REPORT BY THE BOARD OF DIRECTORS AND CONSOLIDATED FINANCIAL STATEMENTS 2019

Kuopion Saana, Kuopio, Finland

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REPORT BY THE BOARD OF DIRECTORS FOR 2019

GENERAL INFORMATION OF HARVIA

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

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

PROFIT PERFORMANCE, KEY FIGURES AND STATEMENT OF FINANCIAL POSITION

Harvia key figures for the period 1 January – 31 December 2019 are presented below (EUR thousand, unless otherwise indicated).

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

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

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

The result before taxes for January–December was EUR 12.1 million (6.6). The Group's taxes amounted to EUR -2.5 million (0.2). The positive taxes of comparison year 2018 resulted from the entry of a EUR 1.6 million deferred tax asset in the first quarter, deriving from intra-group interest expenses, which were not deducted from taxable income in previous years.

The result for the financial period was EUR 9.6 million (6.8) and the undiluted earnings per share were EUR 0.51 (0.41). Changes in exchange rates impacted positively the result of the review period by approximately EUR 0.6 million.

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

PERSONNEL

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

RESEARCH AND PRODUCT DEVELOPMENT

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

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

RISK MANAGEMENT

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

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

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

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

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

The Group refinanced its earlier bank loans in March 2018. The new loan agreements are made for the long term. The loans include covenants, which in unfavorable circumstances may call for new financing negotiations with the bank. The company protects itself from interest risks arising from bank loans with interest rate swaps.

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

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

GROUP STRUCTURE

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

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

CHANGES IN GROUP AND FINANCING STRUCTURES

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

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

The Board of Directors of Harvia Plc decided on December 17th, 2019 to continue the Long-term Performance Share Plan for the management team and other key employees for the performance period 2019-2021. In the performance period 2019-2021, the plan has 13 participants at most and the targets for the performance period relate to company´s total shareholder return, revenue growth and EBIT margin. The maximum number of shares to be paid based on the performance period 2019-2021 is approximately 130 000 Harvia Plc´s shares. This number of shares represents gross earning, from which the withholding of tax and possible other applicable contributions are deducted, and the remaining net amount is paid in shares. However, the company has the right to pay the reward fully in cash under certain circumstances. Potential rewards from the performance period 2019-2021 will be paid out during spring 2022.

BOARD OF DIRECTORS PROPOSAL FOR DISTRIBUTION OF PROFIT

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

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

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

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

BOARD OF DIRECTORS AND THE COMPANY’S AUDITORS

Harvia Plc’s members of the Board of Directors were Olli Liitola, Anders Björkell, Pertti Harvia, Ari Hiltunen and la Adlercreutz. Olli Liitola acted as Chairman of the Board. Company CEO was Tapio Pajuharju. Company auditor has been PricewaterhouseCoopers Oy, Markku Launis, Authorised Public Accountant as principal auditor.

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

OUTLOOK FOR 2020

Harvia does not anticipate any significant changes in the operating environment in 2020, and management believes that the current market situation will support the company’s business operations also in 2020. The company business is somewhat depending on the financial outlook of the traditional sauna and spa markets and especially on the development of the rebuilding markets. Management thinks that the replacement market in pipe and sewer repair will support sales in the upcoming years especially in the sauna and spa market in Finland.

In 2020 Harvia will continue the gradual expansion of the sales network and aims to diversify the clientele in the current operating markets and to further expand the geographical operating regions.

SIGNIFICANT EVENTS AFTER THE REVIEW PERIOD

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

SHARE CAPITAL AND SHARES

Harvia's registered share capital is EUR 80,000 and at the end of the review period, the company held 18,694,236 (December 31, 2018: 18,694,236) shares. Trading in the company's shares on the official list of Nasdaq Helsinki began on March 26, 2018. The ticker symbol for the shares is HARVIA and their ISIN code is FI4000306873. Harvia has one series of shares, and each share entitles to one vote in the company's general meeting.

The company's shares are included in a book-entry system. The share trading volume in the review period January–December was EUR 65.4 million (43.8) and 8,951,484 shares (8,314,233). The share's volume weighted average rate during the review period was EUR 7.32 (5.26), the highest rate during the review period was EUR 11.15 (6.39) and the lowest EUR 5.50 (4.91). The closing price of the share at the end of December 2019 was EUR 10.45 (5.37). The market value of the share capital on December 31, 2019 was EUR 195.4 million (100.4). The company does not currently own any treasury shares.

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

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

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

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

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

* According to the fund's announcement. On 31 December 2019, 50.1% of Harvia's shares were nominee registered, and all the major nominee registered shareholders are not listed here.

Shares per shareholder	Number of shareholders	Percentage of shareholders %	Shares total, pcs	Percentage of shares and votes %
Over 1 000 000	4	0.1%	11,514,131	61.6%
100 001 - 1 000 000	16	0.3%	4,399,657	23.5%
10 001 - 100 000	27	0.5%	843,273	4.5%
1 001 - 10 000	323	6.2%	786,888	4.2%
1 - 1000	4,880	93.0%	1,150,287	6.2%
Total	**5,250**	**100.0%**	**18,694,236**	**100.0%**

MANAGEMENT HOLDINGS

Members of the Board of Directors, CEO and Directors of the Group, and the companies under their control owned 31 December 2019 a total of 1,411,762 Harvia shares, corresponding 7,6 per cent of shares and votes in the company. (31 Dec 2018 1,403,873 and 7.5%)

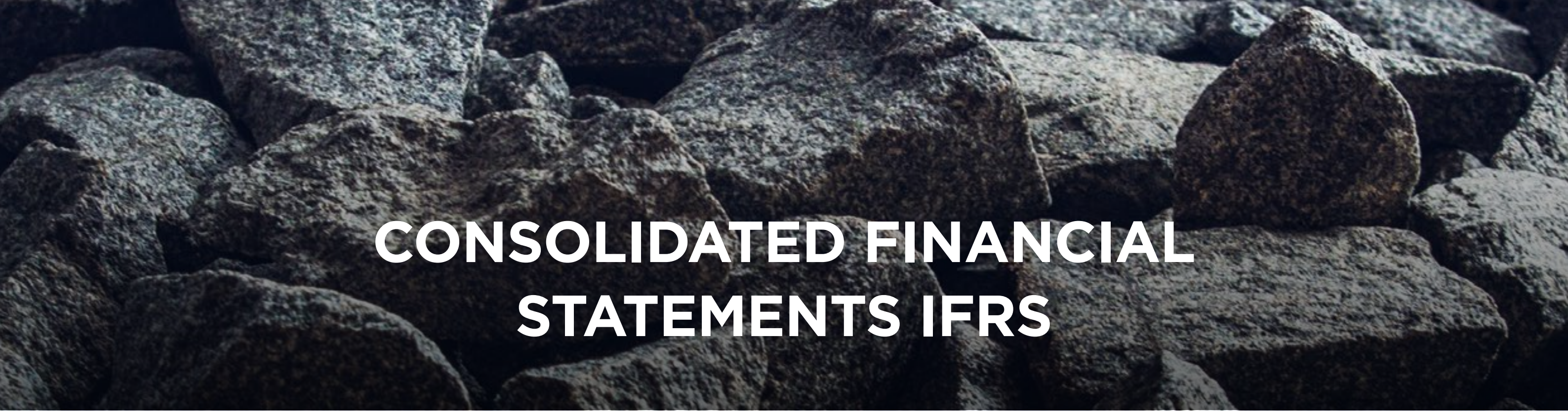
CALCULATION OF KEY FIGURES AND RECONCILIATION OF ALTERNATIVE PERFORMANCE MEASURES

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

CALCULATION OF KEY FIGURES

Key figure	Definition
Operating profit	Profit before income taxes, finance income and finance costs.
EBITDA	Operating profit before depreciation and amortisation
Items affecting comparability	Material items outside the ordinary course of business, which relate to i) costs related to the listing ii) strategic development projects, iii) acquisition and integration related expenses, iv) restructuring expenses and v) net gains or losses on sale of assets and grants received.
Adjusted operating profit	Operating profit before items affecting comparability.
Adjusted EBITDA	EBITDA before items affecting comparability.

Key figure	Definition
Adjusted profit before income taxes	Profit before income taxes excluding items affecting comparability.
Earnings per share, undiluted	Profit for the period attributable to the owners of the parent divided by weighted average number of shares outstanding.
Earnings per share, diluted	Profit for the period attributable to the owners of the parent divided by weighted average number of shares outstanding taken into consideration the effects associated with any parent company's obligations regarding the possible share issue in the future.
Net debt	Lease liabilities and current and non-current loans from credit institutions less cash and cash equivalents.
Leverage	Net debt divided by adjusted EBITDA (12 months).
Net working capital	Inventories, trade and other receivables less trade and other payables.
Capital employed excluding goodwill	Capital employed excluding goodwill is total equity and net debt less goodwill.
Adjusted return on capital employed (ROCE)	Adjusted operating profit (12 months) divided by average capital employed excluding goodwill.
Operating free cash flow	Adjusted EBITDA added/subtracted by the change in net working capital in consolidated statement of cash flows less investments in tangible and intangible assets.
Cash conversion	Operating free cash flow divided by adjusted EBITDA.
Equity ratio	Total equity divided by total assets less advances received.
Return on Equity (ROE)	Profit for the period divided by average total equity



CONSOLIDATED FINANCIAL STATEMENTS IFRS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

NOTES TO FINANCIAL STATEMENTS

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

SECTION 1: BASIS OF PREPARATION

1.1 GENERAL INFORMATION

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

Harvia is one of the world's leading sauna and spa companies. Over the past 60 years, Harvia has expanded its operations from the manufacturer of heaters to a provider of wide range of saunas and spa products. Harvia´s products are exported to over 80 countries. The Group's product range includes sauna heaters, sauna rooms, infrared and steam saunas, spa components, control units, sauna accessories and sauna interior solutions such as sauna benches, audio speakers and lighting solutions. The Group also provides sauna installation, maintenance and repair services. At the end of the financial year 2019 the company had 395 employees, of which 179 worked in Finland, 30 in Austria, 67 in Romania, 64 in China and Hong Kong, 40 in the United States and 14 in Estonia.

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

- Harvia Group Oy which is the second management company of the Group
- Harvia Finland Oy (former Harvia Oy) manufacturing heaters and sauna and steam bath products
- Velha Oy manufacturing sauna and steam bath products
- Sentiotec GmbH subgroup specialised in control units, sauna products and electric heaters (acquired on 4 November 2016)
- Saunamax Oy (56.2% acquired on 24 February 2017), provider of sauna maintenance and repair services
- Harvia (HK) Sauna Co. Ltd subgroup manufacturing sauna heaters, steam generators and components of similar equipment
- Harvia Estonia Oü manufacturing steam room equipment and sauna products
- LLC Harvia RUS which is the sales company for Harvia products in Russia
- Holding company Harvia US Holdings Inc. and manufacturing company Harvia US Inc. The company also sells Harvia sauna products in the Unites States. The companies were established in November 2018.

The parent company Harvia Plc is a Finnish public company, established according to the Finnish legislation. Harvia Plc shares are traded at NASDAQ OMX Helsinki main list. The Group financial statements are available at the head office at Teollisuustie 1-7, 40950 Muurame and at the Group's home pages **www.harvia.fi**.

The Board of Directors of Harvia Plc has approved these consolidated financial statements for issue on 10 February 2020. Under the Finnish Limited Liability Companies Act, shareholders can approve or disapprove the consolidated financial statements in the Annual General Meeting held after the release. The Annual General Meeting is also entitled to amend the consolidated financial statements.

1.2 ACCOUNTING POLICIES

The consolidated financial statements of Harvia Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, conforming with the IAS standards and IFRS standards as well as SIC and IFRIC interpretations applicable as per 31 December 2019. IFRS refer to the standards and interpretations applicable by corporations set out by the Finnish Accounting Act and other regulations set out on basis of this ordinance enforced for application in accordance with the procedure stipulated in the regulation (EC) No 1606/2002 of the European Parliament and of the Council. The notes to the consolidated financial statements also comply with the Finnish accounting and corporate legislation complementing the IFRS standards.

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

HOW SHOULD HARVIA GROUP'S ACCOUNTING POLICIES BE READ?

Harvia Group's accounting policies of the financial statements are described in conjunction with each note in the aim of providing enhanced understanding of each accounting area. The table below summarises the note in which each accounting policy is presented and the relevant IFRS standard.

Accounting principle	Note	IFRS standard
Revenue	2.1 Revenue	IFRS 15
Employee benefits	2.3 Other income and expense items	IAS 19
Business combinations	3.1 Business combinations	IFRS 3
Intangible assets	3.2 Intangible assets	IAS 36, IAS 38
Property, plant and equipment	3.3 Property, plant and equipment	IAS 16, IAS 36
Leases	1.3 Adoption of new standards 3.4 Leases 5.5. Commitments and contingent liabilities	IFRS 16 IAS 17
Provisions	3.5 Provisions	IAS 37
Inventories	4.1 Inventories	IAS 2
Financial assets and liabilities	5.1, 5.2 Financial assets and liabilities	IAS 32, IFRS 7, IFRS 13, IFRS 9
Financial risk management	5.3 Financial risk management	IAS 32, IFRS 7, IFRS 13, IFRS 9
Share based payments	6.2 Related party transactions	IFRS 2
Taxes	6.4 Taxes	IAS 12
Shareholder's equity	6.5 Shareholder's equity	IAS 1

Historical cost convention

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

Foreign currency translation

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

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are recognised in profit or loss.

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

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

1.3 CHANGES IN APPLIED ACCOUNTING PRINCIPLES

This note describes impacts of adoption of IFRS 16 Leases standard has had on the Group's consolidated financial statements.

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

Accounting policy

According to IFRS 16 Leases standard a lease is recognized as a right-of-use-asset (the right to use the leased asset) and as a lease liability to pay rentals, recorded under interest-bearing liabilities.

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

The Group is implementing the exemptions provided by the standard and is not recognizing low-value or short-term leases as right-to-use-assets or lease liability.

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

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

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

1.4 CRITICAL ACCOUNTING ESTIMATES AND SIGNIFICANT MANAGEMENT JUDGEMENTS

The Group's most significant accounting policies are primarily described together with the applicable note. The preparation of Harvia Group's consolidated financial statements requires the use of estimates, judgement and assumptions that may affect the application of accounting policies and the recognised amounts of assets and liabilities at the date of the financial statements. In addition, the recognised amounts of revenue and expenses during the periods presented are affected. Actual results may differ from previously made estimates and judgements.

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

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

Sources of estimation uncertainty and management judgement	Note
Marketing subsidies	2.1
Segment reporting	2.2
Research and development expenses	3.2
Key assumptions used in goodwill impairment tests	3.2
Leases	3.4
Provisions	3.5
Share-based payments	6.2
Taxes	6.3

SECTION 2: GROUP PERFORMANCE

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

COMPONENTS OF OPERATING PROFIT

EUR thousand	2019	% of revenue	2018	% of revenue
Revenue	74,095		61,942	
Other operating income	449	1%	188	0%
Materials, services and change in inventories	-29,437	-40%	-25,853	-42%
Employee benefit expenses	-14,912	-20%	-13,063	-21%
Depreciation and amortisation	-3,113	-4%	-2,158	-3%
Other operating expenses	-13,758	-19%	-11,679	-19%
Operating profit	**13,324**	18%	**9,376**	15%

2.1 REVENUE

Harvia is one of the world's leading sauna and spa companies. The Group's product range includes sauna heaters, sauna rooms, infrared and steam saunas, steam sauna and spa components, control units, sauna accessories and sauna interior solutions such as sauna benches, audio speakers and lighting solutions. The Group also provides sauna installation, maintenance and repair services. The biggest market areas are Finland, EU, North America and Russia.

Harvia Group's revenue includes mainly sales of products. Only minor part comes from selling of sauna installation, maintenance and repair services provided by Velha Oy and Saunamax Oy. Harvia sells most of its products to retailers, distributors or importers. Harvia's biggest customer relationship is based on group-level frame agreement under which individual order agreements made by the Group accounted for approximately 13% of the Group's revenue in 2019 (2018: 16%).

The accumulation of Harvia's revenue has been constant and stable over the past years. Acquired business in United States at the end of 2018 increased the revenue in 2019. A unifying trend across the different customer categories is that the relationships with customers are long-lasting. The Group has formal contractual relationships with clients, but most of the contracts cover only a short period (the most common type of contract being annual contract). The long-lasting customer relationships are based on customer loyalty.

Accounting policy

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

Amounts disclosed as revenue are net of returns, volume-based marketing subsidies and rebates. Goods are often sold with volume discounts based on aggregate sales over a 12-month period. Revenue from sales is recognized based on the price specified in the contract, net of the estimated volume-based discounts. A contract liability is recognized for expected volume discounts and marketing subsidies payable to customers in relation to sales made until the end of the reporting period. Certain wholesale customers are given a right of return in respect of certain campaign products if the goods are not sold within six months after the purchase or the legislation concerning products will change. Products directly sold to consumers via online shops are subject to a 14-day return policy. A contract liability for the expected refunds to customers is recognized as adjustment to revenue. Accumulated experience is used to estimate and provide for the discounts, volume-based marketing subsidies and returns, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur.

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

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

Significant management judgement

The management uses judgement when allocating marketing subsidies to allowances included in the revenue and marketing costs included in other expenses. Marketing subsidies determined as the percentage of sales volume and against which marketing services are not obtained, are reducing the revenue. Other marketing subsidies are allocated to operating expenses.

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

REVENUE BY MARKET AREA

EUR thousand	2019	%	2018	%
Finland	24,210	33%	23,104	37%
Other Scandinavia	4,157	6%	3,452	6%
Germany	6,867	9%	6,953	11%
Other EU countries	17,188	23%	16,059	26%
Russia	5,761	8%	5,662	9%
North America	11,816	16%	3,027	5%
Other countries*	4,096	6%	3,685	6%
Total	**74,095**	100%	**61,942**	100%

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

REVENUE BY PRODUCT GROUP

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

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

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

2.2 SEGMENT REPORTING

The Group constitutes a single operating segment. This is consistent with the way that internal reporting is provided to the chief operating decision maker ("CODM") and the way that chief operating decision maker determines allocation of resources and assesses the performance.

Significant management judgement

Determining operating segments

The management of Harvia Group has used judgement when determining Group's segment reporting. Areas requiring judgement have been the determination of CODM, the decisions made and reports used when managing the Group. The Board of Directors has been determined as the chief operating decision maker. The Board of Directors, taking into account its composition and its active participation in key strategic and operative decision-making, is responsible for allocating resources and assessing the performance. The management of Harvia Group, using its judgement, has determined that the Group has one operating segment.

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

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

Revenue by geographical areas has been presented in note 2.1.

2.3 OPERATING INCOME AND EXPENSES

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

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

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

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

Accounting policy

A defined contribution plan is a pension plan under which the Group pays fixed contributions into pension insurances. The Group has no legal or constructive obligations to pay further contributions if the insurance does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The following table presents different components of employee benefit expenses:

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

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

Other significant expense items are as follows:

OTHER OPERATING EXPENSES

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

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

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

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

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

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

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

2.4 DEPRECIATION AND AMORTISATION

Accounting policy

Property, plant and equipment

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

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

The useful lives of the assets are as follows:

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

Intangible assets

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

The following table presents depreciation and amortisation by asset class:

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

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

2.5 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for period attributable to the owners of the parent company by the weighted average number of shares outstanding during the financial period. Diluted earnings per share is calculated on the same basis as basic earnings per share, unless it takes into consideration the effects associated of any parent company's obligations regarding the possible share issue in the future.

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

SECTION 3: CAPITAL EMPLOYED

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

3.1 BUSINESS COMBINATIONS

For Harvia, acquisitions are a way to speed up the implementation of its strategy. On 28 December 2018 Harvia acquired LLC Almost Heaven Saunas business in the United States. The result of the new business has been consolidated to Harvia Group as of 1 January 2019. The fair value of the assets has been adjusted during 2019.

Accounting policy

The acquisition method is applied for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the shares issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and identifiable liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Identifiable assets include tangible assets as well as intangible assets, such as customer relationships, brand and technology.

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

Accounting estimates and management judgement

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

ALMOST HEAVEN SAUNAS ACQUISITION NET ASSET VALUE ADJUSTMENT 2019

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

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

Cash flow impact

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

ACQUISITION OF ALMOST HEAVEN SAUNAS BUSINESS IN 2018

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

Almost Heaven Saunas was established in 1978 and was owned by its prior owner since 2007. The company has grown rapidly in recent years, its revenue totaling USD 3.5 million in 2014 and approximately USD 9 million in 2017. The company's main products comprise of United States manufactured outdoor and indoor saunas of entry level price range. Harvia's revenue from North America in 2017 totaled approximately EUR 3 million, of which coming about half through Almost Heaven Saunas.

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

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

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

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

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

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

Cash flow impact

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

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

3.2 INTANGIBLE ASSETS AND IMPAIRMENT TESTING

Majority of the goodwill was recognised in connection of the acquisition of Harvia in 2014. The goodwill was increased in connection of the purchase of the Spa Modules business by Harvia Estonia Oü in December 2014, acquisition of Sentiotec subgroup located in Austria and Romania in November 2016 as well as acquisition of Saunamax Oy in February 2017 and acquisition of Almost Heaven Saunas business in December 2018.

Accounting policy

Goodwill

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

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

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

Other intangible assets

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

Capitalised development costs

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

Accounting estimates and management judgement

Costs incurred in the development phase of a project are capitalised as intangible assets if the criteria is met. Management has made judgements and assumptions when assessing whether a project meets these criteria, and on measuring the costs and the economic life as well as the future cash inflows generated by the development projects. Expected returns from capitalised development projects involve estimates and judgement from the management about the future revenue and related costs. These estimates involve risks and uncertainties and it is possible that following changes in circumstances, expected returns from capitalised development projects change. Harvia assesses indications of impairment for capitalised development projects.

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

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

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

IMPAIRMENT TEST FOR GOODWILL

Accounting estimates and management judgement

Key assumptions used in goodwill impairment testing

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

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

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

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

To carry out impairment testing, the management monitors goodwill at the level of Finland and Central Europe. The recoverable amount of cash generating units has been determined based on value-in-use calculations using the projected discounted cash flows. These calculations use pre-tax cash flow projections based on the budgets and forecasts approved by management covering a five-year period. Goodwill arising from acquisition of Almost Heaven Saunas business in 2018 has been presented as part of goodwill in Finland, and was subject to impairment testing in 2019.

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

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

	31-Dec-19	31-Dec-18
Long-term growth rate	1.0%	1.0%
Average revenue growth for the forecast period		
Finland	4.1%	4.8%
Central Europe	7.0%	8.3%
Average EBITDA for the forecast period (% of revenue)		
Finland	22.9%	22.5%
Central Europe	16.2%	20.0%
Pre-tax discount rate		
Finland	8.7%	9.1%
Central Europe	9.2%	9.3%

As result of the impairment tests performed no impairment loss has been recognised for any period presented. In 2019 the recoverable amount calculated based on value-in-use exceeded the carrying value by EUR 64 million in Finland and EUR 27 million in Central Europe (2018 by EUR 57 million in Finland and EUR 30 million in Central Europe).

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

	31-Dec-19	31-Dec-18
Finland		
EBITDA margin decrease	-7.9%	-7.7%
Change in discount rate	5.9%	5.0%
Central Europe		
EBITDA margin decrease	-13.7%	-16.2%
Change in discount rate	28.0%	31.2%

3.3 PROPERTY, PLANT AND EQUIPMENT

Land areas and buildings consist mainly of Harvia's factory building in Muurame. Also Velha Oy operates in the facilities owned by Harvia. The factory in Romania is owned by a Romanian real estate company K&R Imobiliare which is wholly owned by the Group. The group acquired a production and warehouse facility in the United States during 2019. Other production units operate in leased premises.

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

For depreciations see also note 2.4.

Accounting policy

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

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

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

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

EUR thousand	Land	Buildings and structures	Machinery and equipment	Other tangible assets	Construction in progress	Total
2019						
Cost at 1 Jan	1,249	19,908	14,007	1,022	230	36,417
Additions	162	717	850	30	7	1,765
Disposals			-215	0		-215
Reclassifications		566	-438	45	-173	0
Exchange differences	-7	-18	-89			-114
Cost at 31 Dec	1,404	21,174	14,116	1,096	64	37,853
Accumulated depreciation at 1 Jan		-10,288	-10,764	-623		-21,676
Depreciation		-700	-909	-125		-1,734
Disposals			81			81
Reclassifications		-329	329			0
Exchange differences		3	16	0		19
Accumulated depreciation at 31 Dec		-11,314	-11,248	-748		-23,311
Net book amount at 1 Jan	**1,249**	**9,620**	**3,243**	**399**	**230**	**14,741**
Net book amount at 31 Dec	**1,404**	**9,859**	**2,868**	**348**	**64**	**14,543**

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

3.4 LEASES

IFRS 16 Leases standard specifies the definition of leases, recognition and valuation of the lease agreements and disclosures of the leases. Implementation of the standard has a significant impact for the lessee's recognition, as the standard removes the current distinction between operating and financing leases. According to the standard, a lease is recognized as a right-of-use-asset (the right to use the leased asset) and as a lease liability to pay rentals, recorded under interest-bearing liabilities. Group did not have IAS 17 finance lease contracts.

Accounting policy

According to IFRS 16 Leases standard a lease is recognized as a right-of-use-asset (the right to use the leased asset) and as a lease liability to pay rentals, recorded under interest-bearing liabilities.

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

The Group is implementing the exemptions provided by the standard and is not recognizing low-value or short-term leases as right-to-use-assets or lease liability. The Group applies same discount rate to a group of similar lease contracts.

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

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

Accounting estimates and management judgement

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

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

AMOUNTS RECOGNISED IN THE BALANCE SHEET

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

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

AMOUNTS RECOGNISED IN PROFIT AND LOSS

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

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

Operative lease agreements

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

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

3.5 PROVISIONS

The Group provides warranties for its products and recognises provision for this obligation. The warranty provision includes all expenses required to settle the present obligation. The amount of accrued estimated warranty costs is primarily based on historical experience and current information on repair costs and processing costs of the claims.

Accounting policy

Provision is made for estimated warranty claims in respect of products sold which are still under warranty at the end of the reporting period. Management estimates the provision based on historical warranty claim information and any recent trends that may suggest future claims could differ from historical amounts.

Accounting estimates

The amount of warranty provision involves uncertainty as estimated warranty claims may not realise as predicted. Typically the claims are realised frontloaded during the warranty period. Estimates and assumptions are reviewed quarterly. The differences between actual and estimated warranty claims may affect the amount of the provisions to be recognised in future financial periods.

Changes in warranty provisions are as follows:

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

The warranty provision was released EUR 430 thousand (2018: EUR 449 thousand) and was increased EUR 444 thousand during 2019 (2018: EUR 430 thousand). The provision is divided to current and non-current liability. Most of the Harvia's products sold have two years' warranty for private use and one years' warranty for professional use. Warranty provision is calculated for external warranty costs, for employees processing complaints and for warranty parts. For exported products, no warranty provision is recognised as under these contracts the counterparty is responsible for warranty work.

SECTION 4: NET WORKING CAPITAL

This section describes components of net working capital.

EUR thousand	31-Dec-19	31-Dec-18
Net working capital		
Inventories	13,814	14,526
Trade receivables	13,167	11,046
Other receivables	1,050	1,106
Trade payables	-5,149	-5,164
Other payables	-6,042	-4,014
Total	**16,840**	**17,500**
Change in net working capital in the statement of financial position	-660	245
Items not taken into account in change in net working capital in the statement of cash flows and the effect of which is included elsewhere in the statement of cash flows*	675	1,129
Change in net working capital in the statement of cash flows**	15	1,374

* The most significant items are related to finance costs, unrealised exchange rate gains and losses, acquisitions and investments.
** An increase in net working capital decreases cash flows, and a decrease in net working capital increases cash flows.

4.1 INVENTORIES

The inventory of the Group consists of raw materials such as steel, stone and wood, work in progress as well as finished goods on sales (sauna heaters, sauna interiors and other sauna related products).

Accounting policy

Materials and supplies, work in progress and finished goods are measured at the lower of cost and net realisable value. Cost of work in progress and finished goods comprises direct materials, direct labour costs and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. The acquisition cost is assigned to individual items of inventory on the basis of weighted average cost formula. The cost of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The inventory is divided as follows:

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

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

4.2 TRADE AND OTHER RECEIVABLES

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

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

Accounting policy

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

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

The receivables are included in current assets, except for maturities longer than 12 months after the end of the reporting period.

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

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

Material items included in prepayments and accrued income:

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

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

4.3 TRADE AND OTHER PAYABLES

Trade and other payables include trade payables, other liabilities, advance payments and accrued expenses related the usual operating activities of the Group.

Accounting policy

Trade payables are payment obligations arising from goods or services acquired from suppliers or service providers in the ordinary course of business. Trade payables are classified as current liabilities if payment is due within one year or less. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method. Trade and other payables are classified as other financial liabilities at amortised cost.

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

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

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

Material items included in accrued expenses:

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

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

SECTION 5: NET DEBT AND CONTINGENCIES

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

5.1 BORROWINGS AND OTHER FINANCIAL LIABILITIES

The Group's financial liabilities were drawn down in connection of the acquisition of Harvia Finland Oy and Velha Oy. The acquisition was partly financed with variable rate bank loans and partly with fixed rate shareholder loans. In connection with the listing of the Company in March 2018 shareholder loans were repaid and bank loans were refinanced. The Group has entered into an interest rate swap agreement to hedge against interest rate risk arising from variable rate of bank loans.

Accounting policy

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

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

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

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

LOANS FROM CREDIT INSTITUTIONS AND SHAREHOLDER LOANS

Loans from credit institutions

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

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

As a result of the repayment of old bank loans (including credit limit), remaining transaction costs of EUR 616 thousand in the balance sheet were recognized as expenses under other finance costs in 2018. As a result of the refinancing of the old bank loans, the group's real estate and corporate mortgages as well as pledged subsidiary shares were released. The parent company guarantees the loans drawn down in accordance with the new financing arrangement.

Sentiotec GmbH's secured credit facility agreement of EUR 2 300 thousand was changed to unsecured credit facility of EUR 1 250 thousand in 2019. Credit facility was not in use as at 31 December 2019 (31 December 2018: EUR 1,743 thousand).

Shareholder loans

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

Compliance with loan covenants

New bank loans include covenants according to the financing agreement, such as net debt to adjusted EBITDA ratio and interest cover ratio. Covenants are monitored quarterly. The Group has complied with all covenants related to new bank loans in 2019 and 2018.

Fair values

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

Accounting policy

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

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. The Group had interest rate swap agreements with fair value of EUR -1,292 thousand at the end of 2019 (2018: EUR -1,471 thousand). Nominal value of the interest rate swap contract was EUR 25,000 thousand as at 31 December 2018 (2018: EUR 25,000 thousand). The current swap contract matures in March 2023.

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

OTHER NON-CURRENT LIABILITIES

Other non-current liabilities include a liability of EUR 80 thousand relating to the purchase of Saunamax Oy's minority shareholders' shares (31 Dec 2018 EUR 350 thousand). Harvia Finland Oy has in place a shareholders agreement with the minority shareholders in Saunamax Oy. Pursuant to the shareholders agreement, the share of Harvia Finland Oy's ownership has to be 51 per cent at the minimum and, since 2020, the other shareholders of Saunamax Oy have the right to demand Harvia to redeem, and respectively, an obligation to sell all the shares of Saunamax Oy owned by these shareholders. The redemption price shall be determined, as defined in the shareholder agreement, in accordance with fair value determined according to acquisition cost or EBITDA or by other means. Liability related to the purchase option is measured at fair value in accordance with the shareholder agreement and is classified as level 3 in the fair value hierarchy.

5.2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents amounted to EUR 10,879 thousand at the end of 2019 (31 December 2018: EUR 8,268 thousand).

In the consolidated statement of cash flow, cash and cash equivalents include cash in hand and deposits held at call from banks. The short-term deposits are considered readily convertible to cash as those have original maturities of three months or less. Cash and cash equivalents on the statement of financial position equals the cash and cash equivalents of the consolidated statement of cash flows. Cash and cash equivalents are financial asset and valued at amortized cost (in 2017 according to IAS 39 included in the class "loans and other receivables").

5.3 FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT

This note explains Harvia Group's exposure to financial risks and how these risks could affect Harvia Group's future financial performance. Profit and loss information for the period has been included where relevant to add further context. This note also describes how the Group monitors its capital structure and what are the targets for the structure.

Accounting policy

Classification and measurement of financial assets

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

Harvia's management has determined which business models are applied for the Group's financial assets at the date of application of IFRS 9 as of January 1, 2018 and classified financial assets into categories according to IFRS 9. All financial assets of the group, excluding possible derivative assets, are classified as at amortized cost.

Impairment of financial assets

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

Classification and measurement of financial liabilities

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

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

Derivative financial instruments

Group's derivatives have not been determined as hedging instruments and therefore 9 they are classified at fair value through profit or loss under assets or liabilities.

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

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

FOREIGN EXCHANGE RISK

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

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

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

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

INTEREST RATE RISK

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

Group's target is to maintain at least 60% thereafter of its borrowings at fixed rate and use interest rate swaps to achieve this when necessary. During 2019 and 2018, the Group's borrowings at variable rate were denominated in euros and swaps in place covered 68% on 31 December 2019 and 68% on December 2018 of the variable loan principal outstanding. Based on the sensitivity analysis, if interest rate level of unhedged borrowings at variable rate would have been one percentage point higher with all other variables held constant, interest expenses of the Group would have been EUR 133 thousand higher in 2019.

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

CREDIT RISK

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

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

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

In 2019, Harvia has significant trade receivables due to long terms of payment in the client agreements. In certain circumstances, Harvia has also supported its distribution and dealership relationships by accepting longer than ordinary terms of payment periods and by agreeing on a new payment plan in respect of receivables due, which has increased trade receivables especially in United States and in Russia.

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

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

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

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

LIQUIDITY RISK

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

The Group has undrawn interest-bearing facilities (revolving credit facility) of EUR 9,250 thousand as at 31 December 2019 (EUR 8,557 thousand as at 31 December 2018). The undrawn interest-bearing facility is available constantly. Operating cash flows and liquid funds are the main source of financing for the future payments together with possible new debt or equity financing.

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

EUR thousand	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount
31-Dec-19							
Non-derivatives							
Loans from credit institutions	42	81	17	36,505		36,645	36,517
Lease liabilities	256	149	215	516	1,529	3,432	2,667
Other loans			92			92	92
Trade payables	5,149	0				5,149	5,149
Total non-derivatives	**5,448**	**231**	**324**	**37,021**	**1,529**	**45,318**	**44,425**
Derivatives							
Interest rate swaps	207	209	829	69		1,314	1,292
Total derivatives	**207**	**209**	**829**	**69**	**0**	**1,314**	**1,292**

EUR thousand	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount
31-Dec-18							
Non-derivatives							
Loans from credit institutions	2,146	8	33	36,507		38,694	38,526
Other loans			362	6		369	369
Trade payables	5,061	104				5,164	5,164
Total non-derivatives	**7,207**	**112**	**395**	**36,513**	**0**	**44,227**	**44,059**
Derivatives							
Interest rate swaps	206	209	829	484		1,727	1,471
Total derivatives	**206**	**209**	**829**	**484**	**0**	**1,727**	**1,471**

CAPITAL MANAGEMENT

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

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

The table below shows the net debt position.

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

Reconciliation of net cash flow to movement in net debt:

EUR thousand	Cash and cash equivalents	Loans from credit institutions due within 1 year	Loans from credit institutions due after 1 year	Lease liabilities	Shareholder loans due after 1 year	Total net debt
At 1 January 2018	**8,345**	**-8,394**	**-31,318**		**-41,618**	**-72,985**
Cash flows	-80	6,636	-4,733		41,618	43,441
Acquisitions		-397				-397
Exchange differences	3					3
Other non-cash movements			-320			-320
At 31 December 2018	**8,268**	**-2,155**	**-36,371**			**-30,258**
Cash flows	2,517	2,032	16	455		5,020
Acquisitions						0
Exchange differences	94					94
Other non-cash movements		0	-38	-3,122		-3,160
At 31 December 2019	**10,879**	**-123**	**-36,394**	**-2,667**		**-28,305**

5.4 FINANCE INCOME AND COSTS

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

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

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

Group's interest and other finance income related mainly to foreign exchange gains, interest income of trade receivables and gains on valuation of derivative contracts. They amounted to EUR 337 thousand during 2019 (2018: EUR 215 thousand). Finance costs related mainly to loans from financial institutions and shareholder loans, and losses on valuation of derivative contracts. See the following table:

EUR thousand	2019	2018
Finance income		
Interest income	2	0
Fair value gain on interest rate swap	263	121
Other finance income	72	93
Total	337	215
Finance costs		
Interest costs	-760	-1,600

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

5.5 COMMITMENTS AND CONTINGENT LIABILITIES

This note provides information about items that are not recognised in the financial statements as they do not (yet) satisfy the recognition criteria. These are guarantees, pledges and contingent liabilities.

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

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

OTHER COMMITMENTS

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

SECTION 6: OTHER NOTES

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

6.1 GROUP STRUCTURE AND CONSOLIDATION

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

Accounting policy

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

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

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

SUBSIDIARIES

The Group's subsidiaries as at 31 December 2019 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Parent company	Country of incorporation	Nature of business	Parent ownership (%)	Group ownership (%)	Acquired/ established (month/year)
Harvia Oyj	Finland	Parent company			
Subsidiaries					
Harvia Group Oy	Finland	Holding	100	100	4/2014
Harvia Finland Oy	Finland	Manufacturing		100	4/2014
Velha Oy	Finland	Manufacturing		100	4/2014
Harvia (Hong Kong) Sauna Co. Ltd	Hong Kong	Sales		100	4/2014
Guangzhou City Harvia Sauna Co. Ltd	China	Manufacturing		100	4/2014
Harvia Estonia Oü	Estonia	Manufacturing		100	12/2014
LLC Harvia RUS	Russia	Sales		100	6/2015

Parent company	Country of incorporation	Nature of business	Parent ownership (%)	Group ownership (%)	Acquired/ established (month/year)
Sentiotec GmbH	Austria	Sales		100	11/2016
Domo Wellness Romania Srl	Romania	Manufacturing		100	11/2016
K&R Imobiliare	Romania	Real estate		100	11/2016
Saunamax Oy	Finland	Service		56.2	3/2017
Harvia US Holdings Inc.	United States	Holding		100	11/2018
Harvia US Inc.	United States	Manufacturing		100	11/2018

6.2 RELATED PARTY TRANSACTIONS

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

Until March 2018, the Group was controlled by CapMan Buyout X Fund A L.P and CapMan Buyout X Fund B Ky, which owned the company's outstanding shares total of 69.5% as at 31 December 2017. In addition, Avus Oy, KTR-Invest Oy, Tiipeti Oy and Mantereenniemi Oy (investment companies of previous owners) have a common significant influence in the Group. The total ownership of these companies in the Group was 17.7% as at 1 January 2018.

In connection with the listing, CapMan Buyout X Fund A L.P and CapMan Buyout X Fund B Ky, which previously had control over the group, sold 679,774 Harvia Plc shares representing 7.0 percent share of the company before the share issue. The funds had direct holding in the company total of 24.6 percent and significant influence over the group until February 28, 2019 when the Funds sold part of their holdings in the company. After the trade the Funds holding remained at 12.3 percent. The funds sold their holding to Onvest Oy on 19 November 2019.

RELATED PARTY TRANSACTIONS

Harvia's key management personnel, the members of the Board of Directors, and their family members are entitled to purchase sauna products from Harvia in accordance with the policy applying to the entire personnel of Harvia.

Transactions with related parties have been made on an arm's length basis.

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

As of 31 December 2017, loans from related parties consisted of shareholder loans granted to the company. Certain Harvia's holding companies, former owners of Harvia, and certain key executives had granted shareholder loans to Harvia. In connection with the listing of the company, Harvia paid back loans from related parties prematurely in March 2018.

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

Personnel offering

In connection with the listing 2018, the group's personnel subscribed 144,357 shares in the personnel offering. The subscription price of EUR 4.50 per share was 10% lower than the subscription price for other shares subscribed in connection with the listing. The discount given to the personnel, EUR 72 thousand, has been accounted for under IFRS as share-based payments and it has been fully recorded as personnel expenses.

MANAGEMENT HOLDINGS

Accounting policy

Share-based payments

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

Accounting estimates and management judgement

Share-based payments

Harvia Group makes judgements on whether an arrangement or a transaction contains a share-based payment. The measurement of the fair value for the arrangement requires judgement from the management.

The following table indicates the ownership interests of the members of the Board of Directors, the Chief Executive Officer and the members of the management team in the parent company's shares outstanding at 31 December 2019:

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

REMUNERATION TO MANAGEMENT

The Board of Directors decides on the amount of and basis for the remuneration of the Chief Executive Officer (CEO) and the members of the management team. The remuneration of the CEO and the members of the management team consists of a monthly salary plus a bonus. The terms and conditions relating to the bonus are determined annually by the Board of Directors of the parent company. The bonus to the CEO and the members of the management team is paid based on the achievement of personal objectives as well as objectives relating to profitability for the financial year. The performance-based bonus must not exceed 31% of the fixed salary of the CEO and of other members of the management team.

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

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

KEY MANAGEMENT PERSONNEL COMPENSATION

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

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

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

REMUNERATION TO MEMBERS OF BOARD OF DIRECTORS

EUR thousand	2019	2018
Olli Liitola (as of 11 March 2014)	58	52
Anders Björkell (as of 11 March 2014)		
Pertti Harvia (as of 1 July 2016)	24	24
Ia Adlercreutz (as of 1 September 2016)	24	24
Ari Hiltunen (as of 9 February 2018)	32	26
Total	**137**	**126**

SHARE-BASED INCENTIVE PLAN

Harvia has established a share based long-term incentive plan for the CEO and Management Team members. The plan will form a part of Harvia Plc's remuneration program for its executives, and the aim of the plan is to support the implementation of the company's strategy, to align the interests of the executives with interests of the shareholders to increase the value of the company, to improve the performance of the company, and to retain the executives.

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

In the first performance period, the plan has 10 participants at most and the targets for the long-term incentive plan relate to the company's total shareholder return, revenue growth and EBIT margin. The maximum number of shares to be paid based on the first performance period is approximately 125,000 Harvia Plc's shares, which corresponds to approximately EUR 715,000 calculated with the volume weighted average share price on the trading day preceding the Board's decision. This number of shares represents gross earning, from which the withholding tax and possible other applicable contributions are deducted, and the remaining net amount is paid in shares. However, the company has the right to pay the reward fully in cash under certain circumstances. Potential rewards from the first performance period will be paid out during the spring 2021.

In the performance period 2019-2021, the maximum number of shares to be paid based on the performance period 2019-2021 is approximately 130,000 Harvia Plc´s shares. This number of shares represents gross earning, from which the withholding of tax and possible other applicable contributions are deducted, and the remaining net amount is paid in shares. However, the company has the right to pay the reward fully in cash under certain circumstances. Potential rewards from the performance period 2019-2021 will be paid out during spring 2022.

In 2019 EUR 159 thousand has been recognised as personnel expenses.

6.3 TAXES

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

Accounting policy

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

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

INCOME TAX EXPENSE

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

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

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

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

DEFERRED TAXES

Accounting policy

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

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

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

Management judgement

Determining to which extent deferred tax assets can be recognised requires management judgement. The management of Harvia Group has used judgement when determining if deferred tax asset is recognised for an unused tax loss carryforward or unused tax credits. Recognition is done only to the extent that it is probable that future taxable profits will be available against which the loss or credit carryforward can be utilised.The Group estimates positions taken in tax return with respect to situations in which applicable tax regulation is subject to interpretation. If necessary, the booked amounts are adjusted to correspond to amounts expected to be paid to the tax authorities.

No deferred tax receivables for intra-group interest expenses of EUR 8,185 thousand that were non-deductible in taxation for previous years have been recognized in Harvia's Consolidated Financial Statements for the year ended on December 31, 2017. These net interest costs incurred to Harvia Group Oy form intra-group net interest expenses, the deductibility of which are restricted by the applicable tax provisions. The deductibility of these net interest costs and their use in the taxation of following years was thus uncertain and thereby no deferred tax assets were recognized at the end of 2017. In March 2018, majority of intra-group loans of Harvia Group Oy were converted into the company's unrestricted equity and the company's equity was also strengthened by cash contribution. As a result, Harvia Group Oy will have less intra-group net interest expenses in future. This increases the prospects for Harvia Group Oy to deduct all of its net interest expenses and the likelihood of deduction of the non-deducted net interest expenses from previous years in the taxation of Harvia Group Oy. As a result, an increase in deferred tax assets of EUR 1,637 thousand was recognized in March 2018 and a total of EUR 1,748 thousand in 2018. In 2019 EUR 500 thousand intra-group interests were deducted in taxation. There were EUR 8,243 thousand remaining intra-group interest expenses at 31 December 2019. There is no time limit for the deduction of net interest expenses in taxation..

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

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

EUR thousand	At 1 January	Recognised in profit or loss	Recognised in equity	Business combinations	At 31 December
2018					
Deferred tax assets					
Tax losses	186	1,562			1,748
Internal margin of inventories	37	7			44
Provisions	90	-4			86
Derivative financial instruments	265	-265			0
Loans from credit institutions	33	-33			0
Other items	39	-75	513		477
Total	650	1,192	513	0	2,355
Netting of deferred taxes	-650				-996
Net deferred tax liability	**0**				**1,358**
2018					
Deferred tax liabilities					
Intangible assets	326	-30		337	634
Accumulated depreciation differences	282	-42			239
Property, plant and equipment	434	-26			408
Other items	50	1	1	24	76
Total	1,092	-97		361	1,358
Netting of deferred taxes	-650				-996
Net deferred tax liability	**442**	**-1,289**	**-513**	**361**	**361**

The Group has not recognised deferred tax liability on the undistributed profits of its subsidiaries in the countries where the dividend distribution causes tax penalties but dividend distribution is considered unlikely.

6.4 EQUITY

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

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

SHARE CAPITAL AND NUMBER OF SHARES

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

EUR thousand	Ordinary shares	Number of shares
At 1 January 2018	3	9,679,800
Increase in share capital through a fund increase	78	
Initial public offering		8,870,079
Personnel offering		144,357
At 31 December 2018	80	18,694,236
At 31 December 2019	80	18,694,236

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

In connection with the listing, the company carried out an offering which consisted of a public offering which increased the amount of shares by 8,870,079 shares in March 2018 and through personnel offering to employees of the Group by 144,357 shares in April 2018.

OTHER RESERVES

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

EUR thousand	Invested unrestricted equity	Translation differences	Total
At 1 January 2018	9,724	-21	9,703
Increase in share capital	-78		-78
Share issue	45,000		45,000
Expenses related to the share issue	-1,671		-1,671
Discount related to the personnel share issue	72		72
Share-based incentive plan	50		50
Translation differences		-13	-13
At 31 December 2018	53,098	-34	53,064
Osakeperusteinen palkitseminen	159		159
Muuntoerot		177	177
At 31 December 2018	53,257	142	53,399

INVESTED UNRESTRICTED EQUITY RESERVE

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

In connection with the listing in 2018, the company carried out an offering which consisted of a public offering in Finland, an institutional offering to institutional investors in Finland and in accordance with applicable laws, internationally; and personnel offering to employees of the group. With the share issue, the company raised gross proceeds of approximately EUR 45,000 thousand that was recognized to the invested unrestricted equity reserve.

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

TRANSLATION DIFFERENCES

Accounting policy

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

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

RETAINED EARNINGS

Movements in retained earnings were as follows:

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

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

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

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

6.5 EVENTS OCCURRING AFTER THE REPORTING DATE

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

PARENT COMPANY PROFIT & LOSS STATEMENT

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

PARENT COMPANY BALANCE SHEET

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

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

PARENT COMPANY CASH FLOW STATEMENT

EUR thousand	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Cash flow from operating activities:		
Profit (loss) before taxes	-2,131	2,239
Adjustments to operating profit (+/–) for:		
Depreciation and amortisation	701	522
Financial income and expenses	585	-4,193
Cash flow before working capital changes	-845	-1,432
Working capital changes:		
Increase/decrease in trade and other short-term interest-free receivables	-13	-74
Increase/decrease in short-term interest-free liabilities	58	-405
Operating cash flow before financing items and taxes	-799	-1,911
Income taxes paid (–), received (+)	-1,554	-1,025
Cash flow from operating activities:	**-2,353**	**-2,937**
Cash flow from investments		
Purchase of tangible and intangible items (–)	-121	-2,089
Loans granted	-1,555	-1,485
Change of Group account	2,208	
Investment in group companies		-48,049
Interest received from investments	321	132
Dividends received	4,300	2,100
Cash flow from investments	**5,152**	**-49,391**
Cash flows from financing activities		
Proceeds from share issues		45,000
Proceeds from current interest bearing liabilities		3,000
Repayment of current interest bearing liabilities		-3,000
Proceeds from non-current loans		37,971
Repayment of non-current loans		-30,148
Interest and other financing expenses paid	-1,044	-3,005
Dividends paid	-6,917	-3,365
Group contributions received	6,000	7,100
Cash flows from financing activities	**-1,960**	**53,552**
Net increase (+) / decrease (–) in cash and cash equivalents	**838**	**1,225**
Cash and cash equivalents at beginning of period	**2,632**	**1,407**
Cash and cash equivalents at end of period	**3,470**	**2,632**

NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

PARENT COMPANY ACCOUNTING POLICIES

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

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

Non-current assets

Intangible assets are recognised at the acquisition cost less the depreciation according to plan. Acquisition costs consists of direct costs of the acquisition. The depreciation has been calculated straight-line basis over the financial use of the asset. The depreciation period of intangible assets is 3 years. Machinery and equipment are to be depreciated within a maximum of 5 years.

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

Receivables

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

Pensions

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

Income taxes

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

Dividends

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

NOTES TO THE PROFIT AND LOSS STATEMENT

	2019	2018
Notes relating to personnel		
Number of personnel at the end of the financial year	2	2
Average number of personnel during the financial year		
Officers	2	2

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

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

NON-CURRENT ASSETS

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

HOLDINGS IN GROUP UNDERTAKINGS

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

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

RECEIVABLES

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

LIABILITIES

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

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

EQUITY

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

GUARANTEES AND COMMITMENTS

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

PROPOSAL BY THE BOARD OF DIRECTORS FOR DISTRIBUTION OF PROFIT

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

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

There have been no material changes in the financial position of the company after the reporting date. The company's liquidity is solid, and the proposed dividend does not risk the solvency of the company.

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

In Muurame, 10 February 2020

Olli Liitola
Chairman of the Board

Pertti Harvia
Member of the Board

Anders Björkell
Member of the Board

Ia Adlercreutz
Member of the Board

Ari Hiltunen
Member of the Board

Tapio Pajuharju
CEO

AUDITOR'S NOTE

A report on the audit performed has been issued today.

In Muurame, 10 February 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Markku Launis
Authorised Public Accountant

AUDITOR'S REPORT (TRANSLATION OF THE FINNISH ORIGINAL)

To the Annual General Meeting of Harvia Plc

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion

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

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

WHAT WE HAVE AUDITED

We have audited the financial statements of Harvia Oyj (business identity code 2612169-5) for the year ended 31 December 2019. The financial statements comprise:

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

BASIS FOR OPINION

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

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

Independence

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

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

OUR AUDIT APPROACH

Overview

- We have applied an overall group materiality of EUR 0.7 million
- The group audit scope includes all significant operating companies in Finland, Austria and USA covering vast majority of revenues, assets and liabilities.
- Valuation of goodwill

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

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

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

OVERALL GROUP MATERIALITY	EUR 0.7 million
HOW WE DETERMINED IT	Net sales
RATIONALE FOR THE MATERIALITY BENCHMARK APPLIED	We chose net sales as the benchmark because, in our view, it best reflects the group's business volume and growth targets. We considered that net sales provides us with a consistent year-on-year basis for determining materiality, and it is a generally accepted benchmark.

How we tailored our group audit scope

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

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTER IN THE AUDIT OF THE GROUP	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Valuation of goodwill *Refer to accounting principles of the consolidated financial statements and note 3.2 Intangible assets and Impairment testing* At 31 December 2019 the Group's goodwill balance amounted to EUR 60,2 million. As such, goodwill represents 49 % of total assets in the balance sheet. Goodwill is allocated to the cash-generating units. The Company tests goodwill for potential impairment annually and whenever there is an indication that the carrying value may be impaired by comparing the recoverable amount against the carrying value of goodwill. The recoverable amounts are determined using value in use model. Value in use calculations are subject to significant management judgement in form of estimates of future cash flows, such as estimates of future sales and expenses, and discount rates. Valuation of goodwill is a focus area in the audit due to the size of balance and the high level of management judgement involved.	Our audit focused on assessing the appropriateness of management's judgement and estimates used in the impairment analysis through the following procedures: - We tested the methodology applied in the value in use calculation by comparing it to the requirements of IAS 36, Impairment of Assets, and we tested the mathematical accuracy of calculations; - We evaluated the process by which the future cash flow forecasts were drawn up, including comparing them to the budgets and strategic plans approved by the Board of Directors; - We assessed the reasonableness of cash flow forecasts by comparing the accuracy of prior period revenue growth and operating profit forecasts to actual outcomes and to external forecasts; - We considered whether the discount rates applied within the model and the sensitivity analysis performed by the management around key assumptions of the cash flow forecast were appropriate; and - We also considered the appropriateness of the related disclosures provided in note 3.2 in the financial statements.

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

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

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

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant

doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

OTHER REPORTING REQUIREMENTS

APPOINTMENT

We were first appointed as auditors by the annual general meeting on 5 February 2015. Our appointment represents a total period of uninterrupted engagement of 5 years. Harvia Oyj became a public interest entity on 26 March 2018. We have been the company's auditors since it became a public interest entity.

OTHER INFORMATION

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

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

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

Muurame 10 February 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Markku Launis
Authorised Public Accountant (KHT)

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HARVIA

Sauna & Spa