HARVIA PLC

FINANCIAL STATEMENTS BULLETIN

January–December 2018

HARVIA'S FINANCIAL STATEMENTS BULLETIN JANUARY 1–DECEMBER 31, 2018:

STEADY PROFITABILITY AND INVESTING IN GROWTH

HIGHLIGHTS OF THE REVIEW PERIOD

OCTOBER–DECEMBER 2018:

- Revenue grew by 0.5% to EUR 16.2 million (16.1). At comparable exchange rates, revenue grew by 2.1%, to EUR 16.5 million.
- Adjusted operating profit was EUR 2.9 million (2.8), making up 17.6% (17.6) of the revenue. At comparable exchange rates, the adjusted operating profit grew by 1.9% to EUR 2.9 million (17.6% of the revenue).
- Operating free cash flow amounted to EUR 5.1 million (5.0).
- Harvia acquired the business operations of Almost Heaven Saunas LLC in the United States on December 28, 2018.

JANUARY–DECEMBER 2018:

- Revenue grew by 3.1% to EUR 61.9 million (60.1). At comparable exchange rates, revenue grew by 4.6%, to EUR 62.9 million.
- Adjusted operating profit was EUR 10.9 million (10.7), making up 17.5% (17.8) of the revenue. At comparable exchange rates, the adjusted operating profit grew by 5.2% and was EUR 11.3 million (17.9% of the revenue).
- Operating free cash flow amounted to EUR 10.0 million (9.0).
- Net debt decreased by 58.5% to EUR 30.3 million (73.0) and leverage was 2.3 (5.8).
- Due to the share issue, equity ratio increased to 56.3% (16.9).
- Special efforts during the year: IPO in the first quarter, recruitment of the new Scandinavian sales director, new product launches, especially the launch of SENTIO by Harvia, acquisition of Almost Heaven Saunas LLC.
- The Board of Director's proposal for the distribution of profit is EUR 0.37 per share, to be paid in two instalments.

KEY FIGURES

EUR million	10–12/2018	10–12/2017	Change, %	1–12/2018	1–12/2017	Change, %
Revenue	16.2	16.1	0.5%	61.9	60.1	3.1%
EBITDA	3.3	2.2	48.9%	11.5	11.2	3.1%
% of revenue	20.5%	13.8%		18.6%	18.6%	
Items affecting comparability *	0.1	1.1	-90.9%	1.5	1.4	3.0%
Adjusted EBITDA **	3.4	3.3	2.7%	13.0	12.6	3.1%
% of revenue	21.1%	20.6%		21.0%	21.0%	
Operating profit	2.8	1.7	57.9%	9.4	9.3	1.2%
% of revenue	17.0%	10.8%		15.1%	15.4%	
Adjusted operating profit **	2.9	2.8	0.4%	10.9	10.7	1.5%
% of revenue	17.6%	17.6%		17.5%	17.8%	
Basic EPS (EUR)	0.11	0.00	2651.0%	0.41	0.30	34.1%
Operating free cash flow	5.1	5.0	1.7%	10.0	9.0	10.9%
Cash conversion	148.2%	149.8%		77.0%	71.6%	
Investments in tangible and intangible assets	-0.4	-0.4	12.8%	-1.6	-1.2	35.2%
Net debt	30.3	73.0	-58.5%	30.3	73.0	-58.5%
Leverage	2.3	5.8		2.3	5.8	
Net working capital	17.5	17.3	1.4%	17.5	17.3	1.4%
Adjusted return on capital employed (ROCE)	31.6%	32.7%		31.6%	32.7%	
Equity ratio	56.3%	16.9%		56.3%	16.9%	
Number of employees at end of period	400	365	9.6 %	400	365	9.6%

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

FINANCIAL TARGETS AND OUTLOOK

Harvia does not publish its short-term outlook. However, the company has set long-term targets related to growth, profitability, and leverage. The company targets an average annual revenue growth of more than 5%, adjusted operating profit margin of 20% and a net debt/adjusted EBITDA between 1.5x–2.5x. The future impacts of changes in IFRS reporting standards have been excluded in the net debt/adjusted EBITDA ratio target.

Harvia targets a regularly increasing dividend with a bi-annual dividend payout of at least 60 percent of net income, in total.

TAPIO PAJUHARJU, CEO:

The fourth quarter was very solid for Harvia. In Finland, Scandinavia and other countries, the positive trend in sales remained strong. The final quarter of the year was very active and included exceptionally wide promotion of the Harvia product range and new products. Harvia's products and the SENTIO by Harvia range and its professional offering were launched in Finland at both Habitare and Finnbuild trade fairs. In international and especially Central European markets, Harvia participated in the Interbad fair in Stuttgart, Germany, as well as in the largest swimming pool event in Europe, the Piscine fair in Lyon, France. Harvia's comprehensive offering for both the consumer and professional market was well presented at both events.

Revenue for the final quarter, EUR 16.2 million, remained at the same level year on year (16.1). The adjusted operating profit increased to EUR 2.9 million from the previous year's EUR 2.8 million. The adjusted operating profit margin was 17.6% and remained at the same level year on year. With most of our customers, the exceptionally long break during Christmas and New Year caused some changes in the timing of some deliveries. In addition, the timing of the deliveries in the Russian market was reflected in the sales in December. The acquisition of Almost Heaven Saunas was a big and favorable step for Harvia but for the last quarter of the year, it did have an unfavorable impact on the US deliveries.

In 2018, our total revenue grew by 3.1% to EUR 61.9 million. The revenue faced some currency headwinds, but at comparable exchange rates we experienced 4.6% growth, which is approaching the targeted level. We were able to generate growth in all product groups, when taking into consideration the discontinued private label sales in Central Europe in the control units' revenue. This is a clear signal that we are on the right path and have developed well into a comprehensive one-stop shop operator in the sauna and spa market. The adjusted operating profit, EUR 10.9 million, improved year on year (EUR 10.7 million) and was 17.5% of revenue (17.8%). The slight reduction in relative profitability was caused by the relatively strong revenue growth in low-margin product groups, such as sauna rooms.

A significant step in our geographical expansion was the acquisition of the American Almost Heaven Saunas LLC's business operations at the end of 2018. Almost Heaven Saunas is one of the leading companies specialized in sauna and spa products in the United States. Almost Heaven Saunas has been Harvia's customer since 2013 and has experience in the US sauna business since 1978. The company's strong growth has contributed to the good development of our product sales. Together with Harvia's current long-term partners, Almost Heaven Saunas offers an opportunity to serve our North American customers better and faster with a wider offering.

In Sweden, we updated Harvia's offering and renewed our in-store visibility. In addition, we strengthened the organization as the new Scandinavian Sales Director started in November. In other EU markets, distribution strengthened as planned, and thanks to Sentiotec we have been able to get significantly closer to the Central European sauna culture and our customers. In Central and Southern Europe, we have increased our cooperation with the two largest operators in the swimming pool sector, Fluidra and SCP.

In Russia, in addition to expanding into new regions, we have improved our distribution and product range in Moscow and St. Petersburg. In China, we have an expanded product range and a highly efficient production facility.

At the end of the year, SENTIO by Harvia products became available to our professional customers. In Helsinki, for example, a SENTIO by Harvia sauna heater equipped with a control unit was installed at the Allas Sea Pool at the end of the year. The Wall product family grew as planned, and we completed The Wall Combi heater featuring a steamer, as well as high-power models that were launched at the end of the year. The popular Harvia Cilindro pillar heater was complemented with a taller, impressive-looking and modern Cilindro Plus model, equipped with an illuminated and childproof control unit, which also became available in key markets in late fall.

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

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

During the year, we also continued to focus on sustainable development and responsibility. We organized trainings and further developed our methods to systematically measure the sustainability themes.

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

MARKET REVIEW

According to an international management consulting firm's report, there are approximately 15 million saunas in the world. This large sauna base also provides a steady demand for the replacement of saunas and sauna heaters. According to the analysis, the global sauna and spa market is expected to grow annually by an average of 5% in 2016–2022. According to the same report, Harvia is the global leader in the heater and component market and one of the leading companies in the sauna and spa market. Harvia's share of the sauna and spa market is approximately 2% and its share of the heater and sauna component market is approximately 11%.

The sauna and spa market have historically been resilient, due in particular to the demand arising from the need to replace heaters. During the period under review, demand for Harvia's sauna and spa products remained steady, with no significant changes occurring in the main markets.

REVENUE

REVENUE BY MARKET AREA

EUR thousand	10-12/2018	10-12/2017	Change, %	1-12/2018	1-12/2017	Change, %
Finland	5,399	5,199	3.9%	23,104	22,214	4.0%
Other Scandinavian countries	870	814	6.9%	3,452	3,324	3.8%
Germany	2,262	2,241	1.0%	6,953	7,373	-5.7%
Other EU countries	4,290	4,244	1.1%	14,827	14,044	5.6%
Russia	1,662	2,064	-19.4%	5,662	6,227	-9.1%
North America	500	516	-3.0%	3,027	2,963	2.2%
Other countries*	1,233	1,057	16.7%	4,916	3,962	24.1%
Total	**16,217**	**16,134**	0.5%	**61,942**	**60,107**	3.1%

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

REVENUE BY PRODUCT GROUP

EUR thousand	10-12/2018	10-12/2017	Change, %	1-12/2018	1-12/2017	Change, %
Sauna heaters	8,952	8,921	0.4%	35,763	35,289	1.3%
Sauna rooms	1,989	2,027	-1.9%	7,521	6,903	9.0%
Control units	1,743	1,922	-9.3%	5,822	6,318	-7.8%
Steam generators	758	775	-2.2%	3,004	2,791	7.6%
Other product groups, spare parts and services	2,775	2,489	11.5%	9,831	8,807	11.6%
Total	**16,217**	**16,134**	0.5%	**61,942**	**60,107**	3.1%

OCTOBER–DECEMBER 2018

The Group's revenue increased in October−December by 0.5% to EUR 16.2 million (16.1). At comparable exchange rates, revenue grew by 2.1% to EUR 16.5 million. Revenue development reflected the impact of the exceptionally long break during Christmas and New Year on several clients, which affected the timing of some of the deliveries.

Revenue grew in Finland (3.9%), in export markets outside of EU (other countries, 16.7%), and in the other Scandinavian countries (6.9%). Revenue in Russia showed strong seasonal variation, decreasing by -19.4% in October–December from the comparison period but increasing by 40% compared to July–September. Growth in Russia was particularly fast in the fourth quarter of 2017, 117%, due to the exceptionally strong start to the winter sales. The -3.0% decrease in the revenue of North America was mainly due to the arrangements related to the business operations of Almost Heaven Saunas LLC.

Sauna heater sales were on the previous year's level. Sales of control units continued to be impacted by the termination of the weak private label business in Central Europe. Revenue increased in the third quarter in other product groups such as spa modules, accessories, and services.

The timing of major deliveries in different months and the fluctuation of exchange rates in the main markets cause seasonal variation in revenue. During the fourth quarter, market demand remained on a good level.

JANUARY–DECEMBER 2018

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

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

Sauna heater sales increased by 1.3% from the comparison period, and growth remained solid in electric heaters but the sales of wood burning heaters did not fully recover from the demand challenges created by the hot summer. The positive sales development seen in heaters also continued in saunas, in which larger entities were implemented for customers during the year. Revenue also grew in steam generators, spa modules, and infrared saunas. The revenue of control units dropped from the previous year due to the discontinuation of private label sales in Central Europe early in the year.

RESULT

OCTOBER–DECEMBER 2018

The Group's operating profit for October−December was EUR 2.8 million (1.7), and the operating profit margin was 17.0% (10.8). The comparison period included EUR 1.1 million of items affecting comparability. Adjusted operating profit was EUR 2.9 million, showing a slight increase year-on-year (2.8). The adjusted operating profit margin was at the previous year's level at 17.6%. Investments in new products and other investments increased depreciations in the review period compared to the previous year. Financing expenses were significantly reduced due to the share issue, repayment of shareholder loans and restructuring of bank loans, amounting to EUR 0.4 million (1.2). Profit before taxes was EUR 2.4 million (0.5) and profit for the period amounted to EUR 2.0 million (0.0). Changes in exchange rates impacted the operating profit by less than EUR -0.1 million during the period. Earnings per share were EUR 0.11 (0.00).

JANUARY–DECEMBER 2018

Operating profit for January–December was EUR 9.4 million (9.3). The operating profit included EUR 1.5 million (1.4) of items affecting comparability, mainly related to the public offering and the share issue. The adjusted operating profit of EUR 10.9 million improved from the previous year (10.7) and the operating profit margin was 17.5% (17.8). Revenue growth in product groups with lower margins such as saunas weighed down the operating profit margin during the review period. Financing expenses for the review period amounted to EUR 2.8 million (4.9).

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

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

FINANCIAL POSITION AND CASH FLOW

Balance sheet total at the end of December 2018 was EUR 116.9 million (December 31, 2017: 114.0), of which equity accounted for EUR 65.8 million (19.3).

In March 2018, Harvia strengthened its capital structure by using the funds derived from the share issue to repay shareholder loans and their accumulated interests. At the end of December 2018, the company's net debt amounted to EUR 30.3 million (73.0), of which EUR 36.4 million (72.9) consisted of long-term liabilities. Cash and cash equivalents at the end of the period amounted to EUR 8.3 million (8.3). The repayment of shareholder loans and restructuring of bank loans significantly reduced the Group's indebtedness.

At the end of the review period, leverage stood at 2.3 (5.8). Harvia's equity ratio at the end of the review period was 56.3% (16.9). The adjusted return on capital employed (ROCE) was 31.6% (32.7).

During the review period, operating free cash flow increased to EUR 10.0 million from the EUR 9.0 million of the comparison period. Cash conversion was 77.0% (71.6).

INVESTMENTS, RESEARCH AND PRODUCT DEVELOPMENT

The Group's investments in January–December amounted to EUR 1.6 million (1.2). At the beginning of the year, a new layout for warehousing and shipping was carried out at the Muurame factory to improve operational efficiency, and machine purchases were made to improve efficiency. Facility related investments were also made in China. In addition, product development projects were completed during the review period. The Group's research and development expenditure amounted to EUR 1.7 million (1.2), of which EUR 1.1 million (1.0) were recognized as expenses.

Harvia introduced several new products during autumn 2018, both at domestic and international trade fairs. In September, Harvia participated in the Habitare fair and Finnbuild fair in Finland. During the fourth quarter of 2018, Harvia participated in the Interbad fair in Stuttgart and Piscine fair in Lyon. Fair-related expenses increased expenses by approximately EUR 0.2 million compared to year 2017.

Piscine Lyon, France

PERSONNEL

The number of personnel employed by the Group at the end of the review period was 400 (365) and an average of 376 (369) in January–December. Of the personnel, 46% (50) worked in Finland, 8% (8) in Austria, 18% (22) in Romania, 3% (1) in Estonia, 15% (18) in China and Hong Kong, and 11% (0) in the United States.

SHARES AND SHAREHOLDERS

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

The share trading volume during the review period was EUR 43.8 million and 8,314,233 shares. These figures include share sales related to the IPO. The share's volume weighted average rate during the review period was EUR 5.26. The highest rate during the review period was EUR 6.39 and the lowest was EUR 4.91. The closing price of the share at the end of December 2018 was EUR 5.37. The market value of the share capital on December 31, 2018 stood at EUR 100.4 million. The company does not currently own any treasury shares.

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

GOVERNANCE

In an extraordinary General Meeting on February 9, 2018, shareholders decided to change the company's company form into a public company and change the company's name to Harvia Plc. At the same time, the company's share capital was increased from the company's unrestricted equity to the amount of EUR 80,000 required for a public company.

Ari Hiltunen was elected as a new ordinary member of Harvia Plc's Board of Directors.

In the Annual General Meeting held on March 2, 2018, shareholders approved the parent company's Financial Statements and the Consolidated Financial Statements, the latter made in accordance with the IFRS standard, for the financial periods 2015, 2016, and 2017.

The number of ordinary members in the company's Board of Directors was confirmed to be five. Olli Liitola (Chairman), Ia Adlercreutz, Anders Björkell, Pertti Harvia, and Ari Hiltunen will continue in the company's Board of Directors. The Annual General Meeting decided that PricewaterhouseCoopers Oy will continue as the company's auditor, with Markku Launis as the responsible auditor.

The Board of Directors was authorized to decide on the acquisition of treasury shares and the issuance of new shares, as well as the issuance of options and other special rights entitling to shares as referred to in Chapter 10, Section 1 of the Limited Liability Companies Act.

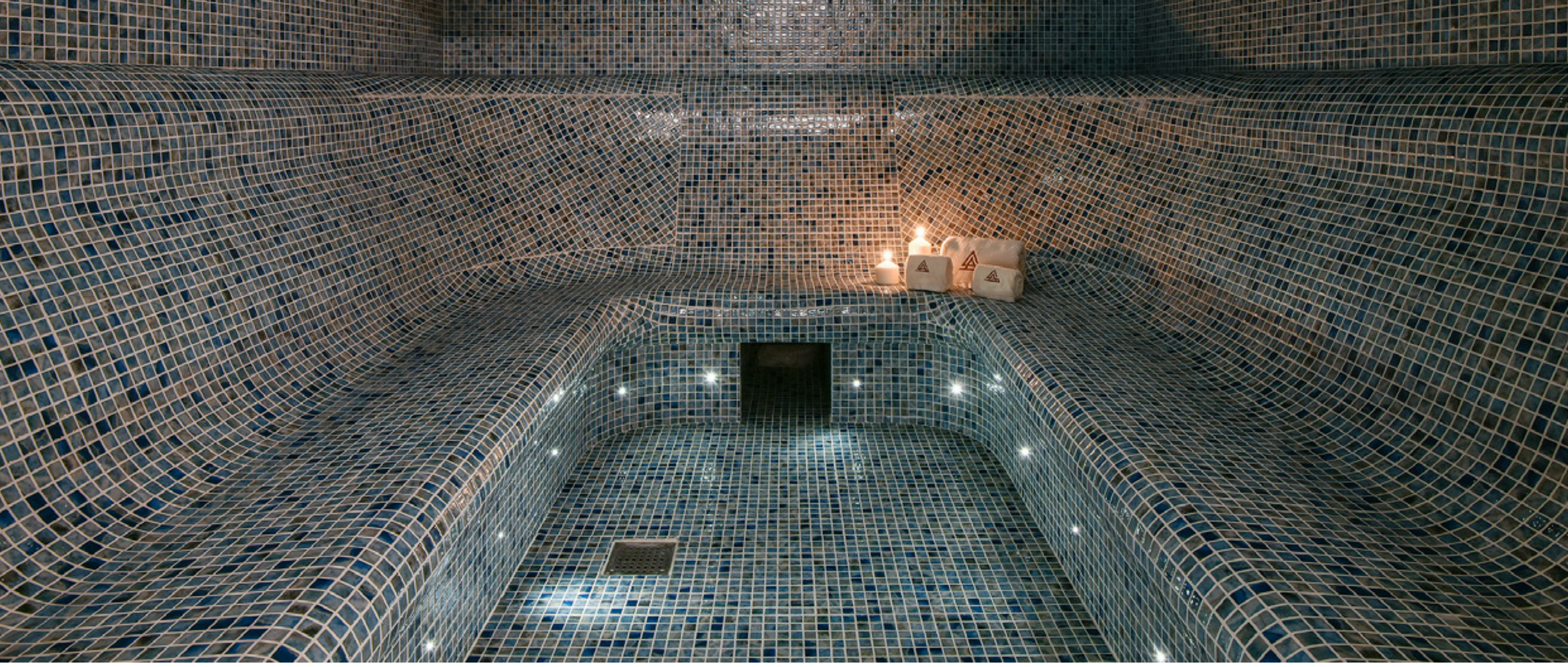
The Board of Directors was authorized to resolve, at its discretion, upon distribution of dividend or of assets from the unrestricted equity reserve in the maximum amount of EUR 3,500,000.00 provided that the financial standing of the company at the time of distribution allows for distribution of dividend and other legal requirements for distribution of assets are met. The authorization is valid until the beginning of the following Annual General Meeting.

The Board of Directors of Harvia Plc resolved on October 10, 2018, on the basis of the authorization by the Annual General Meeting 2018, that a dividend of EUR 0.18 per share (EUR 3,364,962.48 in total) be distributed from retained earnings. The dividend was paid to a shareholder registered in the company's shareholder register maintained by Euroclear Finland Ltd on the record date for the dividend October 12, 2018. The dividend was paid on October 19, 2018.

On November 19, 2018, Harvia established two companies in the United States, Harvia US Holdings Inc. as a wholly owned subsidiary of Harvia Group Oy and Harvia US Inc. as a wholly owned subsidiary of Harvia US Holdings. Harvia US Inc. acquired the sauna business operations of Almost Heaven Saunas LLC based on an agreement signed on December 20, 2018, and the acquisition was completed on December 28, 2018.

SHARE-BASED INCENTIVE PLAN

In May 2018, the Board of Directors of Harvia Plc decided, based on its authorization, to establish a new share-based long-term incentive plan for the CEO and Management Team members. The incentive plan has three three-year earnings periods consisting of 2018–2020, 2019–2021 and 2020–2022. During the first earnings period, the incentive plan includes a maximum of 10 persons, and the plan's goals are related to the overall share return, revenue growth, and operating result margin. The share bonuses based on the plan's first earnings period correspond to a maximum of 125,000 shares in Harvia Plc.



Seth Astetic, Taiwan

RISKS AND UNCERTAINTIES

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

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

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

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

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

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

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

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

EVENTS AFTER THE REVIEW PERIOD

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

PROPOSAL BY THE BOARD OF DIRECTORS FOR DISTRIBUTION OF PROFIT

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

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

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

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

HARVIA'S ANNUAL GENERAL MEETING 2019

Harvia's 2019 Annual General Meeting will be held in Helsinki, Finland, on April 4, 2019 at 10 a.m. Finnish time. The Board of Directors will convene the meeting by issuing a separate stock exchange release.

Harvia's 2018 Annual Report, including the Board of Director's report and Financial Statements, will be available on the company's website at http://www.harvia.fi/en on week 10.

MUURAME, FEBRUARY 13, 2019

HARVIA PLC
Board of Directors

FOR MORE INFORMATION, PLEASE CONTACT:

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PRESS CONFERENCE ON FINANCIAL RESULTS

Harvia will hold a press conference in English for analysts, investors and media today, Thursday February 14 at 11:00 a.m. Finnish time. The press conference is held in the Smart & Clean Showroom of Allas Sea Pool (address: Katajanokanlaituri 2a, Helsinki). The CEO Tapio Pajuharju and CFO Ari Vesterinen will host the event.

A live webcast of the conference is available at: https://harvia.videosync.fi/2018-results/register.

You can also participate in the conference by telephone:

- FI: +358 9 817 103 10
- SE: +46 8 566 426 51
- UK: +443 333 000 804
- US: +1 631 913 1422

PIN: 32075725#

Questions to the presenters can be made in Finnish or in English at the end of the press conference.
The webcast is recorded and will be made available on Harvia's website.

HARVIA PLC FINANCIAL STATEMENTS BULLETIN JANUARY–DECEMBER 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR thousand	Note	10–12/2018	10–12/2017	1–12/2018	1–12/2017
Revenue	2.1, Note 1	**16,217**	**16,134**	**61,942**	**60,107**
Other operating income		26	56	188	208
Materials and services		-6,387	-6,805	-25,853	-24,972
Employee benefit expenses	5.1	-3,445	-3,234	-13,063	-12,305
Other operating expenses	2.2	-3,091	-3,923	-11,679	-11,855
Depreciation and amortisation		-563	-484	-2,158	-1,921
Operating profit		**2,756**	**1,745**	**9,376**	**9,263**
Finance income		7	139	215	457
Finance costs	4.1	-392	-1,365	-2,981	-5,370
Finance costs, net		-385	-1,226	-2,767	-4,914
Profit before income taxes		**2,371**	**519**	**6,609**	**4,349**
Income taxes	5.3	-406	-482	172	-1,435
Profit for the period		**1,965**	**37**	**6,780**	**2,914**
Attributable to:					
Owners of the parent		1,965	37	6,780	2,914
Other comprehensive income					
Items that may be reclassified to profit or loss in subsequent periods:					
Translation differences		-115	107	-13	-505
Other comprehensive income, net of tax		-115	107	-13	-505
Total comprehensive income		**1,850**	**144**	**6,767**	**2,409**
Attributable to:					
Owners of the parent		1,850	144	6,767	2,409
Basic EPS (EUR)	2.3	0.11	0.00	0.41	0.30
Diluted EPS (EUR)	2.3	0.11	0.00	0.41	0.30

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR thousand	Note	Dec-31-18	Dec-31-17
ASSETS			
Non-current assets			
Intangible assets		4,189	2,999
Goodwill		60,421	59,224
Property, plant and equipment		14,741	14,939
Deferred tax assets		1,358	
Total non-current assets		**80,710**	**77,163**
Current assets			
Inventories	3	14,526	14,143
Trade and other receivables	3	12,152	12,738
Income tax receivables		1,283	1,604
Cash and cash equivalents	4	8,268	8,345
Total current asset		**36,230**	**36,830**
Total assets		**116,939**	**113,993**
EUR thousand			
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	5.4	80	3
Other reserves	5.4	53,064	9,703
Retained earnings	1	5,897	6,656
Profit for the period		6,780	2,914
Total equity attributable to owners of the parent		**65,822**	**19,276**
Total equity		**65,822**	**19,276**
Liabilities			
Non-current liabilities			
Shareholder loans	4.1		41,618
Loans from credit institutions	4.1	36,371	31,318
Derivative financial instruments	4.1	1,471	1,327
Deferred tax liabilities	5.3	361	442
Other non-current liabilities		369	383
Provisions		215	225
Total non-current liabilities		**38,787**	**75,313**
Current liabilities			
Loans from credit institutions	4.1	2,155	8,394
Income tax liabilities		782	1,160
Trade and other payables	3	9,178	9,626
Provisions		215	225
Total current liabilities		**12,331**	**19,404**
Total liabilities		**51,117**	**94,716**
Total equity and liabilities		**116,939**	**113,993**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR thousand	Note	Share capital	Invested unrestricted equity reserve	Translation differences	Retained earnings	Total
Equity at 1 January 2017		**3**	**9,724**	**484**	**6,656**	**16,868**
Profit for the period					2,914	2,914
Other comprehensive income				-505		-505
Total comprehensive income				-505	2,914	2,409
Equity at 31 December 2017		**3**	**9,724**	**-21**	**9,570**	**19,276**
Equity at 1 January 2018						
Adoption of IFRS 9	1				-313	-313
Adoption of IFRS 15	1				5	5
Equity at 1 January 2018		3	9,724	-21	9,262	18,968
Increase in share capital		78	-78			
Share issue	5.4		45,000			45,000
Expenses related to the share issue	5.4		-1,671			-1,671
Discount related to the personnel share issue	5.1		72			72
Share-based incentive plan			50			50
Dividend distribution					-3,365	-3,365
Total transactions with shareholders		78	43,374		-3,365	40,087
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**

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR thousand	Note	10-12/2018	10-12/2017	1-12/2018	1-12/2017
Cash flows from operating activities					
Profit before taxes		2,371	519	6,609	4,349
Adjustments					
Depreciation and amortisation		563	484	2,158	1,921
Finance income and finance costs		385	1,226	2,767	4,914
Other adjustments		-6	-337	-123	-39
Cash flows before changes in working capital		3,313	1,893	11,410	11,145
Change in working capital					
Increase (-) / decrease (+) in trade and other receivables	3	1,953	556	497	-2,153
Increase (-) / decrease (+) in inventories	3	1,970	815	374	-2,349
Increase (+) / decrease (-) in trade and other payables	3	-1,840	670	-2,245	2,115
Cash flows from operating activities before financial items and taxes		5,396	3,934	10,036	8,758
Interest and other finance costs paid		-35	-78	-111	-186
Interest and other finance income received		6	-2	85	1
Income taxes paid/received	5.3	-472	-441	-1,190	-543
Net cash from operating activities		**4,895**	**3,412**	**8,820**	**8,029**
Cash flows from investing activities					
Purchases of tangible and intangible assets		-435	-385	-1,617	-1,196
Sale of tangible and intangible assets		1	0	14	30
Net cash from investing activities		**-434**	**-385**	**-1,603**	**-1,166**
Cash flows from financing activities					
Proceeds from share issues	5.4	0		45,000	50
Costs from share issue recognised in equity	5.4			-2,089	
Repayment of non-current loans	4.1	-999	-2,250	-78,879	-4,250
Proceeds from non-current loans	4.1			36,500	
Change in current interest-bearing liabilities	4.1	-422	664	-2,136	952
Interest and other finance costs paid	4.1	-280	-406	-2,328	-1,634
Dividends paid		-3,365		-3,365	
Net cash from financing activities		**-5,066**	**-1,992**	**-7,297**	**-4,882**
Net change in cash and cash equivalents		-605	1,035	-80	1,980
Cash and cash equivalents at beginning of period		8,874	7,355	8,345	6,568
Exchange gains/losses on cash and cash equivalents		-1	-46	3	-204
Cash and cash equivalents at end of period		**8,268**	**8,345**	**8,268**	**8,345**

NOTES TO THE GROUP'S FINANCIAL STATEMENTS BULLETIN

1. BASIS OF PREPARATION

Basis of preparation

Harvia's interim information has been prepared in compliance with the IAS 34 Interim Financial Reporting standard. Interim information does not contain all the notes presented in the Consolidated Financial Statements for 2017 and should therefore be read in conjunction with the Consolidated Financial Statements for 2017 prepared in accordance with IFRS. The same accounting principles have been applied to the interim information as to the consolidated financial statements taking into account, however, the following new standards adopted in the beginning of 2018:

- IFRS 15 *Revenue from Contracts with Customers* is the new revenue standard. Harvia has adopted it from January 1, 2018 on using the modified retrospective method which means that the cumulative impact of the adoption has been recognized in retained earnings as of 1 January 2018 and that comparative will not be restated. More detailed information on the impact of the adoption of the new standard on accounting policies and the figures for interim information is presented in Appendix 1.

- IFRS 9 *Financial Instruments* addresses the classification, measurement, recognition and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The new rules have been applied retrospectively from January 1, 2018 with the practical expedients permitted under the standard. Comparatives for 2017 are not to be restated. More detailed information on the impact of the adoption of the new standard on accounting policies and the figures for interim information is presented in Appendix 1.

Harvia is adopting the IFRS 16 *Leases* standard as of January 1, 2019. The standard replaces the current IAS 17 Leases standard. The adoption will have a significant impact for the lessee's recognition, as the standard removes the current distinction between operating and financing leases. According to the new standard, a lease is recognized as a right-of-use asset (the right to use the leased asset) and as a lease liability to pay rentals, recorded under interest-bearing liabilities.

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

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

Harvia's Board of Directors has approved this interim information in its meeting on February 13, 2019. This interim information is unaudited. Figures in the interim information have been rounded and consequently the sum of individual figures may deviate from the presented sum figure.

Accounting estimates and management judgements made in preparation of the interim information

The preparation of interim information requires management to make accounting estimates and judgements as well as assumptions that affect the application of the preparation principles and the accounting estimates on assets, liabilities, income and expenses. Actual results may differ from previously made estimates and judgements. Estimates and judgements are reviewed regularly. Changes in estimates are presented in the period during which the change occurs, if the change only affects one period. If it affects both the period under review and following periods, the changes are presented in the period under review and following periods.

The significant management judgements and accounting estimates concerning key uncertainty factors in connection with the preparation of this interim information are identical to those applied in the Consolidated Financial Statements for 2017.

2. GROUP PERFORMANCE

2.1. GROUP REVENUE

Harvia follows its revenue at the product group level. Group's product and service offerings have been divided to five groups: sauna heaters, sauna rooms, control units, steam generators and spare parts, services and other products. Each product group includes products suitable for different customer categories to meet different customer needs. The largest customer category of the group consists of retailers and wholesale customers who sell products to builders or end customers.

On January 1, 2018, Harvia has adopted new revenue standard, and the impacts of the adoption are explained more in Appendix 1.

REVENUE BY MARKET AREA

EUR thousand	10–12/2018	10–12/2017	Change, %	1–12/2018	1–12/2017	Change, %
Finland	5,399	5,199	3.9%	23,104	22,214	4.0%
Other Scandinavia	870	814	6.9%	3,452	3,324	3.8%
Germany	2,262	2,241	1.0%	6,953	7,373	-5.7%
Other EU countries	4,290	4,244	1.1%	14,827	14,044	5.6%
Russia	1,662	2,064	-19.4%	5,662	6,227	-9.1%
North America	500	516	-3.0%	3,027	2,963	2.2%
Other countries*	1,233	1,057	16.7%	4,916	3,962	24.1%
Total	**16,217**	**16,134**	0.5%	**61,942**	**60,107**	3.1%

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

REVENUE BY PRODUCT GROUP

EUR thousand	10–12/2018	10–12/2017	Change, %	1–12/2018	1–12/2017	Change, %
Sauna heaters	8,952	8,921	0.4%	35,763	35,289	1.3%
Sauna rooms	1,989	2,027	-1.9%	7,521	6,903	9.0%
Control units	1,743	1,922	-9.3%	5,822	6,318	-7.8%
Steam generators	758	775	-2.2%	3,004	2,791	7.6%
Other product groups, spare parts and services	2,775	2,489	11.5%	9,831	8,807	11.6%
Total	**16,217**	**16,134**	0.5%	**61,942**	**60,107**	3.1%

2.2. OPERATING EXPENSES

Other operating expenses for the period January 1 – December 31, 2018 include expenses of EUR 1,327 thousand related to the listing. During the financial period 2017 the total cost of the listing was EUR 584 thousand. In addition, other operating expenses include other items outside the ordinary course of business that are related to the group's strategic development projects, acquisitions and loss on sales of fixed assets and affect the comparability between the different periods. Further information of these items is given in Appendix 2 Key figures.

2.3. 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.

	10-12/2018	10-12/2017	1-12/2018	1-12/2017
Profit for the period attributable to the owners of the parent company, EUR thousand	1,965	37	6,780	2,914
Weighted average number of shares outstanding during the financial period, '000	18,694	9,680	16,688	9,617
Basic earnings per share, EUR	**0.11**	**0.00**	**0.41**	**0.30**
Weighted average number of shares outstanding during the year, diluted, '000	18,714	9,680	16,708	9,617
Diluted earnings per share, EUR	**0.11**	**0.00**	**0.41**	**0.30**

3. NET WORKING CAPITAL

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

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

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.

On January 1, 2018, Harvia has adopted a new standard for financial instruments that introduces a new impairment model for financial assets. Further information on the effect of the increase in loss allowance for trade receivables is explained in Appendix 1.

4. NET DEBT AND CONTINGENCIES

INTEREST-BEARING NET DEBT

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

4.1. BORROWINGS AND OTHER FINANCIAL LIABILITIES

All borrowings of the group are euro-denominated.

Repayment of 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.

Refinancing of bank loans

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 8,000 thousand credit limit with the new credit limit. The new bank loan will mature in one instalment on March 2, 2023 and its nominal interest is tied to Euribor and its margin is tied to Group's net debt / adjusted EBITDA ratio.

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

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.

Interest rate swap

In connection with the refinancing of bank loans, an interest rate swap agreement with Swedbank was transferred to Danske Bank through a novation agreement.

4.2. COMMITMENTS AND CONTINGENT LIABILITIES

EUR thousand	Dec-31-18	Dec-31-17
Guarantees and mortgages given on own behalf:		
Mortgages	320	169,320
Enterprise mortgages		253,500
Total	**320**	**422,820**
Pledges given on own behalf:		
Shares in subsidiaries		96,984
Total		**96,984**
Other guarantees:		
Pledged accounts		8
Customs guarantee	30	31
Other guarantees	12	2,502
	42	**2,541**

In addition, Harvia Group Oy has guaranteed a subsidiary's credit limit of which EUR 1,742 thousand was in use on December 31, 2018.

5. OTHER NOTES

5.1. RELATED PARTY TRANSACTIONS

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 7.02 percent share of the company before the share issue. After the completion of the sale and share issue, the Funds' direct holding in the company is 24.64 percent, and therefore the Funds have a significant influence over the group.

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

The following transactions were carried out with related parties:

EUR thousand	1–12/2018	1–12/2017
Purchases	8	17
Sales	4	1

Loans from related parties and their changes:

EUR thousand	1–12/2018	1–12/2017
At 1 January	41,618	38,516
Loan repayments	-41,618	
Accrued interests	836	3,298
Withholding tax on interest	-42	-175
Interest paid	-793	-21
At end of period		**41,618**

In connection with the listing of the company, Harvia paid back loans from related parties.

Personnel offering

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

Management remuneration

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

5.2. SHARE-BASED INCENTIVE PLAN

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

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

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

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

5.3. TAXES

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 for the income statement for January-March 2018 and EUR 1,748 thousand in 2018 total.. There is no time limit for the deduction of net interest expenses in taxation.

5.4. EQUITY

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 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.

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

APPENDIX 1:
CHANGES IN ACCOUNTING POLICIES

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

Harvia has adopted the standard IFRS 15 *Revenue from Contracts with Customers* on January 1, 2018 using the modified retrospective method which means that the cumulative impacts of the adoption have been recognized in retained earnings as of January 1, 2018 and that comparatives have not been restated. Harvia has defined the impacts of the standard and based on that has adjusted the revenue of project sales. For the rest, the effects of the changes were not significant and do not require adjustments to the figures of interim information. The impacts of the new standard on the revenue recognition policies and figures of interim information are presented below.

ACCOUNTING POLICY

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

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

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

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

SIGNIFICANT MANAGEMENT JUDGEMENTS

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. Marketing subsidies against which Harvia receives a marketing service are presented under other operating expenses.

PROJECT SALES ADJUSTMENT

For some of the project sales Harvia will recognize revenue over time when previously revenue has been recognized after completion. Below is a summary of the adjustments to the opening statement of financial position as of January 1, 2018:

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

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

IFRS 9 FINANCIAL INSTRUMENTS

The group has applied IFRS 9 Financial instruments standard from 1 January 2018. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. The most significant effects of the adoption of IFRS 9 in the group related to the impairment of trade receivables and classification of financial assets and liabilities that is based on the business models determined by the group. Harvia does not apply hedge accounting. The impacts of the new standard on the accounting policies of the group's financial instruments and the opening statement of financial position as of 1 January 2018 have been presented below.

ACCOUNTING POLICY

Classification and measurement of financial assets

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

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

Impairment of financial assets

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

Classification and measurement of financial liabilities

Loans from credit institutions are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest rate method. Loans from credit institutions are classified at amortized cost in accordance with IFRS 9, which does not change the previous measurement or accounting under IAS 39.

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

Derivative financial instruments

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

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

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

EUR thousand	Jan–Dec 2018 IFRS 9	Jan–Dec 2017 IAS 39
At January 1 - under IAS 39	63	69
Impact of the increase in the loss allowance on the opening balance	391	
Opening loss allowance at January 1 calculated under IFRS 9	**454**	
Change in loan loss allowance recognized in profit or loss during the period	-79	22
Trade receivables written off during the period as uncollectible	21	-28
Unused amount reversed	-1	
Total	394	63

During the financial period 2017 the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly.

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

APPENDIX 2:
KEY FIGURES AND CALCULATION OF KEY FIGURES

EUR thousand	10–12/2018	10–12/2017	1–12/2018	1–12/2017
Key statement of comprehensive income indicators				
Revenue	16,217	16,134	61,942	60,107
EBITDA	3,319	2,229	11,533	11,184
% of revenue	20.5	13.8	18.6	18.6
Adjusted EBITDA	3,419	3,328	13,009	12,617
% of revenue	21.1	20.6	21.0	21.0
Operating profit	2,756	1,745	9,376	9,263
% of revenue	17.0	10.8	15.1	15.4
Adjusted operating profit	2,856	2,845	10,852	10,696
% of revenue	17.6	17.6	17.5	17.8
Adjusted profit before income taxes	2,472	1,619	8,085	5,783
Basic EPS (EUR)	0.11	0.00	0.41	0.30
Diluted EPS (EUR)	0.11	0.00	0.41	0.30
Key cash flow indicators				
Cash flow from operating activities	4,895	3,412	8,820	8,029
Operating free cash flow	5,068	4,984	10,019	9,035
Cash conversion	148.2 %	149.8 %	77.0 %	71.6 %
Investments in tangible and intangible assets	-435	-385	-1,617	-1,196
Key cash flow indicators				
Net debt	30,258	72,985	30,258	72,985
Leverage	2.3	5.8	2.3	5.8
Net working capital	17,500	17,255	17,500	17,255
Capital employed excluding goodwill	34,348	32,752	34,348	32,752
Adjusted return on capital employed (ROCE)	31.6 %	32.7 %	31.6 %	32.7 %
Equity ratio	56.3 %	16.9 %	56.3 %	16.9 %
Number of employees at end of period	400	365	400	365
Average number of employees during the period	376	366	376	369

RECONCILIATION OF CERTAIN KEY FIGURES AND CALCULATION OF KEY FIGURES

Harvia presents alternative performance measures as additional information to measures presented in the consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of cash flows prepared in accordance with IFRS. In Harvia's view, alternative performance measures provide the management, investors, securities market analysts and other parties with significant additional information related to Company's results of operations, financial position and cash flows.

The company presents adjusted operating profit, adjusted EBITDA, adjusted return on capital employed (ROCE), operating free cash flow and cash conversion, which have been adjusted for material items outside the ordinary course of business, to improve comparability between periods.

Alternative performance measures should not be viewed in isolation or as a substitute to the measures under IFRS. All companies do not calculate alternative performance measures in a uniform way, and therefore the alternative performance measures presented in this report may not be comparable with similarly named measures presented by other companies.

Alternative performance measures are unaudited except for operating profit, net cash from operating activities, investments in tangible and intangible assets, net working capital and net debt.

EUR thousand	10–12/2018	10–12/2017	1–12/2018	1–12/2017
Operating profit	2,756	1,745	9,376	9,263
Depreciation and amortisation	563	484	2,158	1,921
EBITDA	3,319	2,229	11,533	11,184
Items affecting comparability				
Costs related to listing	12	584	1,327	584
Strategic development projects	18	483	72	605
Acquisition related expenses	70	32	77	227
Restructuring expenses		0		52
Net gains or losses from sales of assets and grants received		0		-34
Total items affecting comparability	100	1,099	1,476	1,434
Adjusted EBITDA	3,419	3,328	13,009	12,617
Depreciation and amortisation	-563	-484	-2,158	-1,921
Adjusted operating profit	2,856	2,845	10,852	10,696
Finance costs, net	-385	-1,226	-2,767	-4,914
Adjusted profit before income taxes	2,472	1,619	8,085	5,783

CALCULATION OF KEY FIGURES

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

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