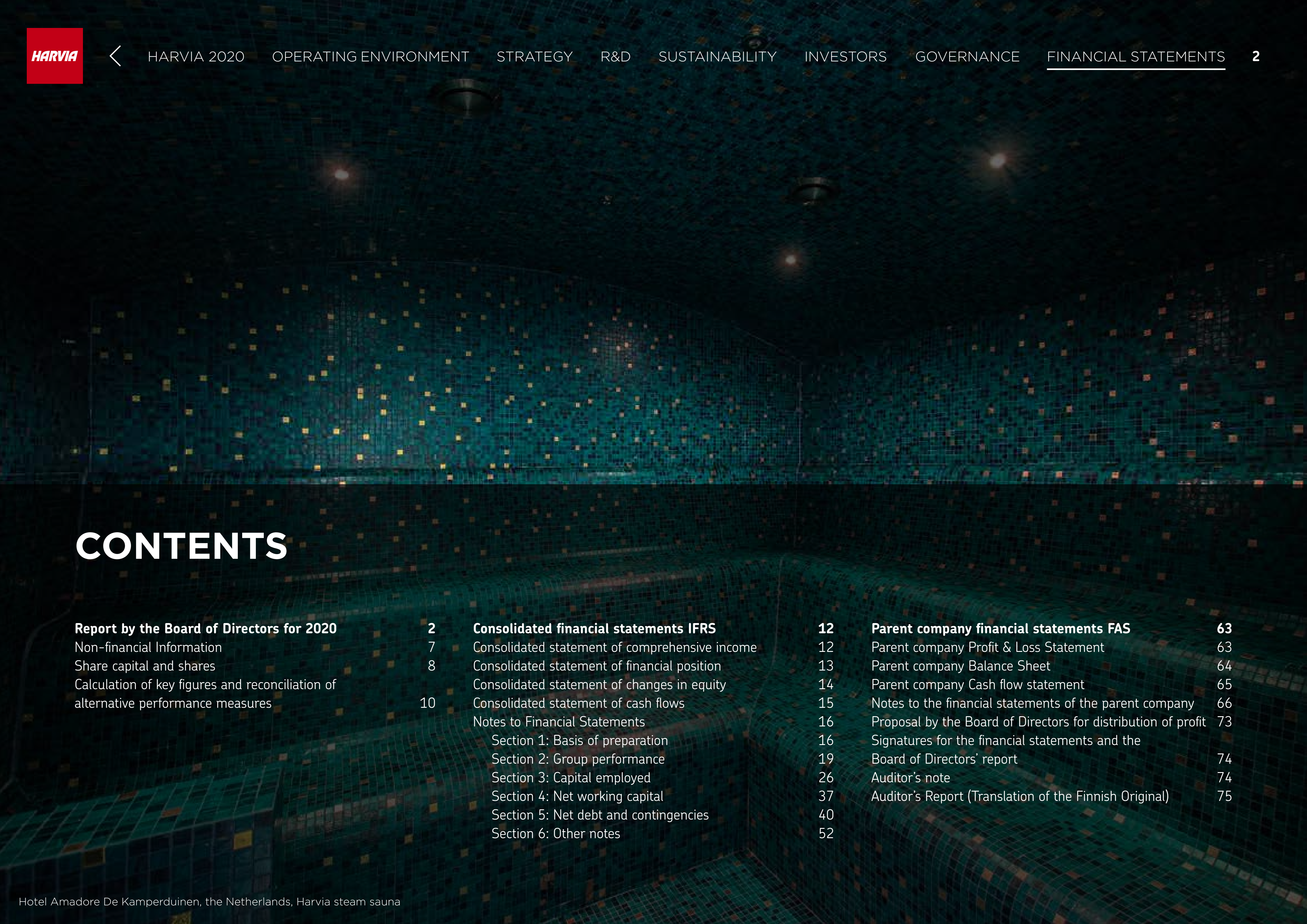
HARVIA

Sauna & Spa

HARVIA PLC

REPORT BY THE BOARD OF DIRECTORS AND CONSOLIDATED FINANCIAL STATEMENTS

2020



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Hotel Amadore De Kamperduinen, the Netherlands, Harvia steam sauna

REPORT BY THE BOARD OF DIRECTORS FOR 2020

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, Germany, 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 2020 are presented below (EUR thousand, unless otherwise indicated).

	2020	2019	2018
Key statement of comprehensive income indicators			
Revenue	109,115	74,095	61,942
EBITDA	26,705	16,437	11,533
EBITDA margin, per cent	24.5%	22.2%	18.6%
Adjusted EBITDA	28,775	16,989	13,009
Adjusted EBITDA margin, per cent	26.4%	22.9%	21.0%
Operating profit	22,376	13,324	9,376
Operating profit margin, per cent	20.5%	18.0%	15.1%
Adjusted operating profit	24,445	13,876	10,852
Adjusted operating profit margin, per cent	22.4%	18.7%	17.5%
Basic EPS (EUR)	0.83	0.51	0.41
Diluted EPS (EUR)	0.82	0.51	0.41
Key cash flow indicators			
Cash flow from operating activities	28,080	15,072	8,820
Operating free cash flow	28,688	15,167	10,019
Cash conversion, per cent	99.7%	89.3%	77.0%
Investments in tangible and intangible assets	-2,567	-1,807	-1,617
Financial position key figures			
Net debt	31,891	28,305	30,258
Net debt / adjusted EBITDA (Leverage), per cent	1.1	1.7	2.3
Net working capital	17,952	16,840	17,500
Capital employed excluding goodwill, average	33,337	36,301	34,348
Capital employed excluding goodwill at the end of period	29,732	36,943	35,659
Adjusted return on capital employed (ROCE), per cent	73.3%	38.2%	31.6%
Equity ratio, per cent	42.0%	56.6%	56.3%
Return on equity (ROE), per cent	23.2%	14.3%	15.9%

The Group's revenue increased in January–December by 47.3% to EUR 109.1 million (74.1). At comparable exchange rates, revenue grew by 49.9% to EUR 111.1 million. Organic revenue growth was 28.0%. Revenue growth was strong especially in Germany, North America and other European countries. Revenue developed favorably in Finland, Russia and the Nordic countries, as well. The EOS acquisition increased the Group's revenue in Germany by EUR 6.6 million, in other European countries by EUR 5.1 million and in Russia by EUR 2.3 million. The negative impacts of the COVID-19 pandemic were reflected in the revenue development of the Other countries market area during the review period.

Revenue increased particularly in the sauna heater product group. Sales of sauna rooms also continued to increase steadily, boosted in particular by the positive development in sauna room sales in North America and strong demand in Central Europe. The sales of control units and other product groups developed favorably. The EOS acquisition increased particularly the revenue from electric heaters, control units and steam generators in the review period. The cumulative revenue from steam generators declined due to the COVID-19 situation in the Arab countries and Asia.

Operating profit in 2020 was EUR 22.4 million (13.3). The operating profit included EUR 2.1 million (0.6) of items affecting comparability, mainly related to acquisitions. The adjusted operating profit of EUR 24.4 million improved from the previous year (13.9) and the operating profit margin was 22.4% (18.7). Financing expenses for the review period amounted to EUR -2.0 million (-1.3).

The result before taxes for January–December was EUR 20.4 million (12.1). The Group's taxes amounted to EUR -4.4 million (-2.5).

The result for the financial period attributable to the owners of the parent was EUR 15.5 million (9.6) and the undiluted earnings per share were EUR 0.83 (0.51). Changes in exchange rates impacted the result of the review period by approximately EUR -0.5 million.

The Group's investments in January-December were EUR 2.6 million (1.8). In 2020, Harvia invested in production machinery in Muurame, Finland as well as China and Romania. The Group invested approximately EUR 0.6 million in increasing the production capacity of Almost Heaven Saunas in the United States.

PERSONNEL

The number of personnel employed by Harvia Group in 2020 was 534 (395 in 2019) in average. Wages and salaries were EUR 17.6 million in 2020 (EUR 12.1 million in 2019). Group headcount at the end of financial year was 617 (395). Of the personnel, 33% (45) worked in Finland, 22% (0) in Germany, 14% (17) in Romania, 11% (16) in China and Hong Kong, 8% (10) in the United States, 6% (8) in Austria, 4% (0) in Russia and 2% (4) in Estonia.

RESEARCH AND PRODUCT DEVELOPMENT

In 2020 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. Sustainability is part of Harvia's continuous business development.

During 1 January – 31 December 2020 there were on average 25 employees working in research and development. The Group's research and development expenditure amounted to EUR 2.3 million (EUR 1.5 million in 2019), of which EUR 1.7 million (EUR 1.2 million in 2019) were recognized as expenses.

RISK MANAGEMENT

As a global sauna and spa company, the health and well-being of our employees, partners and customers is our top priority also in the COVID-19 situation. All Harvia offices and production facilities follow the guidelines set by local health authorities to contain the spread of the pandemic. In accordance with our contingency plan, we have taken special measures to ensure the safety of our personnel as well as the continuity of our production and services in the exceptional situation caused by the coronavirus.

During spring 2020, Harvia's customers had to close down operations in Italy, Spain, France and Russia. However, a part of the sales has moved online. The company is constantly assessing the COVID-19 situation in terms of its business. In 2020, the pandemic increased demand in the sauna and spa market. According to the company's assessment, a part of this demand may be so-called advance demand. So far, Harvia has been able to maintain full operational capability, but if the need to restrict operations arises, this may have a negative impact on the company's business volume, result or financial performance. If the exceptional circumstances caused by the pandemic prove to be long-lasting, the general economic situation may have a dampening effect on the demand in the industry.

General economic, social 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.

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 operational risks. Damage risks are covered with insurances where possible, and their coverage is assessed annually with the insurance company.

The Group's loans consist of long-term liabilities. The loans include covenants, which in unfavorable business conditions may require new financing negotiations with the bank. The company protects itself from interest risks arising from bank loans with interest rate swaps.

Harvia has business operations in several countries. Harvia is exposed to transaction and translation risks mainly relating to the US dollar and the Russian ruble. Exchange rate risks have thus far not been significant for the Group, and Harvia has not protected itself from these risks 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.harviagroup.com.

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. In April 2020, Harvia acquired the majority of the EOS Group and established Harvia Holding GmbH to hold the subgroup in Germany. Harvia Holding GmbH owns the EOS subgroup in Germany (ownership 78.6%) and Russian EOS Premium SPA Technologies compayny (ownership 80.0 %).

ANNUAL GENERAL MEETING

On April 2, 2020, the Annual General Meeting of Harvia Plc approved the 2019 Financial Statements. The members of the Board of Directors and the CEO were discharged from liability for 2019.

Based on the proposal by the Board of Directors, the Annual General Meeting resolved that a dividend of EUR 0.19 per share (totaling EUR 3,551,904.84) be distributed based on the approved Financial Statements for 2019. The dividend's date of record was April 6, 2020 and the dividend was paid on April 15, 2020.

The Annual General Meeting decided to authorize the Board of Directors to resolve, at its discretion, on distributing an extra dividend amounting to a maximum of EUR 0.19 per share. The Board of Directors decided on the payment of a EUR 0.19 per share extra dividend (EUR 3,551,904.84 in total) at its meeting held on October 16, 2020. The dividend's date of record was October 20, 2020 and the dividend was paid on October 27, 2020.

The Board of Directors was authorized 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, 2021 at the latest.

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 authorization is valid until the closing of the next Annual General Meeting, but no longer than until June 30, 2021.

The Annual General Meeting approved the remuneration policy for the different bodies of the company.

The Annual General Meeting decided on establishing a Shareholders' Nomination Board to prepare proposals concerning the election and remuneration of the Board Members, as well as the remuneration of the members of the various Board committees, to be submitted to future Annual General Meetings and to any Extraordinary General Meetings where necessary. The Shareholders' Nomination Board consists of representatives appointed by the company's four largest shareholders. The Shareholders' Nomination Board must submit its proposal to the company's Board of Directors on an annual basis and at the latest on January 31 preceding the applicable Annual General Meeting.

The established Shareholders' Nomination Board will operate until further notice, i.e. until the General Meeting decides otherwise. The term of office of the members of the shareholders' nomination board will end upon the appointment of the members of the new Shareholders' Nomination Board.

SHARE-BASED INCENTIVE PLAN

Harvia has a share based long-term incentive plan for the CEO and Management Team members. The plan 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 decides 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 Board of Directors of Harvia Plc decided on November 24, 2020 to continue the Long-term Performance Share Plan for the Management Team and other key employees for the performance period 2020–2022. In the performance period 2020-2022, the plan has 15 participants at most and the targets for the performance period relate to company´s total shareholder return, revenue growth and EBIT margin. The number of shares to be paid based on the performance period 2020-2022 is maximum of 50 300 Harvia Plc´s shares. This number of shares represents the 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 2020-2022 will be paid out during spring 2023.

The Board of Directors of Harvia Plc decided on November 24th, 2020 to start repurchasing the company's own shares on the basis of the authorization given by the Annual General Meeting on 2 April 2020. The shares shall be repurchased to be used as a part of the company's incentive plan. In December, Harvia completed the repurchase of own shares, which started on 4 December 2020 and ended on 14 December 2020. During that time, Harvia acquired a total of 50,000 own shares for an average price of EUR 20,52 per share. Following the repurchase, Harvia Plc holds a total of 50,000 own shares, corresponding to 0.27% of the total number of shares.

BOARD OF DIRECTORS PROPOSAL FOR DISTRIBUTION OF PROFIT

Harvia Plc's total unrestricted equity amounts to EUR 64,653,008 in total, of which profit for the period accounts for EUR 9,929,748. Harvia targets a regularly increasing dividend with a bi-annual dividend payout of at least 60 percent of Group net income, in total. In order to determine the amount of dividend, the Board of Directors has assessed the company's solvency and financial standing after the end of the period.

Harvia's Board of Directors proposes to the Annual General Meeting that after the Annual General Meeting in April 2021, the company distributes a dividend of EUR 0.20 per share for the financial period ended December 31, 2020 as well as an additional dividend of EUR 0.12 per share to celebrate Harvia's 70-year anniversary. In addition, the Board of Directors requests that the Annual General Meeting authorizes the Board to distribute a maximum dividend of EUR 0.19 per share in October 2021. Therefore, based on the Board of Directors' proposal, the dividend distributed by Harvia Plc for the financial period 2020 would amount to a maximum of EUR 0.51 per share, i.e. a maximum of EUR 9,570,600 in total. The proposed dividend is 60.0% of the Group's profit for the financial period 2020.

BOARD OF DIRECTORS AND THE COMPANY'S AUDITORS

Harvia Plc's members of the Board of Directors were Olli Liitola, Anders Björkell (until 2 April 2020), Pertti Harvia (until 2 April 2020), Ari Hiltunen, Ia Adlercreutz, Sanna Suvanto-Harsaae ja Kalle Kekkonen. 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 (until 11 May 2020), Vice President, Marketing Päivi Juolahti (as of 12 May 2020), Sales Director, Finland Anssi Pelkonen, Vice President, Operations & Sourcing Mika Suoja, Sales Director, Central Europe Markus Wörmanseder and CEO of the EOS Group Rainer Kunz (as of 1 May 2020).

The company announced the composition of the Shareholders' Nomination Board on September 14, 2020 and informed of a change in the composition on October 7, 2020. The members of the Shareholders' Nomination Board are:

- Juho Lipsanen, Onvest Oy, Member of the Board
- Heikki Savolainen, WestStar Oy, Managing Director
- Antti Katajisto, SEB Investment Management AB, Helsinki Branch, Director
- Pertti Harvia, Tiipeti Oy, Chairman of the Board
- In addition, Olli Liitola, the Chairman of the Board of Directors of Harvia, serves as an expert in the Nomination Board without being a member.

OUTLOOK FOR 2021

The sauna and spa market has historically been resilient, due in particular to the demand arising from the need to replace sauna heaters. The COVID-19 pandemic caused significant and quick fluctuations in demand in 2020, but the company estimates that the total impact of the pandemic on the sauna and spa market were positive. Harvia management believes that the current market situation will support the company's business operations also in 2021, but there is uncertainty in the operating environment caused by the pandemic and its development.

In 2021 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

On December 17, 2020, Nasdaq reported on an annual assessment of market cap segments, which was carried out based on the average market caps in November 2020. In connection with the assessment, Harvia Plc's market cap segment changed from Small Cap to Mid Cap. The change came into effect on January 4, 2021.

On January 29, 2021, Harvia announced the proposals of the Shareholders' Nomination Board to the Annual General Meeting 2021. The Shareholders' Nomination Board proposes that five members be elected to the company's Board of Directors and that Ia Adlercreutz, Olli Liitola and Sanna Suvanto-Harsaae be reappointed. The Nomination Board proposes that Anders Holmén and Hille Korhonen be appointed as new members of the Board of Directors. All proposed persons have given their consent to the appointment and are independent of the company and of the major shareholders of the company.

Non-financial Information

HARVIA'S BUSINESS MODEL AND SUSTAINABILITY

Sustainability is built into Harvia's mission and vision. Harvia would like everyone across the globe to be able to experience the healing and relaxing effects of taking a sauna. The company also aims to be the most trusted partner in the industry. Harvia's values incorporate acting responsibly, taking care of the environment, and people. Harvia's products are made sustainably and designed to be safe and long-lasting. Sustainability at Harvia includes the following four core areas: a responsible Code of Conduct, personnel, the environmental impacts of production, and products.

Harvia's strategy has a strong focus on growth, and the company aims to further strengthen its position in the global sauna and spa market with its comprehensive offering. Industry leadership is built on innovation, sustainability, skilled personnel, and digitalization.

Sustainability-related risks are identified and managed preventatively as part of Harvia Group's risk management.

CORE POLICIES AND PRINCIPLES

Harvia's operations are guided by the company's values and the Harvia Code of Conduct. The Code of Conduct is part of the orientation program for new employees and other company trainings. The company has also introduced an environmental handbook in its operations in Finland.

For reporting potential misconduct, Harvia has an anonymous whistle-blowing channel in use in Finland, and possible observations are duly investigated by an external expert partner. In 2020, no reports were made through the whistle-blowing channel. The company aims to launch the whistle-blowing channel in all operating countries.

Harvia requires that all its contract suppliers act responsibly and commit to the Harvia Supplier and Partners' Code of Conduct. It is divided into ethics, corruption, labor force, health and safety and environment. The company's goal is to familiarize all its current and new suppliers and partners with the Code of Conduct. By the end of 2020, more than 80 percent of suppliers had agreed to comply with the Code of Conduct.

ENVIRONMENT

Key environmental topics in Harvia's operations include selection of materials and resources and their efficient use, energy consumption and energy sources used, reduction of emissions, as well as production quality and efficiency. Harvia's products are designed to be safe and durable. A key principle of the products is that they can be repaired, with spare part services offered by Harvia. The company also takes care of the recyclability of its products .

Harvia's Group-level Scope 1 CO_2 emissions in 2020 were 248 tCO_2 (205) and Scope 2 emissions 1,771 tCO_2 (1,069). Energy consumption, including electricity, district heating, propane, diesel and gasoline, totaled 9,297 MWh in 2020 (7,737). The increased emissions and energy consumption are due to an increase in the volume of operations and the inclusion of EOS Group in the 2020 figures after the acquisition of the company. The share of renewable energy in Harvia Group was 57 percent in 2020.

All the electricity used at the Muurame factory is from renewable sources. A part of it is produced by the factory's solar panels. The factory's energy consumption has been reduced by, for instance, switching to LED lighting. Harvia Group uses a transportation partner that aims to have emission-free operations by 2050.

In Finland, Harvia uses only PEFC- or FSC-certified wood. In Romania, Domo Wellness has the FSC Chain of Custody certificate. In other countries, the company is exploring opportunities to increase the share of certified wood.

The stainless steel used by Harvia is mainly supplied by a progressive partner and manufactured with over 85% recycled steel. The product is also fully recyclable. In Finland, steel is transported from nearby, minimizing the carbon footprint of transportation. Harvia only uses domestic stone in Finland and also exports stone from Finland to its other European factories. The company's operations in China have their own channel for procuring stone.

In terms of waste and losses, the company aims to prevent waste with efficient use of materials and especially by decreasing plastic waste. The waste is sorted as carefully as possible and delivered to appropriate processing or recycling.

SOCIAL ISSUES AND EMPLOYEES

Sauna and well-being

Well-being is one of the most significant megatrends. Sauna offers a way to relax and unwind, but according to research it is also good for the health. Sauna is good for cardiovascular health and helps with sleeping difficulties as well as relaxes muscles and affects the body similar to exercise. Harvia's product offering covers all three sauna types: traditional saunas, steam saunas and infrared saunas. The company's products are used by both consumers and sauna and spa industry professionals alike.

Harvia actively participates in versatile cooperation projects with universities and research institutes. The company also commissioned a consumer study in 2020 in Finland and Germany on the reasons behind taking a sauna. The results highlighted the sauna's significance for mental and physical well-being as well as the values of sustainable development. Key motives for sauna bathing were enjoyment, stress relief, and mental well-being. Material sustainable development topics are sauna's energy consumption, ecological building materials, and organic sauna products.

Personnel

A key factor behind Harvia's success is the skilled and motivated personnel, whose well-being the company looks after. Key sustainability elements related to personnel include well-being and job satisfaction, attracting and retaining talent, respecting the rights of employees, and health and safety at work. In 2020, special attention was paid to health and safety due to the COVID-19 pandemic.

Harvia has conducted personnel surveys as part of the "Työkaari kantaa" project of Technology Industries of Finland. In the initial mapping carried out in 2019, professional skills, occupational healthcare and occupational health and safety were considered to be at a good level. The continuous development of supervisory work was reported as a key development area. In the follow-up survey in late 2020, the management of well-being at work and productivity had developed positively, as had the leadership activity of supervisors. The biggest improvements were seen in trust towards the employer and support provided to employees by supervisors. The possibility to learn new things and skills, commitment to work and work motivation were also felt to have improved.

As two thirds of Harvia's personnel work in production, Harvia puts a great effort in work safety and related risk management. Monitoring, reporting as well as annual risk analyses are a key part of Harvia's occupational safety and help to identify and prevent risk situations. The company also improves occupational safety by investing in machinery. One serious accident occurred involving Harvia's personnel in 2020.

The company takes care of the continuous competence development of its personnel. In 2020, the company carried out, among others, trainings for new IT software and applications as well as language training. The company's operations also necessitate many trainings required by authorities.

Respecting human rights and prevention of corruption and bribery

Harvia's Code of Conduct defines the company's approach on political activity and human rights, as well as rejection of corruption, bribery or the use of child and forced labor. Harvia requires the same from its subcontractors. The company conducts thorough due diligence in terms of its customers and takes into account, for instance, EU guidelines. In 2020, no cases related to human rights, corruption or bribery were reported.

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, 2019: 18,694,236) shares. 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 was EUR 115.5 million (65.4) and 8,496,186 shares (8,951,484). The share's volume weighted average rate during the review period was EUR 13.59 (7.32), the highest rate during the review period was EUR 25.10 (11.15) and the lowest EUR 7.02 (5.50). The closing price of the share at the end of December 2020 was EUR 24.50 (10.45). The market value of the share capital on December 31, 2020 was EUR 458.0 million (195.4). At the end of the review period, Harvia Plc holds a total of 50,000 own shares, corresponding to 0.27% of the total number of shares.

The number of registered shareholders at the end of the review period was 13,551 (5,249), including nominee registers. At the end of the review period, nominee-registered and direct foreign shareholders held 44.8% (53.1) of the company's shares. The ten largest shareholders held a total of 30.5% (30.2) of Harvia's shares and votes at the end of the review period.

Shareholder profile 31 December 2020	Total %	Total pcs
Foreign holding	44.8%	8,380,165
Companies	23.6%	4,405,537
Households	20.3%	3,791,796
Financial institutions and insurance companies	11.1%	2,066,738
Harvia Oyj own shares	0.3%	50,000
Total	**100.0%**	**18,694,236**

Shareholders on 31 December 2020	pcs	Percentage of shares and votes
ONVEST OY	2,305,679	12.3
LANNEBO FONDER *	1,356,147	7.3
WESTSTAR OY	569,942	3.0
TIIPETI OY - PERTTI HARVIA	429,290	2.3
SEB FINLAND SMALL CAP	420,000	2.2
VERITAS PENSION INSURANCE COMPANY	403,000	2.2
ILMARINEN MUTUAL PENSION INSURANCE COMPANY	372,320	2.0
KTR-INVEST OY - RISTO HARVIA	287,625	1.5
EVLI FINNISH SMALL CAP FUND	245,907	1.3
PAJUHARJU TAPIO	243,000	1.3
MANTEREENNIEMI OY - SARI HARVIA-JYLLINMAA	214,645	1.1
AVUS OY - KULLERVO HARVIA	214,645	1.1
SIJOITUSRAHASTO TAALERI MIKRO MARKKA	210,000	1.1
ELITE ALFRED BERG FINLAND FUND	169,717	0.9
VESTERINEN ARI	131,666	0.7
Total	**7,573,583**	**40.5**

* According to the fund's announcement. Harvia has 45 % nominee registered shareholders, and all the major nominee registered shareholders are not listed here.

Shares per shareholder	Number of shareholders	Percentage of shareholders %	Shares total, pcs	Percentage of shares and votes %
Over 1 000 000	4	0.0	10,370,279	55.5
100 001 - 1 000 000	17	0.1	4,390,625	23.5
10 001 - 100 000	29	0.2	857,876	4.6
1 001 - 10 000	471	3.5	1,115,428	6.0
1 - 1000	13,030	96.2	1,960,028	10.5
Total	**13,551**	**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 2020 a total of 958,766 Harvia shares, corresponding 5.1 per cent of shares and votes in the company. (31 Dec 2019 1,411,762 and 7.6%)

Calculation of key figures and reconciliation of alternative performance measures

EUR thousand	1-12/2020	1-12/2019
Operating profit	22,376	13,324
Depreciation and amortisation	4,329	3,113
EBITDA	26,705	16,437
Items affecting comparability		
Strategic development projects		3
Acquisition related expenses	1,934	381
Restructuring expenses	135	167
Total items affecting comparability	2,070	552
Adjusted EBITDA	28,775	16,989
Depreciation and amortisation	-4,329	-3,113
Adjusted operating profit	24,445	13,876
Finance costs, net	-2,026	-1,263
Adjusted profit before income taxes	22,419	12,613

CALCULATION OF KEY FIGURES

Key figure	Definition
Operating profit	Profit before income taxes, finance income and finance costs.
EBITDA	Operating profit before depreciation and amortisation
Items affecting comparability	Material items outside the ordinary course of business, which relate to i) costs related to the listing ii) strategic development projects, iii) acquisition and integration related expenses, iv) restructuring expenses and v) net gains or losses on sale of assets and grants received.
Adjusted operating profit	Operating profit before items affecting comparability.
Adjusted EBITDA	EBITDA before items affecting comparability.
Adjusted profit before income taxes	Profit before income taxes excluding items affecting comparability.
Earnings per share, undiluted	Profit for the period attributable to the owners of the parent divided by weighted average number of shares outstanding.
Earnings per share, diluted	Profit for the period attributable to the owners of the parent divided by weighted average number of shares outstanding taken into consideration the effects associated with any parent company's obligations regarding the possible share issue in the future.
Net debt	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 2020	1 Jan - 31 Dec 2019
Revenue	2.1	**109,115**	**74,095**
Other operating income	2.3	377	449
Materials and services		-42,033	-29,437
Employee benefit expenses	2.3	-21,180	-14,912
Other operating expenses	2.3	-19,573	-13,758
Depreciation and amortisation	2.4	-4,329	-3,113
Operating profit		**22,376**	**13,324**
Finance income	5.4	229	159
Finance costs	5.4	-2,645	-1,600
Changes in fair values		390	178
Finance costs, net		-2,026	-1,263
Profit before income taxes		**20,350**	**12,061**
Income taxes	6.3	-4,399	-2,464
Profit for the period		**15,951**	**9,597**
Attributable to:			
Owners of the parent		15,475	9,597
Non-controlling interests*		476	

EUR thousand	Note	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods:			
Translation differences	6.4	-801	177
Other comprehensive income, net of tax		**-801**	**177**
Total comprehensive income		**15,150**	**9,774**
Attributable to:			
Owners of the parent		14,674	9,774
Non-controlling interests*		476	
Earnings per share for profit attributable to the owners of the parent:			
Basic EPS (EUR)	2.5	0.83	0.51
Diluted EPS (EUR)	2.5	0.82	0.51

* EOS Group Non-controlling interests

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

Consolidated statement of financial position

EUR thousand	Note	31-Dec-20	31-Dec-19
ASSETS			
Non-current assets			
Intangible assets	3.2	10,420	4,137
Goodwill	3.2	71,018	60,200
Property, plant and equipment	3.3	16,907	14,543
Leased assets	3.4	2,683	2,580
Deferred tax recevables	6.3	1,924	1,347
Total non-current assets		**102,952**	**82,807**
Current assets			
Inventories	4.1	20,696	13,814
Trade and other receivables	4.2	14,411	14,217
Income tax receivables		244	108
Cash and cash equivalents	5.2	27,321	10,879
Total current asset		**62,673**	**39,018**
Total assets		**165,625**	**121,825**

EUR thousand	Note	31-Dec-20	31-Dec-19
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	6.4	80	80
Other reserves	6.4	42,627	53,399
Retained earnings	6.4	8,254	5,761
Profit for the period	6.4	15,475	9,597
Total equity attributable to owners of the parent		**66,437**	**68,837**
Non-controlling interests		2,423	
Total equity		**68,859**	**68,837**
Liabilities			
Non-current liabilities			
Loans from credit institutions	5.1	56,328	36,394
Lease liabilities	3.4	2,425	2,261
Derivative financial instruments	5.1	903	1,292
Deferred tax liabilities	6.3	1,941	
Employee benefit obligations	5.6	2,847	
Other non-current liabilities	5.1	9,616	92
Provisions	3.5	305	222
Total non-current liabilities		**74,365**	**40,261**
Current liabilities			
Loans from credit institutions	5.1	55	123
Lease liabilities	3.4	404	406
Employee benefit obligations	5.6	186	
Income tax liabilities		4,323	784
Trade and other payables	4.3	17,156	11,191
Provisions	3.5	277	222
Total current liabilities		**22,400**	**12,726**
Total liabilities		**96,765**	**52,987**
Total equity and liabilities		**165,625**	**121,825**

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

Consolidated statement of changes in equity

EUR thousand	Attributable to owners of the parent					
	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**

EUR thousand	Attributable to owners of the parent							
	Note	Share capital	Invested unrestricted equity reserve	Translation differences	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total
Equity at 1 January 2020		**80**	**53,257**	**142**	**15,358**	**68,837**		**68,837**
Share-based incentive plan			563			563		563
Dividend distribution					-7,104	-7,104		-7,104
Acquisitions			-9,508			-9,508	1,947	-7,561
Repurchase of own shares			-1,026			-1,026		-1,026
Total transactions with shareholders	6.4		-9,971		-7,104	-17,075	1,947	-15,128
Profit for the period					15,475	15,475	476	15,951
Other comprehensive income	6.4			-801		-801		-801
Total comprehensive income				-801	15,475	14,674	476	15,150
Equity at 31 December 2020		**80**	**43,286**	**-658**	**23,729**	**66,437**	**2,423**	**68,859**

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

Consolidated statement of cash flows

EUR thousand	Note	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Cash flows from operating activities			
Profit before taxes		20,350	12,061
Adjustments			
Depreciation and amortisation	2.4	4,329	3,113
Finance income and finance costs	5.4	2,026	1,263
Other adjustments		1,496	-52
Cash flows before changes in working capital		28,201	16,386
Change in working capital			
Increase (-) / decrease (+) in trade and other receivables	4.2	750	-1,898
Increase (-) / decrease (+) in inventories	4.1	-2,449	750
Increase (+) / decrease (-) in trade and other payables	4.3	4,178	1,133
Cash flows from operating activities before financial items and taxes		30,681	16,371
Interest and other finance costs paid		-339	-69
Interest and other finance income received		114	38
Income taxes paid	6.3	-2,376	-1,268
Net cash from operating activities		**28,080**	**15,072**
Cash flows from investing activities			
Purchases of tangible and intangible assets	3.2, 3.3	-2,567	-1,807
Sale of tangible and intangible assets		25	34
Acquisition of subsidiaries, net of cash acquired	3.1	-18,059	
Net cash from investing activities		**-20,602**	**-1,773**

EUR thousand	Note	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Cash flows from financing activities			
Acquisition of treasury shares	6.4	-1,026	
Proceeds from non-current loans	5.1	20,000	
Repayments of non-current loans	5.1	-63	-14
Change in current interest-bearing liabilities	5.1	-61	-2,032
Repayment of lease liabilities	3.4	-647	-455
Interest and other finance costs paid		-2,186	-1,363
Dividends paid	6.4	-7,104	-6,917
Net cash from financing activities		**8,914**	**-10,781**
Net change in cash and cash equivalents		16,391	2,517
Cash and cash equivalents at 1 January	5.2	10,879	8,268
Exchange gains/losses on cash and cash equivalents		51	94
Cash and cash equivalents at 31 December		**27,321**	**10,879**

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 70 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 2020 the company had 617 employees, of which 201 worked in Finland, 37 in Austria, 88 in Romania, 66 in China and Hong Kong, 49 in the United States, 25 in Russia, 136 in Germany and 14 in Estonia.

Harvia Plc is the parent company of the Group. 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.
- Harvia Holding GmbH was established in February 2020 and it holds the majority of EOS subgroup in Germany. EOS subgroup manufactures heaters and other sauna products. (78.6% acquired on 30 April 2020)
- EOS Premium SPA Technologies, which is the sales company for saunas and EOS products in Russia (80% acquired on 30 April 2020).

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 harviagroup.com.

The Board of Directors of Harvia Plc has approved these consolidated financial statements for issue on 10 February 2021. 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 2020. 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 5.6 Defined benefit obligations	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	3.4 Leases	IFRS 16
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	6.3 Taxes	IAS 12
Shareholder's equity	6.4 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 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
Defined benefit obligations	5.6
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	2020	% of revenue	2019	% of revenue
Revenue	109,115		74,095	
Other operating income	377	0%	449	1%
Materials, services and change in inventories	-42,033	-39%	-29,437	-40%
Employee benefit expenses	-21,180	-19%	-14,912	-20%
Depreciation and amortisation	-4,329	-4%	-3,113	-4%
Other operating expenses	-19,573	-18%	-13,758	-19%
Operating profit	**22,376**	**21%**	**13,324**	**18%**

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 10% of the Group's revenue in 2020 (2019: 13%).

The accumulation of Harvia's revenue has been constant and stable over the past years. Acquired business of EOS Group on April 30, 2020 increased the revenue. 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

REVENUE BY MARKET AREA

EUR thousand	2020	%	2019	%
Finland	27,679	25%	24,210	33%
Other European countries	26,118	24%	17,188	23%
North America	20,847	19%	11,816	16%
Germany	17,644	16%	6,867	9%
Russia	7,881	7%	5,761	8%
Other Scandinavia	5,615	5%	4,157	6%
Other countries*	3,331	3%	4,096	6%
Total	**109,115**	**100%**	**74,095**	**100%**

* The largest of which: Arab countries and Asia

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.

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.

REVENUE BY PRODUCT GROUP

EUR thousand	2020	%	2019	%
Sauna heaters	59,003	54%	39,740	54%
Sauna rooms	20,646	19%	14,700	20%
Other product groups, spare parts and services	16,049	15%	10,261	14%
Control units	10,217	9%	5,918	8%
Steam generators	3,199	3%	3,476	5%
Total	**109,115**	**100%**	**74,095**	**100%**

Revenue from projects recognized over time was EUR 248 thousand (2019: EUR 588 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.

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

EUR thousand	31-Dec-20	31-Dec-19
Finland	71,184	71,856
Other EU	23,829	3,609
Asia	2,509	2,783
United States	3,506	3,211
Total non-current assets	**101,028**	**81,460**

Revenue by geographical areas has been presented in note 2.1.

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.

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.

The following table presents different components of employee benefit expenses:

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.

EUR thousand	**2020**	**2019**
Wages and salaries	17,558	12,149
Pension costs - defined contribution plans	1,503	1,454
Other employee benefit expenses	2,119	1,309
Total	**21,180**	**14,912**

Harvia Group employed a total of 617 employees as at 31 December 2020 (2019: 395 employees). Of the total number of employees at the end of 2020, 231 were officers and 386 workers. Pension plans of employees of the Group in Finland, Austria, Germany, Romania, China, USA, Hong Kong and Estonia are defined contribution plans. Harvia has a defined benefit pension plan in Germany, which is described more further in the note 5.6.

Other significant expense items are as follows:

OTHER OPERATING EXPENSES

EUR thousand	2020	2019
Sales and marketing*	10,237	7,778
Travel and cars	551	957
Electricity, heating and water	902	725
Audit, accounting, consulting and legal expenses	2,558	1,018
Rents	244	95
IT and telecommunication	791	358
Voluntary staff expenses	476	306
Other**	3,814	2,520
Total	**19,573**	**13,758**

* 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 2020 to PricewaterhouseCoopers amounted to 164 EUR thousand (2019: EUR 104 thousand). Of these, EUR 138 thousand were fees relating to statutory audit (2019: EUR 104 thousand). In 2020 EUR 2 thousand of fees were related to auditor opinions and certificates (2019: EUR 0 thousand) and EUR 23 thousand to other fees (2019: EUR 0 thousand). Audit fees paid to other auditors were EUR 67 thousand (2019: EUR 21 thousand).

Harvia Group's research and development department employed an average of 25 persons, and expensed research and development costs totaled EUR 1,651 thousand in the financial year 2020 (2019: EUR 1,206 thousand).

Other operating income includes income EUR 80 thousand resulting from fair value valuation of Saunamax Oy minority share redemption liability (2019: EUR 270 thousand).

2.4 Depreciation and amortisation

The following table presents depreciation and amortisation by asset class:

EUR thousand	2020	2019
Depreciation by class		
Buildings and constructions	810	700
Machinery and equipment	1,077	909
Other tangible assets	151	125
Total property, plant and equipment	**2,037**	**1,734**
Leased buildings and structures	453	485
Leased machinery and equipment	171	69
Total leased assets	**624**	**554**

EUR thousand	2020	2019
Amortisation by class		
Development costs	344	324
Customer relationships	753	149
Brand	280	153
Technology	73	36
Other intangible assets	218	161
Total intangible assets	**1,668**	**824**
Total depreciation and amortisation	**4,329**	**3,113**

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.

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.

	2020	2019
Profit for the period attributable to the owners of the parent company, EUR thousand	15,475	9,597
Weighted average number of shares outstanding during the financial period, '000	18,691	18,694
Basic earnings per share, EUR	**0.83**	**0.51**
Share-based long-term incentive plan	184	62
Weighted average number of shares outstanding during the year, diluted, '000	18,875	18,756
Diluted earnings per share, EUR	**0.82**	**0.51**

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 30.4.2020, Harvia acquired the majority of the EOS Group. The result of the new subsidiary was consolidated to Harvia Group as of 1 May 2020.

THE ACQUISITION OF EOS GROUP

At the end of April, Harvia completed the acquisition of the majority of the German EOS Group. EOS is the technology leader for professional and premium sauna & spa products with a revenue of EUR 17.3 million in 2019. The acquisition complements Harvia's professional and premium sauna offering well and strengthens Harvia's leading position as a professional global sauna and spa experience brand. Harvia owns 78.6 percent of the German operations of EOS Group and 80.0 percent of its Russian operations, and the company holds an option entitling to purchase the minority shares in the future.

The purchase price was EUR 19.7 million and it was based on the debt-free valuation of EUR 25.5 million for the entire EOS Group at the time of the signing of the deal. Harvia financed the acquisition by interest-bearing debt and its own cash funds.

In the EOS Group acquisition, fixed assets amounting to EUR 2.6 million, net working capital items amounting to EUR 3.6 million, cash and cash equivalents amounting to EUR 1.7 million and pension liabilities amounting to EUR 3.0 million were transferred. The preliminary purchase price allocation pertaining to the acquisition includes intangible assets amounting to EUR 7.0 million with annual amortization of approximately EUR 1.2 million. Valuation of inventory to fair value increased inventory by EUR 1.3 million, which is amortized in calculations in 12 months.

According to the preliminary purchase price allocation, goodwill amounts to EUR 10.8 million. The estimated non-controlling interests' redemption liability of EUR 9.5 million pertaining to the acquisition has been entered as liability and decrease in shareholders' equity. The redemption liability is presented in non-interest-bearing liabilities. The preliminary purchase price allocation pertaining to the acquisition is presented in the following table.

The acquisition is expected to create annual synergies of at least EUR 2.2 million, which are expected to be realized in full by 2024. Costs relating to the acquisition in January–December 2020 were EUR 1.8 million. EUR 0.1 million. The integration or post-closing costs were EUR 0.1 million in 2020. Post-closing costs are estimated to be less than EUR 0.8 million in 2021.

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.

Preliminary purchase price allocation of the acquisition is presented in the table below:

EUR thousand	
Purchase price	**19,751**
Net identifiable assets acquired	
Non-current assets	
Intangible assets	7,032
Property, plant and equipment	2,647
Other assets	278
Current assets	
Inventories	5,392
Trade and other receivables	1,386
Cash and cash equivalents	1,692
Total assets	18,427
Non-current liabilities	
Employee benefit obligations	3,016
Deferred tax liabilities	2,317
Lease liabilities	154
Current liabilities	
Trade and other payables	2,108
Total liabilities	7,560
Total net assets acquired	**10,832**
Group's share of net assets	8,885
Goodwill	**10,866**

Resulting from the acquisition, non controlling interests' redemption liability amounting to EUR 9.5 million was booked as liability and equity decrease.

CASH FLOW IMPACT

EUR thousand	
Cash consideration of the acquisition	19,751
Cash balance acquired	- 1,692
Impact on cash flows – investing activities	**18,059**

Expenses of EUR 1,8 million related to the acquisition are presented under Other operating expenses and in operating cash flows in the consolidated statement of cash flows.

3.2 Intangible assets and impairment testing

Majority of the goodwill was recognised in connection of the acquisition of Harvia in 2014. During 2020, the acquisition of EOS Group increased the amount of goodwill.

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
2020								
Cost at 1 January	60,200	1,709	407	1,040	1,528	189	1,794	66,867
Business combinations	10,866			4,541	1,929	561		17,897
Additions		312	157				539	1,008
Disposals		-3						-3
Reclassifications		145	-163				17	0
Exchange differences	-47	0		-25	-79	-6	-11	-169
Cost at 31 December	71,018	2,163	402	5,556	3,378	744	2,339	85,600
Accumulated depreciation at 1 January		-811	0	-257	-281	-61	-1,120	-2,530
Amortisation		-344		-753	-280	-73	-218	-1,668
Disposals		1						1
Exchange differences				16	15	4	1	35
Accumulated depreciation at 31 December		-1,154	0	-994	-546	-131	-1,337	-4,162
Net book amount at 1 January	**60,200**	**898**	**407**	**784**	**1,247**	**128**	**674**	**64,337**
Net book amount at 31 December	**71,018**	**1,008**	**402**	**4,562**	**2,832**	**613**	**1,003**	**81,438**

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**

IMPAIRMENT TEST FOR GOODWILL

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

EUR thousand	31-Dec-20	31-Dec-19
Finland	60,118	59,890
Central Europe	10,958	310
Total	**71,076**	**60,200**

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

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 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. The goodwill from the acquisition of EOS Group is presented as part the goodwill in Central Europe and it was subject to impairment testing in 2020.

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-20	31-Dec-19
Long-term growth rate	1.0%	1.0%
Average revenue growth for the forecast period		
Finland	5.2%	4.1%
Central Europe	8.7%	7.0%
Average EBITDA for the forecast period (% of revenue)		
Finland	23.5%	22.9%
Central Europe	23.2%	16.2%
Pre-tax discount rate		
Finland	9.2%	8.7%
Central Europe	9.9%	9.2%

As result of the impairment tests performed no impairment loss has been recognised for any period presented. In 2020 the recoverable amount calculated based on value-in-use exceeded the carrying value by EUR 117 million in Finland and EUR 68 million in Central Europe (2019 by EUR 64 million in Finland and EUR 27 million in Central Europe).

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.

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-20	31-Dec-19
Finland		
EBITDA margin decrease	-10.4%	-7.9%
Change in discount rate	10.6%	5.9%
Central Europe		
EBITDA margin decrease	-15.2%	-13.7%
Change in discount rate	21.1%	28.0%

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. In addition, the production and office facilities of EOS Group transferred to ownership of Harvia during acquisition. Other production units operate in leased premises.

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

Please view also the appendix 2.4 of the depreciatations.

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
2020						
Cost at 1 Jan	1,404	21,174	14,116	1,096	64	37,853
Business combinations	391	1,309	836	111		2,647
Additions		241	785	59	766	1,851
Disposals		0	-20			-20
Reclassifications		158	162		-320	0
Exchange differences	-19	-54	-39	-3		-115
Cost at 31 Dec	1,776	22,827	15,840	1,263	510	42,216
Accumulated depreciation at 1 Jan		-11,314	-11,248	-748		-23,311
Depreciation		-810	-1,077	-151		-2,037
Disposals			14			14
Exchange differences		4	15	5	0	25
Accumulated depreciation at 31 Dec		-12,120	-12,296	-894	0	-25,309
Net book amount at 1 Jan	**1,404**	**9,859**	**2,868**	**348**	**64**	**14,543**
Net book amount at 31 Dec	**1,776**	**10,707**	**3,544**	**369**	**510**	**16,907**

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
Business combinations						0
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**

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.

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.

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

BALANCE SHEET AMOUNTS

EUR thousand	Buildings and structures	Machinery and equipment
Leased assets		
Book amount at 1 Jan 2019	2,856	131
Additions	210	296
Disposals	-96	-262
Depreciations	-485	-69
Book value at 31 Dec 2020	2,485	96
Book amount at 1 Jan 2020	2,485	96
Additions	303	247
Aqcuisitions		278
Disposals	-51	-1
Exchange differences	-49	
Depreciations	-453	-171
Book value at 31 Dec 2020	2,234	449

EUR thousand	2020	2019
Lease liabilities		
Non-current	2,425	2,261
Current	404	406
Book value at 31 Dec	2,829	2,667

Lease liability and interest payment is presented in cash flow from financing activities in the consolidated statement of cash flows.

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.

AMOUNTS RECOGNISED IN PROFIT AND LOSS

EUR thousand	2020	2019
Depreciation		
Buildings and structures	-453	-485
Machinery and equipment	-171	-69
	-624	-554
Interest expense (included in finance cost)	-105	-111
Expense relating to short-term and low-value leases (other operating expenses)	-244	-95
Total amounts recognised in profit and loss	-973	-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.

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.

Changes in warranty provisions are as follows:

EUR thousand	31-Dec-20	31-Dec-19
At 1 January	444	430
Additions	582	444
Used during the year	-444	-430
At 31 December	**582**	**444**
of which		
current	305	222
non-current	277	222
Total	**582**	**444**

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.

The warranty provision was released EUR 444 thousand (2019: EUR 430 thousand) and was increased EUR 582 thousand during 2020 (2019: EUR 444 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-20	31-Dec-19
Net working capital		
Inventories	20,696	13,814
Trade receivables	11,826	13,167
Other receivables	2,585	1,050
Trade payables	-8,476	-5,149
Other payables	-8,679	-6,042
Total	**17,952**	**16,840**
Change in net working capital in the statement of financial position	1,112	-660
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*	-3,592	675
Change in net working capital in the statement of cash flows**	-2,480	15

* 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).

The inventory is divided as follows:

EUR thousand	31-Dec-20	31-Dec-19
Materials and supplies	9,536	5,476
Work in progress	2,521	1,113
Finished goods	8,639	7,224
Total	**20,696**	**13,814**

In 2020 Group made EUR -190 thousand obsolescence reserve booking. No significant write-downs of inventories have been made during 2019.

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.

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.

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

EUR thousand	31-Dec-20	31-Dec-19
Trade receivables	11,826	13,167
Prepayments and accrued income	1,330	521
Other receivables	1,225	528
Total	**14,411**	**14,217**

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.

Material items included in prepayments and accrued income:

EUR thousand	31-Dec-20	31-Dec-19
Insurances	165	52
Other	1,165	469
Total	**1,330**	**521**

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

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.

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.

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

EUR thousand	31-Dec-20	31-Dec-19
Trade payables	8,476	5,149
Advance payments	1,532	231
Accrued expenses	6,785	5,282
Other liabilities	362	529
Total	**17,156**	**11,191**

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

Material items included in accrued expenses:

EUR thousand	31-Dec-20	31-Dec-19
Accrued salaries and social security costs	2,282	2,736
Accrued annual discounts	1,370	1,407
Accrued interests	51	6
Other	3,082	1,133
Total	**6,785**	**5,282**

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

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.

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

In connection with the listing of the Group, it raised a bank loan in March 2018. In 2020, Harvia raised a new bank loan to finance the acquisition of the EOS Group. The Group has entered into an interest rate swap agreement to hedge against interest rate risk arising from variable rate of bank loans.

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-20		
Liabilities per balance sheet		
Loans from credit institutions		56,451
Lease liabilities		2,829
Other long-term liabilities		9,616
Trade and other payables		15,623
Derivative financial instruments	903	
Total	**903**	**84,520**

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.

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**

LOANS FROM CREDIT INSTITUTIONS AND SHAREHOLDER LOANS

Loans from credit institutions

In 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 financing arrangement consisted of a EUR 36,500 thousand term loan and EUR 8,000 thousand credit limit. The bank loan was going to mature in one instalment on March 2, 2023 and its nominal interest was tied to Euribor and its margin is tied to Group's net debt / adjusted EBITDA ratio.

During 2020, Harvia raised a new loan of EUR 20,000 thousand to finance the acquisition of EOS Group. The terms of Harvia's existing term loan of EUR 36,500 thousand, were renegotiated in connection with the new loan. Both loans will mature in one instalment on March 27, 2024. In addition, Harvia has a EUR 8,000 thousand credit limit of which EUR 0,00 was in use as December 31, 2020. The nominal interest of the bank loan is tied to Euribor and its margin is tied to the Group's net debt / adjusted EBITDA ratio.

Sentiotec GmbH has a secured credit facility agreement of EUR 2,300 thousand which was changed to unsecured credit facility of EUR 1,250 thousand in 2019. Credit facility was not in use as at 31 December 2020 (EUR 0 at 31 Dec 2019).

Compliance with loan covenants

The 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 2020 and 2019.

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

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 -903 thousand at the end of 2020 (2019: EUR -1,292 thousand). Nominal value of the interest rate swap contract was EUR 25,000 thousand as at 31 December 2020 (2019: 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 0 thousand relating to the purchase of Saunamax Oy's minority shareholders' shares (31 Dec 2019: EUR 80 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.

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.

5.2 Cash and cash equivalents

Cash and cash equivalents amounted to EUR 27,321 thousand at the end of 2020 (31 December 2019: EUR 10,879 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.

5.3 Financial risk management and capital management

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

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

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

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

FOREIGN EXCHANGE RISK

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

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

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

EUR thousand	2020	2019
Amounts recognised in profit or loss		
Net foreign exchange gains/losses included in operating income/expenses	-314	-41
Net foreign exchange gains/losses included in finance income/costs	-475	-40
Total net foreign exchange gains/losses recognised in profit before income tax for the period	**-789**	**-81**
Gains/losses recognised in other comprehensive income		
Translation differences of foreign operations	-801	177

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

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 2020 and 2019, the Group's borrowings at variable rate were denominated in euros and swaps in place covered 44% on 31 December 2020 and 68% on December 2019 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 248 thousand higher in 2020.

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 2020, 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.

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.

During 2020 EUR 20 thousand (2019: EUR 47 thousand) was recognised in profit or loss in relation to credit losses. The loss allowance on 31 December 2020, EUR 528 thousand (2019: EUR 382 thousand), is specified as follows:

31-Dec-20

EUR thousand	**Gross book value**	**Allowance for bad debt**
Not due	9,814	8
Overdue by		
Less than 30 days	940	4
30-60 days	228	3
61-90 days	587	15
91-180 days	50	5
181-360 days	321	80
Over 360 days	414	414
Total	12,354	528

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

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 2020 (EUR 9,250 thousand as at 31 December 2019). 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-20							
Non-derivatives							
Shareholder loans	6	49	4	56,500		56,559	56,383
Loans from credit institutions	218	277	473	693	1,325	2,986	2,829
Lease liabilities	93	93	186	558	2,103	3,033	3,033
Pension liabilities				10,083		10,083	9,616
Redemption liability	8,476					8,476	8,476
Trade payables	**8,793**	**418**	**663**	**67,834**	**3,428**	**81,137**	**80,337**
Total non-derivatives							
Derivatives	207	209	409	69		894	903
Interest rate swaps	**207**	**209**	**409**	**69**		**894**	**903**
Total derivatives							

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					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**		**1,314**	**1,292**

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-20	31-Dec-19
Loans from credit institutions	56,383	36,517
Lease liabilities	2,829	2,667
Less cash and cash equivalents	-27,321	-10,879
Net debt	**31,891**	**28,305**

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	Total net debt
1-Jan-19	**8,268**	**-2,155**	**-36,371**		**-30,258**
Cash flows	2,517	2,032	14	455	5,018
Exchange differences	94				94
Other non-cash movements			-38	-3,122	-3,160
At 31 December 2019	**10,879**	**-123**	**-36,395**	**-2,667**	**-28,305**
Cash flows	34,451	68	-39,933	647	-4,767
Acquisitions	-18,059		20,000	-274	1,667
Exchange differences	51				51
Other non-cash movements				-535	-535
31-Dec-20	**27,321**	**-55**	**-56,328**	**-2,829**	**-31,891**

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 619 thousand during 2020 (2019: EUR 337 thousand).

Finance costs related mainly to loans from financial institutions, exchange differences and losses on valuation of derivative contracts. See the following table:

EUR thousand	2020	2019
Finance income		
Interest income	3	2
Fair value gain on interest rate swap	524	263
Other finance income	91	72
Total	619	337
Finance costs		
Interest costs	-1,005	-760
Other finance charges paid/payable for financial liabilities not at fair value through profit or loss	-1,506	-755
Fair value losses on interest rate swaps	-135	-85
Total	-2,645	-1,600
Finance costs, net	**-2,026**	**-1,263**

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-20	31-Dec-19
Other guarantees:		
Pledged accounts	43	29
Customs guarantee	30	30
Total	**73**	**59**

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.

5.6 Defined benefit oblications

Defined benefit obligations are recognized according to IAS 19. Harvia has an unfunded defined benefit pension plan in Germany. German pension plan was acquired at 1.5.2020. Harvia's other pension plans, such as statutory Finnish TyEL plan are classified as defined contribution plans.

German pension plan is a salary-based plan which provides old-age, disability and survivor benefits for plan members. The pension plan is administrated according to local legislation and practices. The pension plan includes pensioners, active and deferred vested plan members.

Defined benefit plans expose Harvia to risks the most relevant being the interest risk relating to the discount rate. If the discount rate decreases, the defined benefit obligation will increase. Changes in an inflation assumption or mortality models may also increase the defined benefit obligation.

The defined benefit expense is as follows:

EUR thousand	2020	2019
Service cost	2	
Net interest	28	
Total	**30**	

The actuarial gains and losses recognized in other comprehensive income are as follows:

EUR thousand	2020	2019
Actuarial gains (-) / losses (+) caused by changes in demographic assumptions	0	
Actuarial gains (-) / losses (+) caused by changes in financial assumptions	149	
Experience adjustments	-38	
Return on plan assets, excluding amounts included in net interest	0	
Total	**111**	

Accounting policy

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into an insurance company or a separate entity fund. The entity will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Contributions to the defined contribution plans are charged directly to the profit or loss in the year to which these contributions relate. Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Under defined benefit plans both actuarial and investment risks are on the responsibility of the Group and the defined benefit obligation is recognized. The defined benefit obligation represents the present value of future cash flows from payable benefits, which are calculated for by using the projected unit credit method. The discount rate used in calculating the present value of the defined benefit obligation is based on the market yields of high-quality corporate bonds with appropriate durations. Pension expenses are recognized in the profit or loss by allocating the current service cost over the service lives of

The reconcilation of the net defined benefit liability and the defined benefit obligation is as follows:

EUR thousand	2020	2019
The defined benefit obligation 1.1.	0	
Fair value of plan assets 1.1.	0	
Acquisition	3,015	
Service cost	2	
Net interest	28	
Actuarial gains (-) / losses (+)	111	
Benefits paid	-124	
Total	**3,033**	

Actuarial assumptions used in calculating the defined benefit obligation are as follows:

	2020	2019
Discount rate	0.99%	
Benefit increase	2.00%	
Salary increase	1.00%	
Turnover rate	0.00%	
Mortality model	Richttafeln 2018 G	

employees based on actuarial calculations. The net interest is included as part of the personnel expenses.

The liability (or asset) recognized in the consolidated statement of financial position is the defined benefit obligation at the closing date less the fair value of plan assets. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Accounting estimates and management judgement

The valuation of defined benefit obligation is based on management's estimates about actuarial assumptions such as discount rate, inflation and future mortality rates.

The sensitivity analysis of the defined benefit obligation is as follows. The below sensitivity analysis is based on a change in an assumption while holding all other assumptions constant:

EUR thousand	2020	2019
Impact of the change in the discount rate (+0.50%) on the defined benefit obligation	-158	
Impact of the change in the discount rate (-0.50%) on the defined benefit obligation	173	

The duration of the defined benefit pension obligation is 11 years in 2020. No contributions are expected to be paid to the defined benefit plan during 2021. The defined benefit plan has no plan assets.

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.

SUBSIDIARIES

The Group's subsidiaries as at 31 December 2020 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.

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.

Parent company	Country of incorporation	Nature of business	Parent ownership (%)	Group ownership (%)	Acquired/ established (month/year)
Harvia Plc	Finland	Parent company			
Subsidiaries					
Harvia Group Oy	Finland	Holding	100	100	4/2014
Harvia Finland Oy	Finland	Manufacturing		100	4/2014
Velha Oy	Finland	Manufacturing		100	4/2014
Harvia (Hong Kong) Sauna Co. Ltd	Hong Kong	Sales		100	4/2014
Guangzhou City Harvia Sauna Co. Ltd	China	Manufacturing		100	4/2014
Harvia Estonia Oü	Estonia	Manufacturing		100	12/2014
LLC Harvia RUS	Russia	Sales		100	6/2015
Sentiotec GmbH	Austria	Sales		100	11/2016
Domo Wellness Romania Srl	Romania	Manufacturing		100	11/2016
K&R Imobiliare	Romania	Real estate		100	11/2016
Saunamax Oy	Finland	Service		56.2	3/2017
Harvia US Holdings Inc.	United States	Holding		100	11/2018
Harvia US Inc.	United States	Manufacturing		100	11/2018
Harvia Holding GmbH	Germany	Holding		100	02/2020
Kunz & Meis Holding GmbH*	Germany	Holding		78.6	04/2020
EOS Saunatechnik GmbH	Germany	Manufacturing		78.6	04/2020
Kusatek GmbH	Germany	Manufacturing		78.6	04/2020
Spatronic GmbH	Germany	Manufacturing		78.6	04/2020
OOO EOS Premium SPA Technologies	Russia	Manufacturing		80.0	04/2020

* merged to Harvia Holding GmbH 1.5.2020

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.

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	2020	2019
Sales of goods and services	2	4
Purchases of goods and services	0	0

MANAGEMENT HOLDINGS

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 2020:

- Members of the Board of Directors 0.4%
- Chief Executive Officer 1.3%
- Other Management team 3.4%

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 50% of the fixed salary of the CEO and 31% of the fixed salary 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. The term of notice for the CEO has been specified as 6 months, and he is entitled to salary for the term of notice as well as a performance-based bonus up to the date of termination. If the company terminates the employment contract of the CEO, he is, under certain conditions, entitled to a compensation that equals full salary for 6 months.

KEY MANAGEMENT PERSONNEL COMPENSATION

EUR thousand	2020	2019
Chief executive officer		
Salaries and other short-term employee benefits	611	507
Pension costs - defined contribution plans*	107	94
Total	**718**	**601**

* Includes costs of voluntary pension plan amounting to EUR 8 thousand in 2020 (2019: EUR 9 thousand).

Other management team		
Salaries and other short-term employee benefits	1,347	918
Pension costs - defined contribution plans	197	128
Total	**1,544**	**1,046**

REMUNERATION TO MEMBERS OF BOARD OF DIRECTORS

EUR thousand	2020	2019
Olli Liitola (as of 11 March 2014)	58	58
Anders Björkell (11 March 2014 – 2 April 2020)		
Pertti Harvia (1 July 2016 – 2 April 2020)	6	24
Ia Adlercreutz (as of 1 September 2016)	24	24
Ari Hiltunen (as of 9 February 2018)	26	32
Sanna Suvanto-Harsaae (as of 2 April 2020)	25	
Kalle Kekkonen (as of 2 April 2020)		
Total	**138**	**137**

SHARE-BASED INCENTIVE PLAN

Harvia has a share based long-term incentive plan for the CEO and Management Team members. The plan 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 decides 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 had 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. 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.

The Board of Directors of Harvia Plc has decided on November 24th, 2020 to continue the Long-term Performance Share Plan for the management team and other key employees for the performance period 2020-2022.

In the performance period 2020-2022, the plan has 15 participants at most and the targets for the performance period relate to company´s total shareholder return, revenue growth and EBIT margin. The number of shares to be paid based on the performance period 2020-2022 is maximum of 50 300 Harvia Plc´s shares. This number of shares represents the 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 2020-2022 will be paid out during spring 2023.

The Board of Directors of Harvia Plc decided on November 24th, 2020 to start repurchasing the company's own shares on the basis of the authorization given by the Annual General Meeting

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.

on 2 April 2020. The shares shall be repurchased to be used as a part of the company's incentive plan. In December, Harvia completed the repurchase of own shares, which started on 4 December 2020 and ended on 14 December 2020. During that time, Harvia acquired a total of 50,000 own shares for an average price of EUR 20,52 per share. Following the repurchase, Harvia Plc holds a total of 50,000 own shares, corresponding to 0.27 percent of the total number of shares.

In 2020 EUR 563 thousand has been recognised as expenses related to share-based incentive plan (2019: EUR 159 thousand).

6.3 Taxes

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

INCOME TAX EXPENSE

EUR thousand	2020	2019
Current tax:		
Current tax on profits for the year	-5,438	-2,558
Adjustments in respect of prior years	15	106
Total current tax expense	-5,423	-2,452
Deferred tax:		
Change in deferred taxes	1,024	-12
Income taxes	**-4,399**	**-2,464**

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

EUR thousand	2020	2019
Profit before tax	20,350	12,061
Tax calculated at Finnish tax rate 20%	-4,070	-2,412
Effect of other tax rates for foreign subsidaries	-185	-69
Expenses not deductible for tax purposes*	-238	-37
Income not subject to tax	54	54
Other items	41	
Taxes in income statement	**-4,399**	**-2,464**

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.

DEFERRED TAXES

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	Business combinations	At 31 December
2020				
Deferred tax assets				
Tax losses and net interest costs	1,648	-100		1,548
Internal margin of inventories	115	61		176
Provisions	89	22		111
Other items	368	-111	553	810
Total	2,220	-128	553	2,644
Netting of deferred taxes	-872			-721
Net deferred tax asset	**1,347**			**1,924**
2020				
Deferred tax liabilities				
Measurement of acquired net assets at fair value	266	-30	1,810	2,046
Accumulated depreciation differences	171	-81		90
Property, plant and equipment	381	-26		355
Inventories			119	119
Other items	54	-2	0	52
Total	872	-140	1,929	2,662
Netting of deferred taxes	-872			-721
Net deferred tax asset	**0**	**-140**	**1,929**	**1,941**

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.

EUR thousand	At 1 January	Recognised in profit or loss	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**

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.

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 ►

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.

was recognized in March 2018 and a total of EUR 1,748 thousand in 2018. In 2019 and in 2020 EUR 500 thousand intra-group interests were deducted in taxation. There were EUR 7,743 thousand remaining intra-group interest expenses at 31 December 2020. There is no time limit for the deduction of net interest expenses in taxation.

EUR thousand	Ordinary shares	Number of shares
At 31 December 2019	80	18,694,236
At 31 December 2020	**80**	**18,694,236**

Harvia Plc holds a total of 50,000 own shares. The repurchased shares were acquired based on the Company's incentive program.

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 2019	53,098	-34	53,064
Share-based incentive plan	159		159
Translation differences		177	177
At 31 December 2019	53,257	142	53,399
Share-based incentive plan	563		563
Repurchase of own shares	-1,026		-1,026
Acquisitions	-9,508		-9,508
Translation differences		-801	-801
At 31 December 2020	43,286	-658	42,627

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.

Harvia acquired a total of 50,000 own shares during 2020.

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	2020	2019
At 1 January	15,358	12,678
Dividend distribution	-7,104	-6,917
Profit for the period	15,475	9,597
At 31 December	23,729	15,358

In 2020 Harvia paid a dividend of EUR 0.38 per share, in total EUR 7,104 thousand.

Harvia Plc's total unrestricted equity amounts to EUR 64,653,008 in total, of which profit for the period accounts for EUR 9,929,748. Harvia targets a regularly increasing dividend with a bi-annual dividend payout of at least 60 percent of Group net income, in total. In order to determine the amount of dividend, the Board of Directors has assessed the company's solvency and financial standing after the end of the period.

Harvia's Board of Directors proposes to the Annual General Meeting that after the Annual General Meeting in April 2021, the company distributes a dividend of EUR 0.20 per share for the financial period ended December 31, 2020 as well as an additional dividend of EUR 0.12 per share to celebrate Harvia's 70-year anniversary. In addition, the Board of Directors requests that the Annual General Meeting authorizes the Board to distribute a maximum dividend of EUR 0.19 per share in October 2021. Therefore, based on the Board of Directors' proposal, the dividend distributed by Harvia Plc for the financial period 2020 would amount to a maximum of EUR 0.51 per share, i.e. a maximum of EUR 9,570,600 in total. The proposed dividend is 60.0% of the Group's profit for the financial period 2020.

6.5 Events occurring after the reporting date

On December 17, 2020, Nasdaq reported on an annual assessment of market cap segments, which was carried out based on the average market caps in November 2020. In connection with the assessment, Harvia Plc's market cap segment changed from Small Cap to Mid Cap. The change came into effect on January 4, 2021.

On January 29, 2021, Harvia announced the proposals of the Shareholders' Nomination Board to the Annual General Meeting 2021. The Shareholders' Nomination Board proposes that five members be elected to the company's Board of Directors and that Ia Adlercreutz, Olli Liitola and Sanna Suvanto-Harsaae be reappointed. The Nomination Board proposes that Anders Holmén and Hille Korhonen be appointed as new members of the Board of Directors. All proposed persons have given their consent to the appointment and are independent of the company and of the major shareholders of the company.

PARENT COMPANY FINANCIAL STATEMENTS FAS

Parent company Profit & Loss Statement

EUR thousand	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Revenue	**1,084**	**1,084**
Staff expenses		
Wages and salaries	-1,056	-941
Social security expenses		
Pension expenses	-144	-139
Other social security expenses	-15	-23
Other operating expenses	-625	-825
Depreciation and amortisation		
Depreciation according to plan	-732	-701
Operating profit	**-1,487**	**-1,546**
Finance income	440	287
Finance costs	-1,037	-872
Finance income and expenses total	-596	-585
Profit before income appropriations and taxes	**-2,131**	**-2 131**
Appropriations		
Group contribution	14,500	10,300
Income taxes	-2,486	-1,637
Profit for the period	**9,930**	**6,531**

Parent company Balance Sheet

EUR thousand	31-Dec-2020	31-Dec-2019
ASSETS		
Non-current assets		
Intangible assets		
Intangible rights	174	871
Advance payments and construction in process	13	13
Other long-term expenses	28	
Property, plant and equipment		
Machinery and equipment	82	110
Holdings in group undertakings	85,909	85,909
Total non-current assets	**86,193**	**86,903**
Current assets		
Long-term receivables	18 500	
Short-term receivables		
Receivables from group companies	18,973	13,584
Other receivables	192	151
Prepayments and accrued income	194	39
Cash and cash equivalents	3,225	3,470
Total current asset	**41,084**	**17,244**
Total assets	**127,277**	**104,147**

EUR thousand	31-Dec-2020	31-Dec-2019
EQUITY AND LIABILITIES		
Equity		
Share capital	80	80
Reserve for invested unrestricted equity	53,621	54,647
Retained earnings	1,102	1,675
Profit for the period	9,930	6,531
Total equity	**64,733**	**62,933**
Liabilities		
Non-current liabilities		
Loans from credit institutions	56,500	36,500
Amounts owed to group undertakings	903	1,292
Total non-current liabilities	**57,403**	**37,792**
Current liabilities		
Trade payables	120	158
Amounts owed to group undertakings	2,251	2,308
Other liabilities	55	66
Accrued expenses	2,715	890
Total current liabilities	**5,141**	**3,422**
Total liabilities	**62,544**	**41,214**
Total equity and liabilities	**127,277**	**104,147**

Parent company Cash flow statement

EUR thousand	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Cash flow from operating activities:		
Profit (loss) before taxes	-2,084	-2,131
Adjustments to operating profit (+/–) for:		
Depreciation and amortisation	732	701
Unrealised foreign exchange gains and losses	-175	
Other non-cash income and expenses		
Financial income and expenses	596	585
Cash flow before working capital changes	-931	-845
Working capital changes:		
Increase/decrease in trade an other short-term interest-free receivables	-13	-13
Increase/decrease in short-term interest-free liabilities	58	58
Cash flow before working capital changes	-2,017	-799
Interest and other financial expenses paid relating to operating activities (–)	-0	-0
Income taxes paid (–), received (+)	-827	-1,554
Cash flow from operating activities	**-2,845**	**-2,353**
Cash flow from investments		
Purchase of tangible and intangible items (–)	-22	-121
Loans granted	-20,840	-1,555
Loans received (group accounts)	-394	2,208
Repayment of loan receivables	2,510	
Interest received from investments	380	321
Dividends received		4,300
Cash flow from investments	**-18,365**	**5,152**

EUR thousand	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Cash flows from financing activities		
Acquisition of treasury shares	-1,026	
Proceeds from non-current loans	20,000	
Interest and other financing expenses paid (–)	-1,206	-1,044
Dividends paid	-7,104	-6,917
Group contributions received	10,300	6,000
Cash flows from financing activities	**20,964**	**-1,960**
Net increase (+) / decrease (–) in cash and cash equivalents	**838**	**838**
Cash and cash equivalents at beginning of period	**3,470**	**2,632**
Exchange gains / losses on cash and cash equivalents		
Cash and cash equivalents at end of period	**3,225**	**3,470**

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

	2020	2019
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	**2020**	**2019**
Manangement compensation		
Members of the Board of Directors and CEO	750	644
Auditors' fees		
Statutory audit	56	49
Other services	2	1
	58	**50**

EUR thousand	**2020**	**2019**
Finance income and costs		
Other interest income		
Group undertakings	440	262
Other than group companies	0	25
Total finance income	**440**	**287**
Interest and finance charges		
Group undertakings	-31	-232
Other than group companies	-1,005	-640
Total financial expenses	**-1,037**	**-872**
Total financial income and expenses	**-596**	**-585**
Income taxes		
Income taxes for ordinary business	-2,486	-1,637

Non-current assets

EUR thousand	2020	2019
Intangible assets		
Acquisition cost at 1 January	2,089	2,089
Additions	34	
Acquisition cost at 31 December	2,124	2,089
Accumulated amortisation at 1 January	-1,219	-522
Amortisation for the financial year	-703	-696
Accumulated amortisation at 31 December	-1,922	-1,219
Advance payments on intangible assets		13
Book value 31 December	**202**	**883**
Machinery and equipment		
Acquisition cost at 1 January	115	
Additions		221
Disposals		-106
Acquisition cost at 31 December	115	115
Accumulated depreciation at 1 January	-5	
Depreciation for the financial year	-29	-5
Accumulated depreciation at 31 December	-34	-5
Book value 31 December	**82**	**110**

EUR thousand	2020	2019
Investments		
Acquisition cost 1 January	85,909	85,909
Acquisition cost 31 December	85,909	85,909
Book value 1 January	**85,909**	**85,909**
Book value 31 December	**85,909**	**85,909**

Holdings in group undertakings

Group companies	Parent ownership
Harvia Group Oy	100%
Domo Wellness Romania Srl.	
EOS Premium SPA Technologies	
EOS Saunatechnik GmbH	
Guangzhou City Harvia Sauna Co. Ltd	
Harvia (HK) Sauna Co. Ltd	
Harvia Estonia Oü	
Harvia Finland Oy	
Harvia Holding GmbH	
Harvia US Holdings Inc.	
Harvia US Inc.	
K&R Imobiliare	
Kunz & Meis Holding GmbH	
Kusatek GmbH	
LLC Harvia RUS	
Saunamax Oy	
Sentiotec GmbH	
Spatronic GmbH	
Velha Oy	

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

Receivables

EUR thousand	2020	2019
Long-term receivables		
Loans to group companies	18,500	
Short-term receivables		
Receivables from group companies		
Trade debtors	117	165
Loans receivable	2,870	3,106
Other receivables	14,500	10,300
Prepayments and accrued income	1,487	14
Total	**18,973**	**13,584**
Receivables from others		
Other receivables	192	151
Prepayments and accrued income	194	39
Total	**385**	**190**
Material amounts included in prepayments and accrued income		
Insurances	29	25
Others	25	14
Social costs	140	
Total	**194**	**39**

Liabilities

EUR thousand	2020	2019
Long-term liabilities		
Loans from credit institutions	56,500	36,500
Loans from group companies	903	1,292
	57,403	**37,792**

EUR thousand	2020	2019
Short-term liabilities		
Loans from group undertakings		
Other liabilities	2,251	2,308
Liabilities for others		
Trade creditors	120	158
Other liabilities	55	66
Accruals and deferred income	2,715	890
	2,890	**1,114**
Material amounts shown under accruals and deferred income		
Wages and salaries including social security expenses	455	348
Interest expenses	51	6
Income taxes	2,112	452
Other	96	84
	2,714	**890**

Equity

EUR thousand	2020	2019
Restricted equity		
Subscribed capital 1 January	80	80
Subscribed capital 31 December	**80**	**80**
Total restricted equity	**80**	**80**
Unrestricted equity		
Reserve for invested unrestricted equity 1 January	54,647	54,647
Repurchase of own shares	-1,026	
Reserve for invested unrestricted equity 31 December	**53,621**	**54,647**
Retained earnings from previous financial years	8,206	8,592
Dividend distribution	-7,104	-6,917
Retained earnings from previous financial years	**1,102**	**1,675**
Profit (loss) for the financial year	**9,930**	**6,531**
Total unrestricted equity	**64,653**	**62,853**
Total equity	**64,733**	**62,933**
Distributable unrestricted equity		
Reserve for invested unrestricted equity	53,621	54,647
Retained earnings from previous years	1,102	1,675
Profit for the financial year	9,930	6,531
Distributable unrestricted equity	**64,653**	**62,853**

Guarantees and commitments

EUR thousand	2020	2019
Rental payments under lease contracts		
Payable during the following financial year	13	8
Payable in later years	25	
	38	**8**

Proposal by the Board of Directors for distribution of profit

Harvia Plc's total unrestricted equity amounts to EUR 64,653,008 in total, of which profit for the period accounts for EUR 9,929,748. Harvia targets a regularly increasing dividend with a bi-annual dividend payout of at least 60 percent of Group net income, in total. In order to determine the amount of dividend, the Board of Directors has assessed the company's solvency and financial standing after the end of the period.

Harvia's Board of Directors proposes to the Annual General Meeting that after the Annual General Meeting in April 2021, the company distributes a dividend of EUR 0.20 per share for the financial period ended December 31, 2020 as well as an additional dividend of EUR 0.12 per share to celebrate Harvia's 70-year anniversary. In addition, the Board of Directors requests that the Annual General Meeting authorizes the Board to distribute a maximum dividend of EUR 0.19 per share in October 2021. Therefore, based on the Board of Directors' proposal, the dividend distributed by Harvia Plc for the financial period 2020 would amount to a maximum of EUR 0.51 per share, i.e. a maximum of EUR 9,570,600 in total. The proposed dividend is 60.0% of the Group's profit for the financial period 2020.

Signatures for the financial statements and the Board of Directors' report

In Muurame, 10 February 2021

Olli Liitola Chairman of the Board	Ia Adlercreutz Member of the Board
Ari Hiltunen Member of the Board	Kalle Kekkonen Member of the Board
Sanna Suvanto-Harsaae Member of the Board	Tapio Pajuharju CEO

Auditor's note

A report on the audit performed has been issued today.

In Muurame, 10 February 2021

PricewaterhouseCoopers Oy
Authorised Public Accountants

Markku Launis
Authorised Public Accountant

Auditor's Report (Translation of the Finnish Original)

To the Annual General Meeting of Harvia Oyj

Report on the Audit of the Financial Statements

OPINION

In our opinion

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

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

What we have audited

We have audited the financial statements of Harvia Oyj (business identity code 2612169-5) for the year ended 31 December 2020. 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 1,0 million
- The group audit scope includes all significant operating companies in Finland, Austria, Germany and USA covering vast majority of revenues, assets and liabilities.
- Valuation of goodwill
- Business combinations

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 1,0 million
HOW WE DETERMINED IT	We used 5% of profit before tax to determine overall group materiality.
RATIONALE FOR THE MATERIALITY BENCHMARK APPLIED	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

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, Germany 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 2020 the Group's goodwill balance amounted to EUR 71 million. As such, goodwill represents 43 % 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.

KEY AUDIT MATTER IN THE AUDIT OF THE GROUP	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Business combinations *Refer to accounting principles of the consolidated financial statements and note 3.1 Business combinations* During 2020 Harvia acquired majority of the German EOS Group for a total consideration of EUR 19,75 million. The acquisition is accounted for as a business combination and includes a number of significant and complex judgments in the determination of the fair value of the assets and liabilities acquired. The primary element of the valuation and purchase price allocation process was to assess the fair value of intangible assets (EUR 7 million) in the form of technology, customer relationships and trademarks. Resulting goodwill amounted to EUR 10,8 million. In addition, measurement of redemption liability relating to a non-controlling interest (EUR 9,5 million) required use of management judgment. The purchase price allocation is reported as preliminary in the consolidated financial statements. Business combinations is a key audit matter in the audit due to the high level of management judgement used in determining the fair value of the net assets acquired and the amount of redemption liability.	For business combinations we considered the purchase agreements, evaluated the valuation principles of the assets and liabilities of the acquiree and the underlying assumptions used, as well as assessed the technical accuracy of the purchase price allocations. Our audit procedures also included assessing the amount of redemption liability and the appropriateness of the accounting treatment.

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 6 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 2021
PricewaterhouseCoopers Oy
Authorised Public Accountants

Markku Launis
Authorised Public Accountant (KHT)

HARVIA

Sauna & Spa

HARVIA PLC
Teollisuustie 1–7
40950 Muurame
www.harviagroup.com