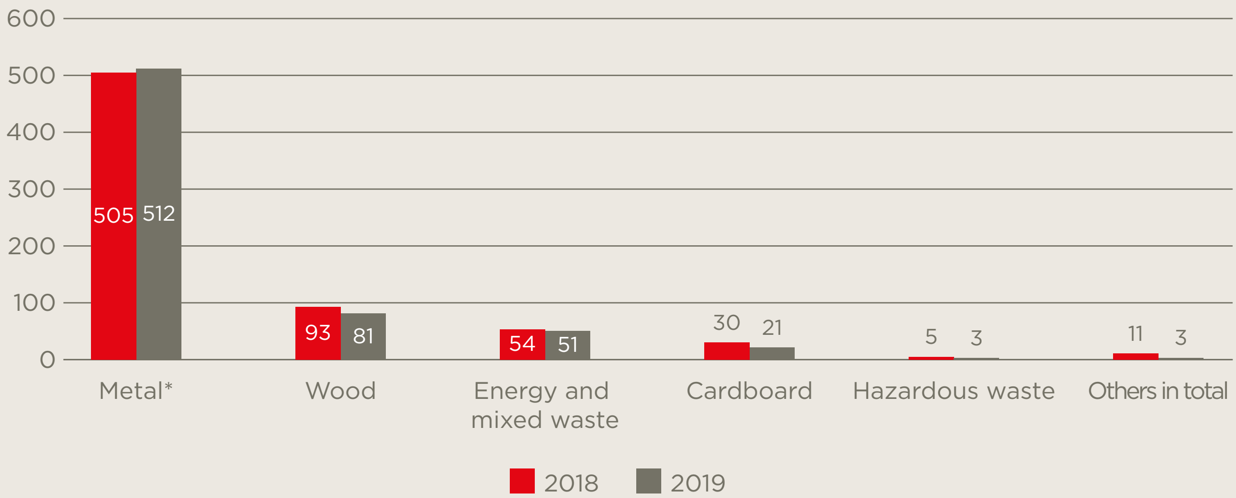
THE ENVIRONMENTAL IMPACT OF PRODUCTION

We need electricity, heat and propane for our production, as well as smaller quantities of natural gas and fuels for our cars and forklifts. Most of our energy consumption, 82 percent, is created in our Muurame factory. However, the factory only uses emission-free electricity produced by 100% renewable energy forms.

Our production generates some waste and losses. Most of the residual material generated by production comes from recycled steel, which the Muurame factory produces over 500 tonnes per year. Wood waste amounts to slightly over 87 tonnes and metal waste slightly over 43 tonnes.

We also take care of the recyclability of our products. For example, most of the material used in heaters is recyclable metal, and all heaters in Finland can be returned to a recycling point for electrical and electronic devices. The waste is sorted as carefully as possible and delivered to appropriate processing or recycling.

Distribution of residual material and waste at the Muurame factory



* 100 percent of metal waste is recycled

SIX HEALTH FACTS ABOUT SAUNA

1 **Sauna's heat is good for the heart.** Taking 2–3 sauna baths per week is enough to lower the risk of cardiovascular disease by 20% compared to those sauna bathing only once a week. The risks may decrease by up to 65% the more one sauna bathes. [1]

2 **Sauna bathing improves sleep quality.** A study investigating the connection between sauna bathing and sleep saw a 70% increase in deep sleep during the first two hours and 45% increase in six hours. There was a statistically significant decrease in the participants' staying-up time after sauna bathing. [2]

3 **Sauna bathing is exercise.** The heat of the sauna makes the heart pump blood faster, expanding the blood vessels and relieving the heart. [3]

4 **Sauna bathing improves memory.** Sauna bathing twice a week decreases the risk of dementia by one fifth compared to those sauna bathing only once a week. The risk is up to 60% less for people sauna bathing 4–7 times a week. [4]

5 **Sauna bathing cherishes the skin.** The heat of the sauna multiplies the amount of blood pumping through superficial veins, which boosts the skin's metabolism. The skin feels nourished, maintains moisture and stays soft and elastic. [5]

6 **Sauna bathing treats muscles.** Sauna is a great place for relaxing tense muscles. However, sauna bathing before exercise prevents muscle pains and increases muscle mobility afterwards. [6]

1 Laukkanen, Kunutsor, Zaccardi, Lee, Willeit, Khan, Laukkanen: Acute effects of sauna bathing on cardiovascular function. Journal of Human Hypertension 2017.

2 Putkonen, Elomaa: Sauna and physiological sleep: Increased slow-wave sleep after heat exposure. 1976.

3 Brunt, Howard, Francisco, Ely, Minson: Passive Heat Therapy Improves Endothelial Function, Arterial Stiffness and Blood Pressure in Sedentary Humans. J Physiol. 2016.

4 Laukkanen, Kunutsor, Kauhanen, Laukkanen: Sauna bathing is inversely associated with dementia and Alzheimer's disease in middle-aged Finnish men. Age and ageing 2017.

5 Matti Hannuksela: Sauna ja terveys. Lääkärikirja Duodecim 2012.

6 Khamwong, Paungmali, Pirunsan, Joseph: Prophylactic Effects of Sauna on Delayed-Onset Muscle Soreness of the Wrist Extensors. Asian J Sports Med. 2015.

HARVIA PLC'S CORPORATE GOVERNANCE STATEMENT 2019

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 adhered 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**.

ANNUAL 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 at least one 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.

Harvia's Annual General Meeting was held on April 4, 2019. A total of 89 shareholders participated in the meeting either in person or by a proxy representative or a power of attorney. All decisions were carried out without voting. Minutes of the Annual General Meeting are available on the company's website at **https://harviagroup.com/investor-relations/corporate-governance/general-meetings/**.

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 2019.

The Board of Directors in 2019

The Board of Directors comprises five (5) members, who were elected in the Annual General Meeting on April 4, 2019 for a term which expires at the end of the Annual General Meeting following their election: Olli Liitola, Anders Björkell, Pertti Harvia, Ia Adlercreutz and Ari Hiltunen. After the Annual General Meeting, the organizational meeting of the Board of Directors elected Olli Liitola as its Chairperson.

Based on an independency evaluation, the Board confirmed that Ia Adlercreutz and Ari Hiltunen are independent of the company and its major shareholders. Olli Liitola and Anders Björkell are independent of the company, and after Onvest Oy acquired CapMan's shares in Harvia, they are also independent of the company's major shareholders. Pertti Harvia is independent of the company's major shareholders.

In 2019, the Board of Directors convened 20 times in total, with an average attendance rate of 99.0 percent. The members attended the meetings as follows: Olli Liitola (20/20), Anders Björkell (19/20), Pertti Harvia (20/20), Ia Adlercreutz (20/20) and Ari Hiltunen (20/20).

BOARD OF DIRECTORS DECEMBER 31, 2019

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 and its major shareholders
Shares: 100,000

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

POSITIONS OF TRUST:
Member of the Board of CapMan Plc from 2019, Chairman of the Board of Tilaisuuksien ideointi- ja toteuttamistoimisto Tapaus Oy in 2014–2019, of Oy Lunawood Ltd in 2012–2019. Chairman of the Board of Bright Group Oy in 2011–2018, member of the Board from 2019. Member of the Board of Directors of Nice Entertainment Group Oy in 2008–2013. Chairman of the Board of Directors 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 and its 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 in 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 and of Suomen Taideteollisuusyhdistys from 2019, member of the Board of Directors of Turvanasta Oy from 2012, of Den Group in 2015–2019, of Co-founders Oy from 2016 and of Perheyritysten liitto from 2019.

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 Kasvu Open Ltd. from 2019 and member of the Board in 2016–2017. Member of the Board of Midinvest Oy in 2013–2017, Chairman of the Board of Directors in JyväsSeedFund Oy in 2013–2015. Chairman and deputy Chairman of the Board of Directors of Jyväskyä Congress Center Ltd. in 2011–2017.

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. There are four men and one woman in the five Board members elected by the Annual General Meeting in April 2019.

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 2019, both genders were represented in the Company's Board of Directors.

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 2019, the Board of Directors appointed Olli Liitola, Anders Björkell and Ari Hiltunen to the Audit Committee.

In 2019, the Audit Committee convened four times. The average attendance rate was 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.

THE GROUP'S 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, 2019

TAPIO PAJUHARJU
CEO

- Master of Science 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: 243,000

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:
Member of the Board of Directors of Varamiespalvelu Group Oy from 2010 and Chairman of the Board of Directors of Eezy Plc (formerly VMP Plc) from 2019, member of the Board of Walki Group Oy in 2016–2018, of Halti Oy in 2012–2014 and of Jääkiekon SM-liiga Oy in 2013–2017.

ARI VESTERINEN
Chief Financial Officer

- Master of Science in Engineering and a Master of Business Administration (MBA)
- 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 in 2009–2011 and in several TylöHelo Group companies.

DAVID AHONEN
Export Director

- Vocational qualification in business and administration
- Born 1966, Finnish citizen
- Export Director from 2016, member of the Management Team from 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 from 2010, member of the Board of Directors of Benlop Oy from 2012.

TIMO HARVIA
Director, Research & Development and Quality

- Master of Science in Engineering
- Born 1978, Finnish citizen
- Director, Research & Development and Quality from 2016, Member of the Management Team from 2014
- Shares: 128,750

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

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

TOMAS HJÄLMEBY
Sales Director, Scandinavia

- Technical education and professional experience in construction of wooden houses
- Born 1968, Swedish citizen
- Sales director in Scandinavia from November 2018, Member of the Management Team from November 2018
- Shares: 1,000

WORK HISTORY:
Scandinavian Sales Director at TylöHelo AB in 2015–2018, regional Sales Manager at Inwido Sweden AB in 2013–2015, Sales Manager at Innovexa AB in 2011–2013, Marketing and Sales Manager at T-Emballage in 2005–2011, Sales Manager at IVT Heatpumps in 2000–2005. Various sales and marketing management positions in companies providing construction equipment.

SAMI LINNA
Marketing Director

- Master of Science in Economics and Business Administration
- Born 1978, Finnish citizen
- Marketing Director from 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 from 2014
- Shares: 65,000

WORK HISTORY:
Harvia's Sales Director in Finland, Sweden and Norway from 2014 to November 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
Operations and Sourcing Director

- Master of Engineering degree
- Born 1975, Finnish citizen
- Production and Sourcing Director, Member of the Management Team from 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.

POSITIONS OF TRUST:
Member of the Board of Directors of Liikeinvest Oy from 2016 and Jyp Juniorit Tuki Ry from 2011.

MARKUS WÖRMANSEDER
Sales Director, Central Europe

- Technical chemistry, Johannes Kepler University Linz, Austria
- Born 1974, Austrian citizen
- Sales Director, Central Europe and member of the Management Team from 2017, Managing Director of Sentiotec GmbH from 2007.
- Shares: 115,000

WORK HISTORY:
Sales and marketing positions at AXAVIA Software GmbH in 2003–2007, BEKO Engineering in 2002–2003 and Cadison Software GmbH in 1999–2002.

POSITIONS OF TRUST:
Member of the Board of Directors of Österreichishes Sauna Forum from 2019.

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 2019

PricewaterhouseCoopers Oy acted as the company's auditor in 2019 with Markku Launis, Authorized Public Accountant, acting as the principal responsible auditor. The audit fees paid to PricewaterhouseCoopers Oy in 2019 totaled EUR 104 thousand.

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.

Amadore Hotel Restaurant De Kamperduinen, Kamperland, Netherlands

The company maintains a list of employees and service providers who have access to insider information. The company's insider list comprises 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 2019

The Remuneration Report 2019 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 in accordance with the company's traveling compensation regulations. 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 other 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 2019 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.

TERMS OF SERVICE OF THE CEO AND MANAGEMENT TEAM

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.

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. The CEO's retirement age is subject to the applicable legislation. 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 May 21, 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.

Grunwald, Poland

In the first performance period, the long-term incentive plan has 10 participants at most, and the targets for the 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 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.

Harvia's Board of Directors decided on December 17, 2019 to continue the long-term incentive plan aimed at the CEO and other key management personnel for the period 2019–2021. In the period 2019–2021, the plan has 13 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 total number of shares to be paid based on the period 2019–2021 is a maximum of 130,000 Harvia Plc's shares. 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 has the right to pay the reward fully in cash under certain circumstances. Potential rewards from the period 2019–2021 will be paid out in spring 2022.

REMUNERATION REPORT 2019

REMUNERATION OF THE BOARD OF DIRECTORS IN 2019

By shareholder decision at Harvia's Annual General Meeting held on April 4, 2019, 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 2019, the members of the Board of Directors were paid the following remuneration:

Board member	Remuneration paid, EUR	Committee membership, EUR	Total, EUR
Olli Liitola	42,000	15,600	57,600
Anders Björkell	0	0	0
Pertti Harvia	24,000	0	24,000
Ia Adlercreutz	24,000	0	24,000
Ari Hiltunen	24,000	7,800	31,800
Remuneration in total	114,000	23,400	137,400

REMUNERATION OF THE CEO AND OTHER MANAGEMENT TEAM MEMBERS IN 2019

During the financial year 2019, 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	443,822	840,565	1,284,387
Pension costs (defined contribution plans)	8,500		8,500
Bonuses	62,902	77,521	140,424
Total	515,224	918,087	1,433,311

The salary with fringe benefits paid to the CEO in 2019 totaled EUR 443,822. Bonuses based on performance in 2018 (paid in 2019) totaled EUR 62,902.

The annual cost of CEO's voluntary pension insurance acquired by the company was EUR 8,500. The company is also committed to purchasing life insurance for the CEO.

The salary and fringe benefits paid to the other members of the company's Management Team in 2019 totaled EUR 840,565. Bonuses based on the performance in 2018 (paid in 2019) totaled EUR 77,521. Other members of the Management Team do not have supplementary pension insurances.

Kämp Spa, Helsinki, Finland

ALPENCAMPING NENZING OFFERS LUXURIOUS SAUNA MOMENTS IN AUSTRIA

Harvia always chooses its partners carefully, focusing on local and long-term projects and targets. Alpencamping Nenzing, a 5-star campsite at the heart of the Austrian Alps, is an excellent example of that. Alpencamping Nenzing is a family-owned campsite in the middle of the Austrian nature in Vorarlberg, with spa facilities and a sauna world which includes an authentic Finnish sauna experience. In a true Harvia spirit, this luxury campsite surrounded by nature offers an opportunity to enjoy natural well-being and relaxation. It is a prime example of the so-called glamping (glamour camping), with first-class facilities and a fantastic view over the mountains.

Harvia knows what makes a truly enjoyable sauna bath. We have delivered sauna heaters, lighting and a steam generator to Alpencamping Nenzing. The spa area is also equipped with a sauna cabin from Sentiotec – a custom-made sauna overlooking the extraordinary view of the Nenzinger Himmel natural park. One can enjoy the traditional outdoor sauna in addition to dipping into the adjacent swimming pool. Everything in the Alpencamping Nenzing is tailored to meet the needs of the guests to guarantee unforgettable moments.

Alpencamping Nenzing, Austria

REPORT BY THE BOARD OF DIRECTORS AND CONSOLIDATED FINANCIAL STATEMENTS 2019

Kuopion Saana, Kuopio, Finland

CONTENTS

REPORT BY THE BOARD OF DIRECTORS FOR 2019

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 sell Harvia products to builders and end customers. Harvia product offering is divided to five categories, to sauna heaters, 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 2019 are presented below (EUR thousand, unless otherwise indicated).

	2019	2018	2017
Key statement of comprehensive income indicators			
Revenue	74,095	61,942	60,107
EBITDA	16,437	11,533	11,184
EBITDA margin, per cent	22.2%	18.6%	18.6%
Adjusted EBITDA	16,989	13,009	12,617
Adjusted EBITDA margin, per cent	22.9%	21.0%	21.0%
Operating profit	13,324	9,376	9,263
Operating profit margin, per cent	18.0%	15.1%	15.4%
Adjusted operating profit	13,876	10,852	10,696
Adjusted operating profit margin, per cent	18.7%	17.5%	17.8%
Basic EPS (EUR)	0.51	0.41	0.30
Diluted EPS (EUR)	0.51	0.41	0.30
Key cash flow indicators			
Cash flow from operating activities	15,072	8,820	8,029
Operating free cash flow	15,167	10,019	9,035
Cash conversion, per cent	89.3%	77.0%	71.6%
Investments in tangible and intangible assets	-1,807	-1,617	-1,196
Financial position key figures			
Net debt	28,305	30,258	72,985
Net debt / adjusted EBITDA (Leverage), per cent	1.7	2.3	5.8
Net working capital	16,840	17,500	17,255
Capital employed excluding goodwill, average	36,301	34,348	32,752
Capital employed excluding goodwill at the end of period	36,943	35,659	33,037
Adjusted return on capital employed (ROCE), per cent	38.2%	31.6%	32.7%
Equity ratio, per cent	56.6%	56.3%	16.9%
Return on equity (ROE), per cent	14.3%	15.9%	16.1%

The Group's revenue for January–December was EUR 74.1 million (61.9), which represents a year-on-year increase of 19.6%. At comparable exchange rates, revenue grew by 19.0% to EUR 73.7 million. Revenue in North America increased especially due to the business operations in the US, which is also reflected in the good development of sales of sauna rooms: revenue from sauna rooms increased by 95.5%. Revenue growth remained stable in Finland and other European countries. Sauna heater sales grew by 11.1% from the comparison period, as the sales of both electric heaters and wood-burning heaters increased. The revenue of control units remained on the previous year's level and developed positively in steam generators and other product groups.

Operating profit in 2019 was EUR 13.3 million (9.4). The operating profit included EUR 0.6 million (1.5) of items affecting comparability, mainly related to acquisitions. The adjusted operating profit of EUR 13.9 million improved from the previous year (10.9) and the operating profit margin was 18.7 % (17.5). Financing expenses for the review period amounted to EUR -1.3 million (-2.8).

The result before taxes for January–December was EUR 12.1 million (6.6). The Group's taxes amounted to EUR -2.5 million (0.2). The positive taxes of comparison year 2018 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 9.6 million (6.8) and the undiluted earnings per share were EUR 0.51 (0.41). Changes in exchange rates impacted positively the result of the review period by approximately EUR 0.6 million.

The Group's investments in January-December were EUR 1.8 million (1.6). In April 2019, Harvia acquired a production and warehouse facility located in Renick Wes Virginia from the previous owners of Almost Heaven Saunas LLC. During the review period, machinery investments were made at the factory in China, in addition to equipment purchases and renewed in-store furniture in Finland.

PERSONNEL

The average number of employees in 2019 was 395 (376 in 2018). Wages and salaries were EUR 12.1 million in 2019 (EUR 10.7 million in 2018). The number of personnel employed by the Group at the end of the fiscal year was 395 (400 in 2018). Of the personnel, 45% (46) worked in Finland, 8% (8) in Austria, 17% (18) in Romania, 4% (3) in Estonia, 16% (15) in China and Hong Kong, and 10% (11) in the United States.

RESEARCH AND PRODUCT DEVELOPMENT

In 2019 Harvia research and development activities concentrated on improving the productivity and competitiveness and diversifying the product offering. Harvia is also involved in research projects related to the fine particulate emissions of burning wood, and environmental aspects are always taken into account in product development. Corporate responsibility is part of Harvia's continuous business development.

During 1 January – 31 December 2019 there were on average 10 employees working in research and development. The Group's research and development expenditure amounted to EUR 1.5 million (EUR 1.7 million in 2018), of which EUR 1.2 million (EUR 1.1 million in 2018) were recognized as expenses.

RISK MANAGEMENT

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

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 experts.

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 that produces 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. At the same time Harvia Oy changed its name to Harvia Finland Oy.

CHANGES IN GROUP AND FINANCING STRUCTURES

The Board of Directors was authorized by the Annual General meeting on April 4th, 2019 to resolve on the repurchase of a maximum of 934,711 treasury shares using the company's unrestricted equity. The purchase will be carried out as a directed purchase. The authorization is valid until the next Annual General Meeting of the company, however until June 30, 2020 at the latest. The board of directors did not execute this authorisation by 31 December 2019.

The Board of Directors was authorized to decide on the issue of new shares and special rights entitling to shares as referred to in chapter 10, section 1 of the Finnish Limited Liability Companies Act, in one or more instalments, either against payment or without payment. The aggregate number of shares issued, including the shares received based on special rights, must not exceed 1,869,423 shares. The company can issue either new shares or possible treasury shares held by the company

The Board of Directors of Harvia Plc decided on December 17th, 2019 to continue the Long-term Performance Share Plan for the management team and other key employees for the performance period 2019-2021. In the performance period 2019-2021, the plan has 13 participants at most and the targets for the performance period relate to company´s total shareholder return, revenue growth and EBIT margin. The maximum number of shares to be paid based on the performance period 2019-2021 is approximately 130 000 Harvia Plc´s shares. This number of shares represents gross earning, from which the withholding of 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 performance period 2019-2021 will be paid out during spring 2022.

BOARD OF DIRECTORS PROPOSAL FOR DISTRIBUTION OF PROFIT

The unrestricted equity of Harvia Plc amounts to EUR 62,853,073.24, of which the result for the financial period 2019 amounts to EUR 6,531,499.29.

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 0.19 per share be distributed after the Annual General Meeting in April 2020 for the financial period that ended on December 31, 2019. 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 2020.

Thus, the dividends distributed by Harvia for 2019 based on the Board of Director's proposal would amount to a maximum of EUR 0.38 per share, or a maximum of EUR 7,103,809.68 in total.

BOARD OF DIRECTORS AND THE COMPANY'S AUDITORS

Harvia Plc's 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.

Group management team was: CEO Tapio Pajuharju, Chief Financial Officer Ari Vesterinen, Export Director David Ahonen, Director, Research & Development and Quality Timo Harvia, Sales Director, Scandinavia Tomas Hjälmeby, Marketing Director Sami Linna, Sales Director, Finland Anssi Pelkonen, Production and Sourcing Director Mika Suoja and Sales Director, Central Europe Markus Wörmanseder.

OUTLOOK FOR 2020

Harvia does not anticipate any significant changes in the operating environment in 2020, and management believes that the current market situation will support the company's business operations also in 2020. 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 2020 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 (December 31, 2018: 18,694,236) shares. 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 in the review period January–December was EUR 65.4 million (43.8) and 8,951,484 shares (8,314,233). The share's volume weighted average rate during the review period was EUR 7.32 (5.26), the highest rate during the review period was EUR 11.15 (6.39) and the lowest EUR 5.50 (4.91). The closing price of the share at the end of December 2019 was EUR 10.45 (5.37). The market value of the share capital on December 31, 2019 was EUR 195.4 million (100.4). The company does not currently own any treasury shares.

In the beginning of 2019, funds managed by CapMan held 24.6% of Harvia's shares. On February 28, 2019, in accordance with the Finnish Securities Market Act, Harvia received notices from CapMan BuyoutX Fund A L.P and CapMan Buyout X Fund Ky (together the "funds managed by CapMan"), announcing that they had sold a total of 2,305,679 shares in Harvia Plc in an accelerated book-building. The share funds managed by CapMan had of the shares and votes in Harvia Plc went down to 12.3 percent.

On November 19, 2019, in accordance with the Finnish Securities Market Act, Harvia received a notice from CapMan Buyout X Fund A L.P, announcing that they had sold all their remaining 1,625,797 shares in Harvia Plc. According to information received by the company, CapMan Buyout X Fund B Ky also sold all its remaining 670,882 shares in Harvia Plc. The funds managed by CapMan sold a total of 2,305,679 of the Company's shares, which is 12.3 percent of the shares and votes in Harvia. On November 20, 2019, in accordance with the finnish Securities Market Act, Harvia received a notice from Onvest Oy, announcing that they had acquired a total of 2,305,679 shares in Harvia Plc. At the end of 2019, Onvest Oy was the largest shareholder in Harvia Plc.

The number of registered shareholders at the end of the review period was 5,249 (3,248), including nominee registers. At the end of the review period, nominee-registered and direct foreign shareholders held 53.1% (40.8) of the company's shares. The ten largest shareholders held a total of 34.6% (43.4) of Harvia's shares and votes at the end of the review period.

Shareholder profile 31 December 2019	Total %	Total pcs
Foreign holding	53.1%	9,929,084
Enterprises	18.9%	3,531,410
Households	15.5%	2,903,771
Financial institutions and insurance companies	11.3%	2,115,326
Public sector entities	1.1%	214,645
Total	**100.0%**	**18,694,236**

Shareholders on 31 December 2019	pcs	Percentage of shares and votes
ONVEST OY	2,305,679	12.3%
LANNEBO FONDER *	1,063,574	5.7%
ODIN NORDEN	560,286	3.0%
VERITAS PENSION INSURANCE COMPANY	433,000	2.3%
TIIPETI OY - PERTTI HARVIA	429,290	2.3%
SEB FINLAND SMALL CAP	398,000	2.1%
OP-SUOMI SMALL FIRMS FUND	370,966	2.0%
ILMARINEN MUTUALPENSION INSURANCE COMPANY	323,708	1.7%
ERIKOISSIJOITUSRAHASTO TAALERITEHDAS MIKRO MARKKA OSAKE	293,538	1.6%
KTR-INVEST OY - RISTO HARVIA	287,625	1.5%
TAPIO PAJUHARJU	243,000	1.3%
AVUS OY - KULLERVO HARVIA	214,645	1.1%
MANTEREENNIEMI OY - SARI HARVIA-JYLLINMAA	214,645	1.1%
SIJOITUSRAHASTO LÄHITAPIOLA SUOMI	135,000	0.7%
DAVID AHONEN	135,000	0.7%
Total	**7,407,956**	**39.6%**

* According to the fund's announcement. On 31 December 2019, 50.1% of Harvia's shares were nominee registered, 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%	11,514,131	61.6%
100 001 - 1 000 000	16	0.3%	4,399,657	23.5%
10 001 - 100 000	27	0.5%	843,273	4.5%
1 001 - 10 000	323	6.2%	786,888	4.2%
1 - 1000	4,880	93.0%	1,150,287	6.2%
Total	**5,250**	**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 2019 a total of 1,411,762 Harvia shares, corresponding 7,6 per cent of shares and votes in the company. (31 Dec 2018 1,403,873 and 7.5%)

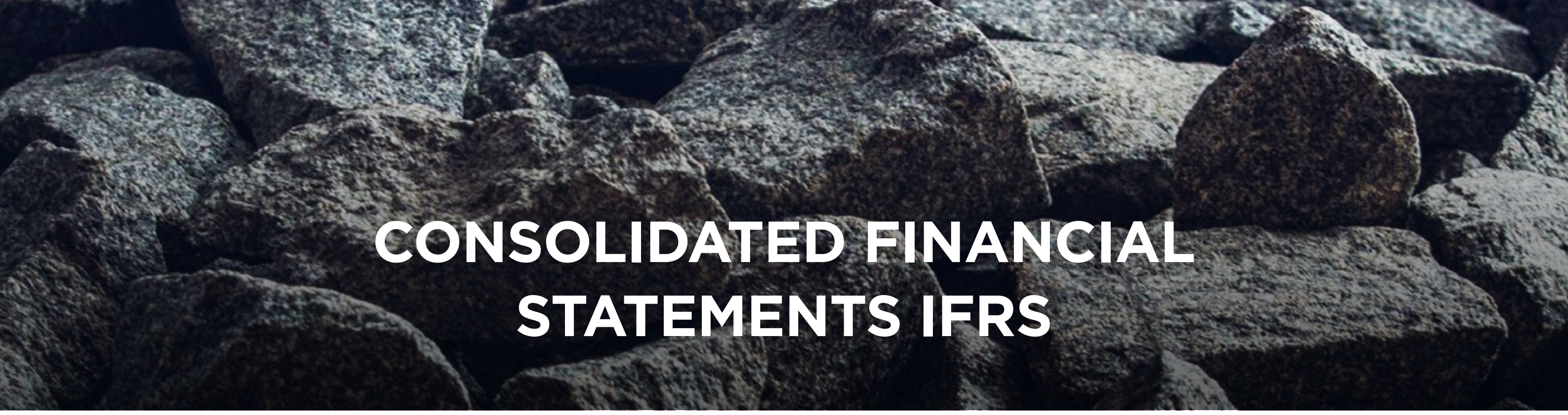
CALCULATION OF KEY FIGURES AND RECONCILIATION OF ALTERNATIVE PERFORMANCE MEASURES

EUR thousand	2019	2018
Operating profit	13,324	9,376
Depreciation and amortisation	3,113	2,158
EBITDA	16,437	11,533
Items affecting comparability		
Costs related to listing		1,327
Strategic development projects	3	72
Acquisition related expenses	381	77
Restructuring expenses	167	0
Total items affecting comparability	552	1,476
Adjusted EBITDA	16,989	13,009
Depreciation and amortisation	-3,113	-2,158
Adjusted operating profit	13,876	10,852
Finance costs, net	-1,263	-2,767
Adjusted profit before income taxes	12,613	8,085

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.

Key figure	Definition
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	Lease liabilities 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 2019	1 Jan - 31 Dec 2018
Revenue	**2.1**	**74,095**	**61,942**
Other operating income	2.3	449	188
Materials and services		-29,437	-25,853
Employee benefit expenses	2.3	-14,912	-13,063
Other operating expenses	2.3	-13,758	-11,679
Depreciation and amortisation	2.4	-3,113	-2,158
Operating profit		**13,324**	**9,376**
Finance income	5.4	337	215
Finance costs	5.4	-1,600	-2,981
Finance costs, net		-1,263	-2,767
Profit before income taxes		**12,061**	**6,609**
Income taxes	6.3	-2,464	172
Profit for the period		**9,597**	**6,780**
Attributable to:			
Owners of the parent		9,597	6,780
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods:			
Translation differences	6.4	177	-13
Other comprehensive income, net of tax		177	-13
Total comprehensive income		**9,774**	**6,767**
Attributable to:			
Owners of the parent		9,774	6,767
Basic EPS (EUR)	2.5	0.51	0.41
Diluted EPS (EUR)	2.5	0.51	0.41

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR thousand	Note	31-Dec-19	31-Dec-18
ASSETS			
Non-current assets			
Intangible assets	3.2	4,137	4,189
Goodwill	3.2	60,200	60,421
Property, plant and equipment	3.3	14,543	14,741
Leased assets	3.4	2,580	
Deferred tax recevables	6.3	1,347	1,358
Total non-current assets		**82,807**	**80,710**
Current assets			
Inventories	4.1	13,814	14,526
Trade and other receivables	4.2	14,217	12,152
Income tax receivables		108	1,283
Cash and cash equivalents	5.2	10,879	8,268
Total current asset		**39,018**	**36,230**
Total assets		**121,825**	**116,939**

EUR thousand	Note	31-Dec-19	31-Dec-18
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	6.4	80	80
Other reserves	6.4	53,399	53,064
Retained earnings	6.4	5,761	5,897
Profit for the period	6.4	9,597	6,780
Total equity		**68,837**	**65,822**
Liabilities			
Non-current liabilities			
Loans from credit institutions	5.1	36,394	36,371
Lease liabilities	3.4	2,261	
Derivative financial instruments	5.1	1,292	1,471
Deferred tax liabilities	6.3		361
Other non-current liabilities	5.1	92	369
Provisions	3.5	222	215
Total non-current liabilities		**40,261**	**38,787**
Current liabilities			
Loans from credit institutions	5.1	123	2,155
Lease liabilities	3.4	406	
Income tax liabilities		784	782
Trade and other payables	4.3	11,191	9,178
Provisions	3.4	222	215
Total current liabilities		**12,726**	**12,331**
Total liabilities		**52,987**	**51,117**
Total equity and liabilities		**121,825**	**116,939**

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 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		-3,365	40,086
Profit for the period					6,780	6,780
Other comprehensive income				-13		-13
Total comprehensive income				-13	6,780	6,767
Equity at 31 December 2018		**80**	**53,098**	**-34**	**12,678**	**65,822**

		Attributable to owners of the parent				
EUR thousand	**Note**	**Share capital**	**Invested unrestricted equity reserve**	**Translation differences**	**Retained earnings**	**Total**
Equity at 1 January 2019		**80**	**53,098**	**-34**	**12,678**	**65,822**
Share-based incentive plan			159			159
Dividend distribution					-6,917	-6,917
Total transactions with shareholders	6.4		159		-6,917	-6,758
Profit for the period					9,597	9,597
Other comprehensive income	6.4			177		177
Total comprehensive income				177	9,597	9,774
Equity at 31 December 2019		**80**	**53,257**	**142**	**15,358**	**68,837**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR thousand	Note	2019	2018
Cash flows from operating activities			
Profit before taxes		12,061	6,609
Adjustments			
Depreciation and amortisation	2.4	3,113	2,158
Finance income and finance costs	5.4	1,263	2,767
Other adjustments		-52	-123
Cash flows before changes in working capital		16,386	11,410
Change in working capital			
Increase (-) / decrease (+) in trade and other receivables	4.2	-1,898	497
Increase (-) / decrease (+) in inventories	4.1	750	374
Increase (+) / decrease (-) in trade and other payables	4.3	1,133	-2,245
Cash flows from operating activities before financial items and taxes		16,371	10,036
Interest and other finance costs paid		-69	-111
Interest and other finance income received		38	85
Income taxes paid	6.3	-1,268	-1,190
Net cash from operating activities		**15,072**	**8,820**
Cash flows from investing activities			
Purchases of tangible and intangible assets	3.2, 3.3	-1,807	-1,617
Sale of tangible and intangible assets		34	14
Net cash from investing activities		**-1,773**	**-1,603**
Cash flows from financing activities			
Proceeds from share issues	6.4		45,000
Costs from share issue recognised in equity	6.4		-2,089
Proceeds from non-current loans	5.1		36,500
Repayments of non-current loans	5.1	-13	-78,879
Change in current interest-bearing liabilities	5.1	-2,032	-2,136
Repayment of lease liabilities	3.4	-455	
Interest and other finance costs paid		-1,363	-2,328
Dividends paid	6.4	-6,917	-3,365
Net cash from financing activities		**-10,781**	**-7,297**
Net change in cash and cash equivalents		2,517	-80
Cash and cash equivalents at 1 January	5.2	8,268	8,345
Exchange gains/losses on cash and cash equivalents		94	3
Cash and cash equivalents at 31 December		**10,879**	**8,268**

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 80 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 2019 the company had 395 employees, of which 179 worked in Finland, 30 in Austria, 67 in Romania, 64 in China and Hong Kong, 40 in the United States and 14 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 sauna products
- 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.

The parent company Harvia Plc is a Finnish public company, established according to the Finnish legislation. Harvia Plc shares are traded at NASDAQ OMX Helsinki main list. The Group 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 10 February 2020. 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 2019. 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.

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	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
Leases	1.3 Adoption of new standards 3.4 Leases 5.5. Commitments and contingent liabilities	IFRS 16 IAS 17
Provisions	3.5 Provisions	IAS 37
Inventories	4.1 Inventories	IAS 2
Financial assets and liabilities	5.1, 5.2 Financial assets and liabilities	IAS 32, IFRS 7, IFRS 13, IFRS 9
Financial risk management	5.3 Financial risk management	IAS 32, IFRS 7, IFRS 13, IFRS 9
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 IFRS 16 Leases standard has had on the Group's consolidated financial statements.

The group has applied IFRS 16 Leases standard from 1.1.2019. The impacts of the new standard on the group's accounting policies has been presented below:

Accounting policy

According to IFRS 16 Leases 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 decided to adopt the standard using the simplified transitional approach, whereby comparative financial information is not adjusted. Lease liability at the adoption has been calculated discounting the future lease payments with the incremental borrowing rate at the time of adoption. The value of right-of-use-asset at adoption equals the lease liability. Adoption of the standard did not affect the retained earnings.

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 or lease liability.

At the time of adoption, the Group has booked lease liability of EUR 3.0 million and a right-of-use-asset of EUR 3.0 million. At the end of December, the amount of lease liability was EUR 2.7 million and right-of-use-asset was EUR 2.6 million. At the time of adoption, the weighted average of incremental borrowing rate used to calculate the lease liabilities was 4.1%.

The adoption of the standard decreased the rent expenses for January–December 2019 by EUR 580 thousand, increased depreciations by EUR 554 thousand and increased finance expenses by EUR 111 thousand. The adoption increased EBITDA by EUR 580 thousand and EBIT by EUR 25 thousand.

Cash flow resulting from lease agreements in 2019 was EUR 579 thousand.

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
Segment reporting	2.2
Research and development expenses	3.2
Key assumptions used in goodwill impairment tests	3.2
Leases	3.4
Provisions	3.5
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	2019	% of revenue	2018	% of revenue
Revenue	74,095		61,942	
Other operating income	449	1%	188	0%
Materials, services and change in inventories	-29,437	-40%	-25,853	-42%
Employee benefit expenses	-14,912	-20%	-13,063	-21%
Depreciation and amortisation	-3,113	-4%	-2,158	-3%
Other operating expenses	-13,758	-19%	-11,679	-19%
Operating profit	**13,324**	18%	**9,376**	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, North America 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 13% of the Group's revenue in 2019 (2018: 16%).

The accumulation of Harvia's revenue has been constant and stable over the past years. Acquired business in United States at the end of 2018 increased the revenue in 2019. 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	2019	%	2018	%
Finland	24,210	33%	23,104	37%
Other Scandinavia	4,157	6%	3,452	6%
Germany	6,867	9%	6,953	11%
Other EU countries	17,188	23%	16,059	26%
Russia	5,761	8%	5,662	9%
North America	11,816	16%	3,027	5%
Other countries*	4,096	6%	3,685	6%
Total	**74,095**	100%	**61,942**	100%

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

REVENUE BY PRODUCT GROUP

EUR thousand	2019	%	2018	%
Sauna heaters	39,740	54 %	35,763	58 %
Sauna rooms	14,700	20 %	7,521	12 %
Control units	5,918	8 %	5,822	9 %
Steam generators	3,476	5 %	3,004	5 %
Spareparts, services and other*	10,261	14 %	9,831	16 %
Total	**74,095**	100 %	**61,942**	100 %

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

Revenue from projects recognized over time was EUR 588 thousand (2018: EUR 1,251 thousand). Group does not disclose transaction price allocated to fully or partly unfilled performance obligations, because performance obligation is part of a contract where contract period less than one year.

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-19	31-Dec-18
Finland	71,856	72,585
Other EU countries	3,609	3,345
Asia	2,783	583
United States	3,211	2,839
Total non-current assets	**81,460**	**79,351**

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	2019	2018
Wages and salaries	12,149	10,742
Pension costs - defined contribution plans	1,454	1,508
Other employee benefit expenses	1,309	814
Total	**14,912**	**13,063**

Harvia Group employed a total of 395 employees as at 31 December 2019 (2018: 400 employees). Of the total number of employees at the end of 2019, 145 were officers and 250 workers. Pension plans of employees of the Group in Finland, Austria, Romania, China, USA, Hong Kong and Estonia are defined contribution plans.

Other significant expense items are as follows:

OTHER OPERATING EXPENSES

EUR thousand	2019	2018
Sales and marketing*	7,778	5,481
Travel and cars	957	898
Electricity, heating and water	725	679
Audit, accounting, consulting and legal expenses	1,018	1,094
Rents	95	565
IT and telecommunication	358	226
Voluntary staff expenses	306	253
Other**	2,520	2,483
Total	**13,758**	**11,679**

* Sales and marketing include, among others, warranty costs, sales freight costs, sales commissions and marketing expenses.
** Other expenses include, among others, maintenance costs related to the administration of the company and the premises.

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

The auditor's fees recognised during 2019 to PricewaterhouseCoopers amounted to

EUR 104 thousand (2018: EUR 484 thousand). Of these, EUR 104 thousand were fees relating to statutory audit (2018: EUR 75 thousand). In comparison period EUR 7 thousand of fees were related to auditor opinions and certificates and EUR 402 thousand to other fees. Audit fees paid to other auditors were EUR 21 thousand (2018: EUR 19 thousand).

Harvia Group's research and development department employed an average of 10 persons, and expensed research and development costs totaled EUR 1,206 thousand in the financial year 2019 (2018: EUR 1,065 thousand).

Other operating income includes income EUR 270 thousand resulting from fair value valuation of Saunamax Oy minority share purchase liability.

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	2019	2018
Depreciation by class		
Buildings and constructions	700	617
Machinery and equipment	909	906
Other tangible assets	125	107
Total property, plant and equipment	**1,734**	**1,630**
Leased buildings and structures	485	
Leased machinery and equipment	69	
Total leased assets	**554**	

EUR thousand	2019	2018
Amortisation by class		
Development costs	324	285
Customer relationships	149	49
Brand	153	59
Technology	36	11
Other intangible assets	161	122
Total intangible assets	**824**	**527**
Total depreciation and amortisation	**3,113**	**2,158**

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.

	2019	2018
Profit for the period attributable to the owners of the parent company, EUR thousand	9,597	6,780
Weighted average number of shares outstanding during the financial period, '000	18,694	16,688
Basic earnings per share, EUR	**0.51**	**0.41**
Share-based long-term incentive plan	62	20
Weighted average number of shares outstanding during the year, diluted, '000	18,756	16,708
Diluted earnings per share, EUR	**0.51**	**0.41**

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 28 December 2018 Harvia acquired LLC Almost Heaven Saunas business in the United States. The result of the new business has been consolidated to Harvia Group as of 1 January 2019. The fair value of the assets has been adjusted during 2019.

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.

ALMOST HEAVEN SAUNAS ACQUISITION NET ASSET VALUE ADJUSTMENT 2019

The fair values of Almost Heaven Saunas net assets acquired in December 2018 were adjusted during 2019 as follows:

EUR thousand	Fair value 31 Dec 2018	Adjusted fair value 2019	Change
Purchase price	1,358	1,358	0
Net identifiable assets acquired			
Non-current assets			
Intangible assets	1,250	1,287	38
Property, plant and equipment	393	393	0
Current assets			
Inventories	1,005	1,001	-4
Trade and other receivables	438	804	366
Total assets	3,086	3,485	399
Non-current liabilities			
Deferred tax assets	361	0	-361
Other liabilities	995	995	0
Current liabilities			
Loans from credit institutions	397	476	80
Trade and other payables	1,172	1,613	441
Total liabilities	2,925	3,084	160
Total	161	401	240
Goodwill	1,196	957	-240
Net assets aquired	1,358	1,358	0

Cash flow impact

EUR thousand			
Expenses related to the acquisition	-27	-27	0
Impact on cash flows	-27	-27	0

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 is consolidated as of 1 January 2019.

Almost Heaven Saunas was established in 1978 and was owned by its prior 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 were 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	Fair value 31 Dec 2018	Adjusted fair value 2019	Change
Purchase price	1,358	1,358	0
Net identifiable assets acquired			
Non-current assets			
Intangible assets	1,250	1,287	38
Property, plant and equipment	393	393	0
Current assets			
Inventories	1,005	1,001	-4
Trade and other receivables	438	804	366
Total assets	3,086	3,485	399
Non-current liabilities			
Deferred tax assets	361	0	-361
Other liabilities	995	995	0
Current liabilities			
Loans from credit institutions	397	476	80
Trade and other payables	1,172	1,613	441
Total liabilities	2,925	3,084	160
Total	161	401	240
Goodwill	1,196	957	-240
Net assets aquired	1,358	1,358	0

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

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

Cash flow impact

EUR thousand			
Expenses related to the acquisition	-27	-27	0
Impact on cash flows	-27	-27	0

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
2019								
Cost at 1 January	60,421	1,532	273	956	1,550	189	1,397	66,318
Business combinations	-240			79	-40	-1		-202
Additions		109	234				367	710
Disposals								0
Reclassifications		68	-100				31	0
Exchange differences	18			6	18	1	-2	41
Cost at 31 December	60,200	1,709	407	1,040	1,528	189	1,794	66,867
Accumulated depreciation at 1 January		-489	0	-107	-128	-25	-959	-1,708
Amortisation		-324		-149	-153	-36	-161	-824
Exchange differences		1					1	2
Accumulated depreciation at 31 December		-811	0	-257	-281	-61	-1,120	-2,530
Net book amount at 1 January	**60,421**	**1,043**	**273**	**849**	**1,423**	**164**	**438**	**64,610**
Net book amount at 31 December	**60,200**	**898**	**407**	**784**	**1,247**	**128**	**674**	**64,337**

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
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**

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-19	31-Dec-18
Finland	59,890	60,111
Central Europe	310	310
Total	**60,200**	**60,421**

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 arising from acquisition of Almost Heaven Saunas business in 2018 has been presented as part of goodwill in Finland, and was 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-19	31-Dec-18
Long-term growth rate	1.0%	1.0%
Average revenue growth for the forecast period		
Finland	4.1%	4.8%
Central Europe	7.0%	8.3%
Average EBITDA for the forecast period (% of revenue)		
Finland	22.9%	22.5%
Central Europe	16.2%	20.0%
Pre-tax discount rate		
Finland	8.7%	9.1%
Central Europe	9.2%	9.3%

As result of the impairment tests performed no impairment loss has been recognised for any period presented. In 2019 the recoverable amount calculated based on value-in-use exceeded the carrying value by EUR 64 million in Finland and EUR 27 million in Central Europe (2018 by EUR 57 million in Finland and EUR 30 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-19	31-Dec-18
Finland		
EBITDA margin decrease	-7.9%	-7.7%
Change in discount rate	5.9%	5.0%
Central Europe		
EBITDA margin decrease	-13.7%	-16.2%
Change in discount rate	28.0%	31.2%

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. The group acquired a production and warehouse facility in the United States during 2019. 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
2019						
Cost at 1 Jan	1,249	19,908	14,007	1,022	230	36,417
Additions	162	717	850	30	7	1,765
Disposals			-215	0		-215
Reclassifications		566	-438	45	-173	0
Exchange differences	-7	-18	-89			-114
Cost at 31 Dec	1,404	21,174	14,116	1,096	64	37,853
Accumulated depreciation at 1 Jan		-10,288	-10,764	-623		-21,676
Depreciation		-700	-909	-125		-1,734
Disposals			81			81
Reclassifications		-329	329			0
Exchange differences		3	16	0		19
Accumulated depreciation at 31 Dec		-11,314	-11,248	-748		-23,311
Net book amount at 1 Jan	**1,249**	**9,620**	**3,243**	**399**	**230**	**14,741**
Net book amount at 31 Dec	**1,404**	**9,859**	**2,868**	**348**	**64**	**14,543**

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 December	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
Exchange differences		0	1	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**

3.4 LEASES

IFRS 16 Leases standard specifies the definition of leases, recognition and valuation of the lease agreements and disclosures of the leases. Implementation of the standard has a significant impact for the lessee's recognition, as the standard removes the current distinction between operating and financing leases. According to the 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. Group did not have IAS 17 finance lease contracts.

Accounting policy

According to IFRS 16 Leases 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 decided to adopt the standard using the simplified transitional approach, whereby comparative financial information is not adjusted. Lease liability at the adoption has been calculated discounting the future lease payments with the incremental borrowing rate at the time of adoption. The value of right-of-use-asset at adoption equals the lease liability. Adoption of the standard did not affect the retained earnings.

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 or lease liability. The Group applies same discount rate to a group of similar lease contracts.

Lease period is the non-cancellable period of the lease plus periods covered by an option to extend or an option to terminate if the lessee is reasonably certain to exercise the extension option or not exercise the termination option.

In 2018 all group lease contracts have been determined to be operative leases according to IAS 17.

Accounting estimates and management judgement

The management uses judgement when determining the lease period for ongoing rental contracts and when the lease contract includes options for extension or termination of the contract or purchasing the asset. Management decisions are based on the strategic position of the company and the market situation. The management uses judgement also when defining the interest rate of incremental borrowing. The interest rate of incremental borrowing is based on the financing contracts of the group taking into consideration the variation of the risk-free interest rate in each country. The Group applies single discount interest rate for portfolio of similar leases.

Bookings of leases to the balance sheet and profit and loss statement were following:

AMOUNTS RECOGNISED IN THE BALANCE SHEET

EUR thousand	Buildings and structures	Machinery and equipment
Leased assets		
Book amount at 1 Jan 2019	2,856	131
Additions	2,485	131
Disposals	96	262
Depreciations	-485	-69
Book value at 31 Dec 2019	**4,952**	**456**

EUR thousand	2019	2018
Lease liabilities		
Current	406	468
Non-current	2,261	2,520
	2,667	2,988

AMOUNTS RECOGNISED IN PROFIT AND LOSS

EUR thousand	2019	2018
Depreciation		
Buildings and structures	-485	
Machinery and equipment	-69	
	-554	
Interest expense (included in finance cost)	-111	
Expense relating to short-term and low-value leases (other operating expenses)	-95	
Total amounts recognised in profit and loss	-761	

Amounts booked to balance sheet are considered in the IAS 36 impairment testing going forward. Cash flows resulting from lease contracts have been disclosed in note 1.3 and maturities of the lease contracts in note 5.3.

Operative lease agreements

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

EUR thousand	31-Dec-19	31-Dec-18
No later than 1 year		515
Later than 1 year and no later than 5 years		323
Later than 5 years		
Total		**838**

3.5 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-19	31-Dec-18
At 1 January	430	449
Additions	444	430
Used during the year	-430	-449
At 31 December	**444**	**430**
of which		
current	222	215
non-current	222	215
Total	**444**	**430**

The warranty provision was released EUR 430 thousand (2018: EUR 449 thousand) and was increased EUR 444 thousand during 2019 (2018: EUR 430 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-19	31-Dec-18
Net working capital		
Inventories	13,814	14,526
Trade receivables	13,167	11,046
Other receivables	1,050	1,106
Trade payables	-5,149	-5,164
Other payables	-6,042	-4,014
Total	**16,840**	**17,500**
Change in net working capital in the statement of financial position	-660	245
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*	675	1,129
Change in net working capital in the statement of cash flows**	15	1,374

* 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-19	31-Dec-18
Materials and supplies	5,476	6,315
Work in progress	1,113	1,335
Finished goods	7,224	6,876
Total	**13,814**	**14,526**

No significant write-downs of inventories have been made during years 2018-2019.

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. 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.

The receivables 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-19	31-Dec-18
Trade receivables	13,167	11,046
Prepayments and accrued income	521	317
Other receivables	528	790
Total	**14,217**	**12,152**

Material items included in prepayments and accrued income:

EUR thousand	31-Dec-19	31-Dec-18
Social costs		126
Insurances	52	60
Other	469	131
Total	**521**	**317**

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-19	31-Dec-18
Trade payables	5,149	5,164
Advance payments	231	95
Accrued expenses	5,282	3,201
Other liabilities	529	718
Total	**11,191**	**9,178**

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

Material items included in accrued expenses:

EUR thousand	31-Dec-19	31-Dec-18
Accrued salaries and social security costs	2,736	2,063
Accrued annual discounts	1,407	861
Accrued interests	6	6
Other	1,133	271
Total	**5,282**	**3,201**

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-19		
Liabilities per balance sheet		
Loans from credit institutions		36,517
Lease liabilities		2,667
Other loans		92
Trade and other payables		10,960
Derivative financial instruments	1,292	
Total	**1,292**	**50,236**
31-Dec-18		
Liabilities per balance sheet		
Loans from credit institutions		38,526
Other loans		369
Trade and other payables		9,083
Derivative financial instruments	1,471	
Total	**1,471**	**47,978**

LOANS FROM CREDIT INSTITUTIONS AND SHAREHOLDER LOANS

Loans from credit institutions

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

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

As a result of the repayment of old bank loans (including credit limit), remaining transaction costs of EUR 616 thousand in the balance sheet were recognized as expenses under other finance costs in 2018. 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's secured credit facility agreement of EUR 2 300 thousand was changed to unsecured credit facility of EUR 1 250 thousand in 2019. Credit facility was not in use as at 31 December 2019 (31 December 2018: EUR 1,743 thousand).

Shareholder loans

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 2019 and 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 -1,292 thousand at the end of 2019 (2018: EUR -1,471 thousand). Nominal value of the interest rate swap contract was EUR 25,000 thousand as at 31 December 2018 (2018: 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 80 thousand relating to the purchase of Saunamax Oy's minority shareholders' shares (31 Dec 2018 EUR 350 thousand). 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 10,879 thousand at the end of 2019 (31 December 2018: EUR 8,268 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.

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.

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, 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.

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 9 they are classified at fair value through profit or loss under assets or liabilities.

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	2019	2018
Amounts recognised in profit or loss		
Net foreign exchange gains/losses included in operating income/expenses	-41	-305
Net foreign exchange gains/losses included in finance income/costs	-40	39
Total net foreign exchange gains/losses recognised in profit before income tax for the period	**-81**	**-265**
Gains/losses recognised in other comprehensive income		
Translation differences of foreign operations	177	-13

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 2019 and 2018, the Group's borrowings at variable rate were denominated in euros and swaps in place covered 68% on 31 December 2019 and 68% on December 2018 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 133 thousand higher in 2019.

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

In 2019, 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 United States and in Russia.

During 2019 EUR 47 thousand (2018: EUR 21 thousand) was recognised in profit or loss in relation to credit losses. The loss allowance on 31 December 2019, EUR 382 thousand (2018: EUR 374 thousand), is specified as follows:

31-Dec-19 EUR thousand	Gross book value	Allowance for bad debt
Not due	9,782	4
Overdue by		
Less than 30 days	2,108	6
30-60 days	607	4
61-90 days	378	104
91-180 days	453	41
181-360 days	-2	-1
Over 360 days	223	223
Total	13,550	382

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 9,250 thousand as at 31 December 2019 (EUR 8,557 thousand as at 31 December 2018). 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-19							
Non-derivatives							
Loans from credit institutions	42	81	17	36,505		36,645	36,517
Lease liabilities	256	149	215	516	1,529	3,432	2,667
Other loans			92			92	92
Trade payables	5,149	0				5,149	5,149
Total non-derivatives	**5,448**	**231**	**324**	**37,021**	**1,529**	**45,318**	**44,425**
Derivatives							
Interest rate swaps	207	209	829	69		1,314	1,292
Total derivatives	**207**	**209**	**829**	**69**	**0**	**1,314**	**1,292**

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**	**0**	**44,227**	**44,059**
Derivatives							
Interest rate swaps	206	209	829	484		1,727	1,471
Total derivatives	**206**	**209**	**829**	**484**	**0**	**1,727**	**1,471**

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-19	31-Dec-18
Loans from credit institutions	36,517	38,526
Lease liabilities	2,667	
Less cash and cash equivalents	-10,879	-8,268
Net debt	**28,305**	**30,258**

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	Lease liabilities	Shareholder loans due after 1 year	Total net debt
At 1 January 2018	**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**			**-30,258**
Cash flows	2,517	2,032	16	455		5,020
Acquisitions						0
Exchange differences	94					94
Other non-cash movements		0	-38	-3,122		-3,160
At 31 December 2019	**10,879**	**-123**	**-36,394**	**-2,667**		**-28,305**

5.4 FINANCE INCOME AND COSTS

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

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

For information about cash and cash equivalents, refer note 5.2.

Group's interest and other finance income related mainly to foreign exchange gains, interest income of trade receivables and gains on valuation of derivative contracts. They amounted to EUR 337 thousand during 2019 (2018: EUR 215 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	2019	2018
Finance income		
Interest income	2	0
Fair value gain on interest rate swap	263	121
Other finance income	72	93
Total	337	215
Finance costs		
Interest costs	-760	-1,600

EUR thousand	2019	2018
Other finance charges paid/payable for financial liabilities not at fair value through profit or loss	-755	-1,117
Fair value losses on interest rate swaps	-85	-265
Total	-1,600	-2,981
Finance costs, net	**-1,263**	**-2,767**

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-19	31-Dec-18
Guarantees and mortgages given on own behalf:		
Mortgages		320
Enterprise mortgages		
Total		**320**

EUR thousand	31-Dec-19	31-Dec-18
Other guarantees:		
Pledged accounts	29	
Customs guarantee	30	30
Other guarantees		12
Total	**59**	**42**

OTHER COMMITMENTS

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 2019 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

Parent company	Country of incorporation	Nature of business	Parent ownership (%)	Group ownership (%)	Acquired/ established (month/year)
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 1 January 2018.

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. The funds had direct holding in the company total of 24.6 percent and significant influence over the group until February 28, 2019 when the Funds sold part of their holdings in the company. After the trade the Funds holding remained at 12.3 percent. The funds sold their holding to Onvest Oy on 19 November 2019.

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.

EUR thousand	2019	2018
Sales of goods and services	4	8
Purchases of goods and services	0	4

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.

EUR thousand	2019	2018
At 1 January		41,618
Increase in loans		
Loan repayments		-41,618
Accrued interest		836
Witholding tax on interest		-42
Interest paid		-793
At 31 December		

Personnel offering

In connection with the listing 2018, 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 policy

Share-based payments

Share-based incentive plans have been recognized as an expense during the earnings period in the income statement item personnel expenses. The fair value of the arrangement is the share value at benefit's grant date. The amount to be recognized as an expense is based on estimate of the number of shares, which are expected to be earned during the vesting period. The estimate of the shares earned will be assessed at every balance sheet date. If the estimate of the shares changes in later periods, the change shall be adjusted in the income statement at that period the change is noticed. The contra account for shares to be granted according to the incentive plans is invested unrestricted equity reserve. Harvia's share-based incentive plans, that are paid net in shares after deducting withholding tax, are booked as share paid arrangements although Harvia pays taxes in cash in favor of the incentive plan participant.

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.

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 2019:

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. The CEO has a life insurance and an additional defined contribution plan 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 salary for 6 months.

Harvia's CEO and CFO both received a one-time bonus of EUR 50 thousand when the listing in 2018 was completed.

KEY MANAGEMENT PERSONNEL COMPENSATION

EUR thousand	2019	2018
Chief executive officer		
Salaries and other short-term employee benefits	507	514
Pension costs - defined contribution plans*	94	97
Total	**601**	**610**

* Includes costs of voluntary pension plan amounting to EUR 9 thousand in 2019 (2018: EUR 9 thousand).

EUR thousand	2019	2018
Other management team		
Salaries and other short-term employee benefits	918	850
Pension costs - defined contribution plans	128	130
Total	**1,046**	**980**

REMUNERATION TO MEMBERS OF BOARD OF DIRECTORS

EUR thousand	2019	2018
Olli Liitola (as of 11 March 2014)	58	52
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)	32	26
Total	**137**	**126**

SHARE-BASED INCENTIVE PLAN

Harvia has established a 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.

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 the performance period 2019-2021, the maximum number of shares to be paid based on the performance period 2019-2021 is approximately 130,000 Harvia Plc´s shares. This number of shares represents gross earning, from which the withholding of 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 performance period 2019-2021 will be paid out during spring 2022.

In 2019 EUR 159 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	2019	2018
Current tax:		
Current tax on profits for the year	-2,558	-1,115
Adjustments in respect of prior years	106	-3
Total current tax expense	-2,452	-1,118
Deferred tax:		
Change in deferred taxes	-12	1,289
Income taxes	**-2,464**	**172**

RECONCILIATION OF INCOME TAX EXPENSE AND TAXES CALCULATED AT THE FINNISH TAX RATE 20%

EUR thousand	2019	2018
Profit before tax	12,061	6 609
Tax calculated at Finnish tax rate 20%	-2,412	-1 322
Effect of other tax rates for foreign subsidiaries	-69	-4
Expenses not deductible for tax purposes*	-37	-142
Income not subject to tax	54	2
Previous years' nondeductible intra group interest expenses		1 637
Taxes in income statement	**-2,464**	**172**

Additional information on previous years' nondeductible intra group interest expenses is presented in note Deferred taxes.

DEFERRED TAXES

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. In 2019 EUR 500 thousand intra-group interests were deducted in taxation. There were EUR 8,243 thousand remaining intra-group interest expenses at 31 December 2019. 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 January	Recognised in profit or loss	Recognised in equity	Business combinations	At 31 December
2019					
Deferred tax assets					
Tax losses and net interest costs	1,748	-100			1,648
Internal margin of inventories	44	71			115
Provisions	86	3			89
Other items	477	-109			368
Total	2,355	-135			2,220
Netting of deferred taxes	-996				-872
Net deferred tax asset	**1,358**				**1,347**
2019					
Deferred tax liabilities					
Intangible assets	634	-30		-337	266
Accumulated depreciation differences	239	-69			171
Property, plant and equipment	408	-26			381
Other items	76	2		-24	54
Total	1,358	-123		-361	872
Netting of deferred taxes	-996				-872
Net deferred tax liability	**361**	**12**		**-361**	**0**

EUR thousand	At 1 January	Recognised in profit or loss	Recognised in equity	Business combinations	At 31 December
2018					
Deferred tax assets					
Tax losses	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	0	2,355
Netting of deferred taxes	-650				-996
Net deferred tax liability	**0**				**1,358**
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**

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 2018	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
At 31 December 2019	80	18,694,236

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 personnel offering to employees of the Group by 144,357 shares in April 2018.

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 2018	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
Osakeperusteinen palkitseminen	159		159
Muuntoerot		177	177
At 31 December 2018	53,257	142	53,399

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 in 2018, 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	2019	2018
At 1 January 2018		9,570
Adoption of IFRS 9 standard		-313
Adoption of IFRS 15 standard		5
At 1 January	12,678	9,262
Dividend distribution	-6,917	-3,365
Profit for the period	9,597	6,780
At 31 December	15,358	12,678

In 2019 Harvia paid a dividend of EUR 0.37 per share, in total EUR 6,917 thousand.

The Board of Directors of Harvia Plc proposes to the Annual General Meeting that a dividend of EUR 0.19 per share be distributed after the Annual General Meeting in April 2020 for the financial period that ended on December 31, 2019. 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 2020.

Based on the proposal by the Board of Directors the maximum dividend for the year 2019 would be EUR 0.38 per share, in total EUR 7,104 thousand. The proposed dividend is 74.0% of the Group's profit for the period 2019.

6.5 EVENTS OCCURRING AFTER THE REPORTING DATE

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

PARENT COMPANY FINANCIAL STATEMENTS FAS

PARENT COMPANY PROFIT & LOSS STATEMENT

EUR thousand	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Revenue	**1,084**	**1,084**
Employee benefit expenses		
Wages and salaries	-941	-854
Social security expenses		
Pension expenses	-139	-138
Other social security expenses	-23	-14
Other operating expenses	-825	-1,510
Depreciation and amortisation		
Depreciation according to plan	-701	-522
Operating profit	**-1,546**	**-1,954**
Finance income	287	7,198
Finance costs	-872	-3,005
Finance income and expenses total	-585	4,193
Profit before income appropriations and taxes	**-2,131**	**2,239**
Appropriations		
Group contribution	10,300	6,000
Income taxes	-1,637	-378
Profit for the period	**6,531**	**7,861**

PARENT COMPANY BALANCE SHEET

EUR thousand	31 Dec 2019	31 Dec 2018
ASSETS		
Non-current assets		
Intangible assets		
Intangible rights	871	1,567
Advance payments and construction in process	13	
Property, plant and equipment		
Machinery and equipment	110	
Investments		
Holdings in group undertakings	85,909	85,909
Total non-current assets	**86,903**	**87,476**
Current assets		
Short-term receivables		
Receivables from group companies	13,584	12,009
Other receivables	151	198
Prepayments and accrued income	39	33
Cash and cash equivalents	3,470	2,632
Total current asset	**17,244**	**14,872**
Total assets	**104,147**	**102,348**

EUR thousand	31 Dec 2019	31 Dec 2018
EQUITY AND LIABILITIES		
Equity		
Share capital	80	80
Reserve for invested unrestricted equity	54,647	54,647
Retained earnings	1,675	731
Profit for the period	6,531	7,861
Total equity	**62,933**	**63,318**
Liabilities		
Non-current liabilities		
Loans from credit institutions	36,500	36,500
Amounts owed to group undertakings	1,292	1,471
Total non-current liabilities	**37,792**	**37,971**
Current liabilities		
Trade payables	158	108
Amounts owed to group undertakings	2,308	318
Other liabilities	66	41
Accrued expenses	890	593
Total current liabilities	**3,422**	**1,059**
Total liabilities	**41,214**	**39,030**
Total equity and liabilities	**104,147**	**102,348**

PARENT COMPANY CASH FLOW STATEMENT

EUR thousand	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Cash flow from operating activities:		
Profit (loss) before taxes	-2,131	2,239
Adjustments to operating profit (+/–) for:		
Depreciation and amortisation	701	522
Financial income and expenses	585	-4,193
Cash flow before working capital changes	-845	-1,432
Working capital changes:		
Increase/decrease in trade and other short-term interest-free receivables	-13	-74
Increase/decrease in short-term interest-free liabilities	58	-405
Operating cash flow before financing items and taxes	-799	-1,911
Income taxes paid (–), received (+)	-1,554	-1,025
Cash flow from operating activities:	**-2,353**	**-2,937**
Cash flow from investments		
Purchase of tangible and intangible items (–)	-121	-2,089
Loans granted	-1,555	-1,485
Change of Group account	2,208	
Investment in group companies		-48,049
Interest received from investments	321	132
Dividends received	4,300	2,100
Cash flow from investments	**5,152**	**-49,391**
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	-1,044	-3,005
Dividends paid	-6,917	-3,365
Group contributions received	6,000	7,100
Cash flows from financing activities	**-1,960**	**53,552**
Net increase (+) / decrease (–) in cash and cash equivalents	**838**	**1,225**
Cash and cash equivalents at beginning of period	**2,632**	**1,407**
Cash and cash equivalents at end of period	**3,470**	**2,632**

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. Machinery and equipment are to be depreciated within a maximum of 5 years.

Investments to group companies are valued at acquisition cost or net realizable value, if the investment value has deteriorated significantly and permanently.

Receivables

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

Pensions

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

Income taxes

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

Dividends

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

NOTES TO THE PROFIT AND LOSS STATEMENT

	2019	2018
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	2

EUR thousand	2019	2018
Management compensation		
Members of the Board of Directors and CEO	644	627
Auditors' fees		
Statutory audit	50	29
Auditors' statements		7
Other services		392
	50	**428**

EUR thousand	2019	2018
Finance income and costs		
Dividends from Group companies		6,400
Other interest income		
Group undertakings	262	798
Other than group companies	25	0
Total finance income	**287**	**7,198**
Interest and finance charges		
Group undertakings	-232	-1,789
Other than group companies	-640	-1,217
Total financial expenses	**-872**	**-3,005**
Total financial income and expenses	**-585**	**4,193**
Income taxes		
Income taxes for ordinary business	-1,671	378

NON-CURRENT ASSETS

EUR thousand	2019	2018
Intangible assets		
Acquisition cost at 1 January	2,089	
Additions		2,089
Acquisition cost at 31 December	2,089	2,089
Accumulated amortisation at 1 January	-522	
Amortisation for the financial year	-696	-522
Accumulated amortisation at 31 December	-1,219	-522
Advance payments	123	
Book value 31 December	**883**	**1,567**
Machinery and equipment		
Acquisition cost at 1 January		
Additions	221	
Disposals	-106	
Acquisition cost at 31 December	115	
Accumulated depreciation at 1 January		
Depreciation for the financial year	-5	
Accumulated depreciation at 31 December	-5	
Book value 31 December	**110**	
Investments		
Acquisition cost 1 January	85.909	12.019
Additions		73.890
Acquisition cost 31 December	85.909	85.909
Book value 31 December	**85,909**	**85,909**
Book value 1 January	85,909	12,019

HOLDINGS IN GROUP UNDERTAKINGS

Group companies	Parent ownership
Harvia Group Oy, Muurame	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	

All Group companies have been consolidated to the Group consolidated IFRS financial statements.

RECEIVABLES

EUR thousand	2019	2018
Short-term receivables		
Receivables from group companies		
Trade debtors	165	224
Loans receivable	3,106	5,785
Other receivables	10,300	6,000
Prepayments and accrued income	14	
Total	**13,584**	**12,009**
Receivables from others		
Other receivables	151	198
Prepayments and accrued income	39	33
	190	231
Material amounts included in prepayments and accrued income		
Insurances	25	18
Others	14	16
	39	**33**

LIABILITIES

EUR thousand	2019	2018
Long-term liabilities		
Loans from credit institutions	36,500	36,500
Loans from group companies	1,292	1,471
	37,792	**37,971**

EUR thousand	2019	2018
Short-term liabilities		
Loans from group undertakings		
Other liabilities	2,308	318
Liabilities for others		
Trade creditors	158	108
Other liabilities	66	41
Accruals and deferred income	890	593
	1,114	**741**
Material amounts shown under accruals and deferred income		
Wages and salaries including social security expenses	348	168
Interest expenses	6	
Income taxes	452	369
Other	84	55
	890	**593**

EQUITY

EUR thousand	2019	2018
Restricted equity		
Share capital 1 January	80	3
Funds issue		78
Share capital 31 December	**80**	**80**
Total restricted equity	**80**	**80**
Unrestricted equity		
Reserve for invested unrestricted equity 1 January	54,647	9,724
Share capital		-78
Share issue		45,000
Reserve for invested unrestricted equity 31 December	**54,647**	**54,647**
Retained earnings 1 January	8,592	4,096
Dividend distribution	-6,917	-3,365
Retained earnings 31 December	**1,675**	**731**
Profit (loss) for the financial year	**6,531**	**7,861**
Total unrestricted equity	**62,853**	**63,238**
Total equity	**62,933**	**63,318**
Distributable unrestricted equity		
Reserve for invested unrestricted equity	54,647	54,647
Retained earnings from previous years	1,675	731
Profit for the financial year	6,531	7,861
Distributable unrestricted equity	**62,853**	**63,238**

GUARANTEES AND COMMITMENTS

EUR thousand	2019	2018
Rental payments under lease contracts		
Payable during the following financial year	8	12
Payable in later years		8
	8	**20**

PROPOSAL BY THE BOARD OF DIRECTORS FOR DISTRIBUTION OF PROFIT

The unrestricted equity of Harvia Plc amounts to EUR 62,853 thousand, of which the result for the financial period 2019 amounts to EUR 6,531 thousand. The Board of Directors of Harvia Plc proposes to the Annual General Meeting that a dividend of EUR 0.19 per share be distributed after the Annual General Meeting in April 2020 for the financial period that ended on December 31, 2019. 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 2020.

The dividends distributed by Harvia for 2019 based on the Board of Director's proposal would amount to a maximum of EUR 0.38 per share, or a maximum of EUR 7,104 thousand in total. The proposed dividend is 74.0% of the Group's profit for the period 2019.

There have 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, 10 February 2020

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, 10 February 2020

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 Plc

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 2019. 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 0.7 million
- The group audit scope includes all significant operating companies in Finland, Austria and USA 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 0.7 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, Austria and USA. 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* At 31 December 2019 the Group's goodwill balance amounted to EUR 60,2 million. As such, goodwill represents 49 % 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: ■ 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 February 2015. Our appointment represents a total period of uninterrupted engagement of 5 years. Harvia Oyj became a public interest entity on 26 March 2018. We have been the company's auditors since it became a public interest entity.

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 10 February 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Markku Launis
Authorised Public Accountant (KHT)

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