

HARVIA PLC

INTERIM REPORT

January–March 2019



HARVIA

HARVIA

Sauna & Spa

PROFITABLE GROWTH IN THE FIRST QUARTER

HIGHLIGHTS OF THE REVIEW PERIOD

JANUARY–MARCH 2019:

- Revenue grew by 16.9% to EUR 19.3 million (16.5). At comparable exchange rates, revenue grew by 16.6% to EUR 19.2 million. Organic revenue growth was 7.5%.
- Adjusted operating profit was EUR 4.0 million (3.2), making up 20.6% (19.5) of the revenue. At comparable exchange rates, the adjusted operating profit grew by 20.4% to EUR 3.9 million (20.1% of the revenue).
- Operating free cash flow amounted to EUR 1.7 million (2.0).
- Net debt amounted to EUR 31.6 million (29.8) and leverage was 2.3 (2.4).
- Equity ratio increased to 55.7% (53.4).

KEY FIGURES

EUR million	1-3/2019	1-3/2018	Change, %	2018
Revenue	19.3	16.5	16.9 %	61.9
EBITDA *	4.6	2.4	89.9 %	11.5
% of revenue	23.9 %	14.7 %		18.6 %
Items affecting comparability **	0.1	1.3	-90.2 %	1.5
Adjusted EBITDA ***	4.7	3.7	27.6 %	13.0
% of revenue	24.5 %	22.5 %		21.0 %
Operating profit	3.8	1.9	99.1 %	9.4
% of revenue	19.9 %	11.7 %		15.1 %
Adjusted operating profit ***	4.0	3.2	23.5 %	10.9
% of revenue	20.6 %	19.5 %		17.5 %
Basic EPS (EUR) ****	0.14	0.16	-11.0 %	0.41
Operating free cash flow	1.7	2.0	-13.8 %	10.0
Cash conversion	36.3 %	53.6 %		77.0 %
Investments in tangible and intangible assets	-0.5	-0.6	-21.7 %	-1.6
Net debt *	31.6	29.8	5.9 %	30.3
Leverage	2.3	2.4		2.3
Net working capital	20.2	18.2	10.9 %	17.5
Adjusted return on capital employed (ROCE)	30.9 %	31.7 %		31.6 %
Equity ratio	55.7 %	53.4 %		56.3 %
Number of employees at end of period	390	370	5.4 %	400

* Adoption of IFRS 16 Leases standard increased EBITDA by EUR 149 thousand and net debt by EUR 2.9 million at the end of March 2019.

** 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.

**** Earnings per share (EPS) in January–March 2018 were EUR 0.09, calculated based on the number of shares after the listing.

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 PAJUJARJU, CEO:

During the first quarter of 2019, the demand for sauna and spa products remained steady, and thanks to the systematic implementation of our strategy, we were able to improve our competitiveness. In the sauna and spa market, the first quarter of the year is important and now we faced comparison figures from Harvia's all-time record quarter in 2018. Revenue for the first quarter increased significantly (16.9%) year on year and amounted to EUR 19.3 million. Organic revenue growth was at a good level (7.5%). Part of our growth is attributable to the acquisition of the business operations of Almost Heaven Saunas (AHS) in the United States at the end of 2018.

Our revenue increased especially in the sauna heater market, with strong growth in electric heaters and particularly in wood-burning heaters. Our new and innovative products had a favorable impact on sales development. Our electric sauna heaters Glow, Cilindro Plus, and The Wall as well as the SENTIO by Harvia products have been well received in the market. In the wood-burning heater product group, one of our largest products, Harvia Pro 20, received its long-awaited update, and we began delivering the renewed version to customers in March. We achieved significant growth also in the sauna room product group, largely thanks to the AHS acquisition.



Demand was good and Harvia's operations were successful in most of our key markets. Nevertheless, the decrease in demand in the German market that we faced at year end 2018 did not recover in the first quarter of the year. This was reflected in the deliveries of electric heaters and particularly control units.

The profitability of our business remained stable and strong. Harvia's profitability improved significantly year on year, and the Group's adjusted operating profit grew to EUR 4.0 million (3.2). Our increased sales volumes, attractive product range and continuous improvement of productivity had a positive impact on our profitability. Our adjusted operating profit margin was 20.6%, showing a clear improvement from the comparison period (19.5%). We continued our investments in improving productivity and we completed investments in new advanced machinery during the first quarter.

Taking over the operations of the US-based Almost Heaven Saunas, acquired at the end of 2018, has proceeded as planned. Among other things, we have renewed AHS's product range and pricing as well as improved the terms and conditions of purchases. Our revenue in North America increased significantly thanks to the acquisition of Almost Heaven Saunas. Additionally, growth among other customers in North America was exceptionally strong.

Our first quarter of the year was strong, and both Harvia's team and our key customers have done a very good job. We continue to implement our strategy with determination and focus on increasing the value of the average purchase, geographical expansion as well as the continuing improvement of productivity. In addition to organic growth, Harvia is actively looking into possibilities of growth through business acquisitions.

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 first quarter of 2019, the demand for Harvia's products continued steady, and typically the first and fourth quarter of the year are strong in the sauna business. Of Harvia's key markets, the market in Finland, other Scandinavian countries and other European countries remained stable in the first quarter, whereas the market development in Germany was not as strong as in the previous quarters.

REVENUE

REVENUE BY MARKET AREA

EUR thousand	1-3/2019	1-3/2018	Change, %	2018
Finland	6,974	6,282	11.0 %	23,104
Other Scandinavia	836	814	2.7 %	3,452
Germany	1,654	1,900	-12.9 %	6,953
Other European countries*	4,595	4,358	5.4 %	16,059
Russia	1,867	1,657	12.7 %	5,662
North America	2,459	662	271.4 %	3,027
Other countries**	893	823	8.6 %	3,685
Total	19,279	16,495	16.9 %	61,942

* "Other EU countries" market area has been replaced with "Other European countries" market area.

** The largest of which: Arab countries and Asia.

REVENUE BY PRODUCT GROUP

EUR thousand	1-3/2019	1-3/2018	Change, %	2018
Sauna heaters	10,726	9,410	14.0 %	35,763
Sauna rooms	3,262	1,856	75.8 %	7,521
Control units	1,655	1,723	-4.0 %	5,822
Steam generators	913	881	3.7 %	3,004
Other product groups, spare parts and services	2,723	2,624	3.7 %	9,831
Total	19,279	16,495	16.9 %	61,942

JANUARY–MARCH 2019

The Group's revenue in January–March increased by 16.9% to EUR 19.3 million (16.5). At comparable exchange rates, revenue grew by 16.6% to EUR 19.2 million. The revenue increase was mainly due to the acquisition of the business operations of Almost Heaven Saunas in the United States and the good development of the business operations in Finland. Revenue in Russia also showed positive development, particularly in the sales of wood-burning heaters. Apart from the German market, development was favorable in other markets as well. Harvia's organic revenue growth was 7.5% in the first quarter.

Harvia's revenue increased in all product groups except control units. Revenue in sauna heaters grew by 14.0% as both electric heater and wood-burning heater sales increased. Revenue in sauna rooms increased especially due to the acquisition of the business operations of Almost Heaven Saunas, as the rest of the sauna sales remained on the previous year's level. Sales of control units decreased slightly from the previous year, especially in Germany. Revenue grew in steam generators and spa modules.

RESULT

JANUARY–MARCH 2019

Operating profit for January–March increased to EUR 3.8 million (1.9). The operating profit included EUR 0.1 million (1.3) of items affecting comparability, mainly related to the acquisition of Almost Heaven Saunas. Adjusted operating profit increased to EUR 4.0 million (3.2) and also the adjusted operating profit had a positive trend of 20.6% (19.5). Financing

expenses for the review period were EUR 0.4 million (1.9). The decrease in financing expenses resulted from the restructuring of financing in conjunction with the listing in March 2018.

The unadjusted result before taxes for January–March was EUR 3.5 million (0.0). The Group's taxes amounted to EUR -0.9 million (1.6). The positive taxes of the comparison period resulted from the entry of a EUR 1.6 million deferred tax asset in the first quarter of 2018, deriving from intra-group interest expenses, which were not deducted from taxable income in previous years.

The result for the review period was EUR 2.6 million (1.7) and the diluted earnings per share were EUR 0.14 (0.16). Harvia's listing in March 2018 increased the number of shares at the end of the comparison period, and the earnings per share based on the number of shares after the listing were EUR 0.09. Changes in exchange rates impacted the operating profit of the review period by approximately EUR 0.1 million.

FINANCIAL POSITION AND CASH FLOW

Balance sheet total at the end of March 2019 was EUR 123.1 million (December 31, 2018: 116.9), of which equity accounted for EUR 68.5 million (65.8).

At the end of March 2019, the company's net debt amounted to EUR 31.6 million (30.3), of which EUR 38.9 million (36.4) consisted of long-term liabilities. Lease liabilities in accordance with the IFRS 16 Leases standard amounted to EUR 2.9 million at the end of March. The right-of-use-assets in balance sheet amounted to EUR 2.8 million. Cash and cash equivalents at the end of the review period amounted to EUR 8.9 million (8.3). At the end of the review period, leverage stood at 2.3 (2.3).

Equity ratio was 55.7% (56.3) at the end of the review period. The adjusted return on capital employed (ROCE) was 30.9% (31.6).

In January–March Harvia's operating free cash flow was EUR 1.7 million (2.0) and cash conversion was 36.3% (53.6). The growth of revenue as well as the start of the US business increased the net working capital compared to the previous year, decreasing the operating free cash flow from the comparison period.

INVESTMENTS, RESEARCH AND PRODUCT DEVELOPMENT

The Group's investments in January–March amounted to EUR 0.5 million (0.6). During the review period, machinery investments were made at the factory in China, in addition to smaller equipment purchases and renewed in-store furniture in Finland. The Group's research and development expenditure recognized as expenses amounted to EUR 0.3 million (0.3).

CORPORATE RESPONSIBILITY

Harvia designs and manufactures its products responsibly, respecting nature and people. Harvia is involved, for example, in research projects related to the fine particulate emissions of burning wood, and environmental aspects are always taken into account in product development. Harvia's corporate responsibility is also described in our Annual Report 2018.

PERSONNEL

The number of personnel employed by the Group at the end of the review period was 390 (370) and an average of 389 (372) in January–March. Of the personnel, 46% (49) worked in Finland, 8% (8) in Austria, 17% (23) in Romania, 2% (2) in Estonia, 16% (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 (18,549,879) fully paid shares. The share trading volume in the review period was EUR 21.2 million (16.7) and 3,502,689 shares (3,326,811). The share's volume weighted average rate during the review period was EUR 6.07 (5.01), the highest rate during the review period was EUR 6.99 (5.40) and the lowest EUR 5.50 (5.00). The closing price of the share at the end of March 2019 was EUR 6.35 (5.30). The market value of the share capital on March 31, 2019 was EUR 118.7 million (98.3). The company does not currently own any treasury shares.

The number of registered shareholders at the end of the review period was 3,671 (2,107), including nominee registers. At the end of the review period, nominee-registered and direct foreign shareholders held 51.7% (49.5) of the company's shares. At the end of the review period, the ten largest shareholders held a total of 29.3% (47.3) of Harvia's shares and votes.

RISKS AND UNCERTAINTIES

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

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.

The self-sufficiency of the Group's manufacturing processes, the backup supplier system for materials and the widely dispersed customer base balance potential risks. Production is based on the company's own design and patents, and these are used to manage potential 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 and translation risks related to the US dollar and the Russian ruble. So far, the currency risks have not been significant for 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

Based on the proposal by the Board of Directors, Harvia Plc's Annual General Meeting resolved on April 4, 2019 that a dividend of EUR 0.18 per share (totaling EUR 3,364,962.48) be distributed based on the approved Financial Statements for 2018. The dividend was paid to shareholders registered in the shareholders' register maintained by Euroclear Finland Oy on the dividend's date of record, April 8, 2019. The dividend was paid on April 15, 2019.

The Annual General Meeting decided to authorize the Board of Directors to resolve, at its discretion, on distributing an extra dividend amounting to a maximum of EUR 0.19 per share.

The Annual General Meeting approved the 2018 Financial Statements. The members of the Board of Directors and the CEO were discharged from liability for 2018.

The number of ordinary members in the company's Board of Directors was resolved to be five (5). Olli Liitola, Ja Adlercreutz, Anders Björkell, Pertti Harvia and Ari Hiltunen were re-elected as members of the Board for a term which expires at the end of the Annual General Meeting following their election. Olli Liitola, Anders Björkell and Ari Hiltunen were elected as members of the Board's Audit Committee. Olli Liitola will continue as the Chairman of the Audit Committee.

PricewaterhouseCoopers Oy was elected as the company's auditor, with APA Markku Launis as the responsible auditor.

The Board of Directors was authorized to resolve on the repurchase of a maximum of 934,711 treasury shares using the company's unrestricted equity. The purchase will be carried out as a directed purchase. The authorization is valid until the next Annual General Meeting of the company, however until June 30, 2020 at the latest.

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

After the end of the review period on April 26, 2019, Harvia has acquired a production and warehouse facility in the US, located in Renick West Virginia, from the previous owners of the Almost Heaven Saunas LLC. The value of the transaction was approximately EUR 0.7 million.

MUURAME, MAY 7, 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, Tuesday May 7 2019 at 11:00 a.m. Finnish time. The press conference is held in the Wintti conference room at Klaus K (address: Bulevardi 2-4, Helsinki). CEO Tapio Pajuharju and CFO Ari Vesterinen will host the event.

A live webcast of the conference is available at: <https://harvia.videosync.fi/2019-q1-results/>.

You can also participate in the conference by telephone:

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HARVIA PLC INTERIM REPORT JANUARY-MARCH 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR thousand	Note	1-3/2019	1-3/2018	2018
Revenue	2.1	19,279	16,495	61,942
Other operating income		42	40	188
Materials and services		-7,829	-7,330	-25,853
Employee benefit expenses	5.2	-3,643	-3,334	-13,063
Other operating expenses	2.2	-3,246	-3,446	-11,679
Depreciation and amortisation		-759	-493	-2,158
Operating profit		3,845	1,931	9,376
Finance income		49	10	215
Finance costs	4.1	-428	-1,923	-2,981
Finance costs, net		-380	-1,913	-2,767
Profit before income taxes		3,465	18	6,609
Income taxes		-866	1,632	172
Profit for the period		2,599	1,651	6,780
Attributable to:				
Owners of the parent		2,599	1,651	6,780
Other comprehensive income				
Items that may be reclassified to profit or loss in subsequent periods:				
Translation differences		45	-109	-13
Other comprehensive income, net of tax		45	-109	-13
Total comprehensive income		2,644	1,542	6,767
Attributable to:				
Owners of the parent		2,644	1,542	6,767
Basic EPS (EUR)	2.3	0.14	0.16	0.41
Diluted EPS (EUR)	2.3	0.14	0.15	0.41

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR thousand	Note	31-Mar-19	31-Mar-18	31-Dec-18
ASSETS				
Non-current assets				
Intangible assets		4,061	3,032	4,189
Goodwill		60,494	59,224	60,421
Property, plant and equipment		17,572	14,932	14,741
Deferred tax assets		1,452	1,361	1,358
Total non-current assets		83,579	78,550	80,710
Current assets				
Inventories	3	14,390	13,411	14,526
Trade and other receivables	3	15,834	16,201	12,152
Income tax receivables		413	342	1,283
Cash and cash equivalents	4	8,870	11,681	8,268
Total current asset		39,506	41,635	36,230
Total assets		123,084	120,185	116,939
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital		80	80	80
Other reserves		53,146	53,098	53,064
Retained earnings		12,678	9,262	5,897
Profit for the period		2,599	1,651	6,780
Total equity		68,503	64,091	65,822
Liabilities				
Non-current liabilities				
Loans from credit institutions	4.1	38,885	39,370	36,371
Derivative financial instruments	4.1	1,520	1,484	1,471
Deferred tax liabilities		398		361
Other non-current liabilities		393	380	369
Provisions		221	236	215
Total non-current liabilities		41,416	41,471	38,787
Current liabilities				
Loans from credit institutions	4.1	1,567	2,133	2,155
Income tax liabilities		1,305	821	782
Trade and other payables	3	10,071	11,433	9,178
Provisions		221	236	215
Total current liabilities		13,165	14,623	12,331
Total liabilities		54,581	56,094	51,117
Total equity and liabilities		123,084	120,185	116,939

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR thousand	Note	Share capital	Invested unrestricted equity reserve	Translation differences	Retained earnings	Total
Equity at 1 January 2018		3	9,724	-21	9,570	19,276
Adoption of IFRS 9 standard					-313	-313
Adoption of IFRS 15 standard					5	5
Equity at 1 January 2018		3	9,724	-21	9,262	18,968
Increase in share capital		78	-78			
Share issue			45,000			45,000
Expenses related to the share issue			-1,491			-1,491
Discount related to the personnel share issue			72			72
Total transactions with shareholders		78	43,504			43,581
Profit for the period					1,651	1,651
Other comprehensive income				-109		-109
Total comprehensive income				-109	1,651	1,542
Equity at 31 March 2018		80	53,228	-130	10,913	64,091
Equity at 1 January 2018		3	9,724	-21	9,262	18,968
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	5.2		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
Equity at 1 January 2019		80	53,098	-34	12,678	65,822
Share-based incentive plan	5.2		37			37
Profit for the period					2,599	2,599
Other comprehensive income				45		45
Total comprehensive income				45	2,599	2,644
Equity at 31 March 2019		80	53,135	11	15,277	68,503

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR thousand	Note	1-3/2019	1-3/2018	2018
Cash flows from operating activities				
Profit before taxes		3,465	18	6,609
Adjustments				
Depreciation and amortisation		759	493	2,158
Finance income and finance costs		380	1,913	2,767
Other adjustments		-119	20	-123
Cash flows before changes in working capital		4,485	2,444	11,410
Change in working capital				
Increase (-) / decrease (+) in trade and other receivables	3	-3,332	-3,190	497
Increase (-) / decrease (+) in inventories	3	165	540	374
Increase (+) / decrease (-) in trade and other payables	3	610	1,515	-2,245
Cash flows from operating activities before financial items and taxes		1,927	1,309	10,036
Interest and other finance costs paid		-5	-14	-111
Interest and other finance income received		17	8	85
Income taxes paid/received		464	1,203	-1,190
Net cash from operating activities		2,402	2,506	8,820
Cash flows from investing activities				
Purchases of tangible and intangible assets		-457	-583	-1,617
Sale of tangible and intangible assets				14
Net cash from investing activities		-457	-583	-1,603
Cash flows from financing activities				
Proceeds from share issues			44,350	45,000
Costs from share issue recognised in equity			-1,267	-2,089
Repayment of non-current loans	4.1	-5	-77,867	-78,879
Proceeds from non-current loans	4.1		39,500	36,500
Change in current interest-bearing liabilities	4.1	-1,068	-1,756	-2,136
Interest and other finance costs paid	4.1	-329	-1,503	-2,328
Dividends paid				-3,365
Net cash from financing activities		-1,403	1,458	-7,297
Net change in cash and cash equivalents		543	3,380	-80
Cash and cash equivalents at beginning of period		8,268	8,345	8,345
Exchange gains/losses on cash and cash equivalents		59	-44	3
Cash and cash equivalents at end of period		8,870	11,681	8,268

NOTES TO THE GROUP'S INTERIM INFORMATION

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 2018 and should therefore be read in conjunction with the Consolidated Financial Statements for 2018 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 2019:

- 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 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. More detailed information on the impact of the adoption of the new standard on accounting policies and the interim information is presented in Appendix 1.

Harvia's Board of Directors has approved this interim information in its meeting on May 7, 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 2018.

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.

Revenue by market area

EUR thousand	1-3/2019	1-3/2018	Change, %	2018
Finland	6,974	6,282	11.0 %	23,104
Other Scandinavia	836	814	2.7 %	3,452
Germany	1,654	1,900	-12.9 %	6,953
Other European countries*	4,595	4,358	5.4 %	16,059
Russia	1,867	1,657	12.7 %	5,662
North America	2,459	662	271.4 %	3,027
Other countries**	893	823	8.6 %	3,685
Yhteensä	19,279	16,495	16.9 %	61,942

* "Other EU countries" market area has been replaced with "Other European countries" market area.

** The largest of which: Arab countries and Asia.

Revenue by product groups

EUR thousand	1-3/2019	1-3/2018	Change, %	2018
Sauna heaters	10,726	9,410	14.0 %	35,763
Sauna rooms	3,262	1,856	75.8 %	7,521
Control units	1,655	1,723	-4.0 %	5,822
Steam generators	913	881	3.7 %	3,004
Other product groups, spare parts and services	2,723	2,624	3.7 %	9,831
Total	19,279	16,495	16.9 %	61,942

2.2 OPERATING EXPENSES

Other operating expenses for the period January 1 – March 31, 2019 include items affecting comparability of EUR 126 thousand (1,284) that are related to the group's strategic development projects, acquisitions, 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.

Due to the initial public offering in March 2018, the number of shares increased significantly which affected to basic earnings per share. Basic earnings per share calculated by the number of shares after IPO was EUR 0,09 in January-March 2018.

	1-3/2019	1-3/2018	2018
Profit for the period attributable to the owners of the parent company, EUR thousand	2,599	1,651	6,780
Weighted average number of shares outstanding during the financial period, '000	18,694	10,567	16,688
Basic earnings per share, EUR	0.14	0.16	0.41
Weighted average number of shares outstanding during the year, diluted, '000	18,731	10,711	16,708
Diluted earnings per share, EUR	0.14	0.15	0.41

3. NET WORKING CAPITAL

EUR thousand	31-Mar-19	31-Mar-18	31-Dec-18
Net working capital			
Inventories	14,390	13,411	14,526
Trade receivables	14,280	13,567	11,046
Other receivables	1,554	2,634	1,106
Trade payables	-5,074	-5,857	-5,164
Other payables	-4,997	-5,576	-4,014
Total	20,152	18,179	17,500
Change in net working capital in the statement of financial position	2,652	924	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*	-94	211	1,129
Change in net working capital in the statement of cash flows	2,558	1,135	1,374

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

Sales spring season in Finland and start of the US business increased the first quarter's net working capital compared to the year end 2018. Harvia has significant trade receivables due to long terms of payment in the client agreements. In certain circumstances, Harvia has also supported its distribution and dealership relationships by accepting longer than ordinary terms of payment periods.

4. NET DEBT AND CONTINGENCIES

Interest-bearing net debt

EUR thousand	31-Mar-19	31-Mar-18	31-Dec-18
Interest-bearing debt	40,452	41,503	38,526
Less cash and cash equivalents	-8,870	-11,681	-8,268
Net debt	31,583	29,822	30,258

4.1 BORROWINGS AND OTHER FINANCIAL LIABILITIES

Harvia has a EUR 36,500 thousand term loan which will mature in one instalment on March 2, 2023. In addition, Harvia has a EUR 8,000 thousand credit limit of which EUR 0,00 was in use as at 31 March 2019. The nominal interest of the bank loan is tied to Euribor and its margin is tied to Group's net debt / adjusted EBITDA ratio.

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. All borrowings of the group are euro-denominated.

The Group has an interest rate swap agreement with nominal value of EUR 25,000 thousand. The current swap contract matures in March 2023.

4.2 COMMITMENTS AND CONTINGENT LIABILITIES

EUR thousand	31-Mar-19	31-Mar-18	31-Dec-18
Guarantees and mortgages given on own behalf:			
Mortgages	320	320	320
Total	320	320	320
Other guarantees:			
Pledged accounts	18	10	
Customs guarantee	30	30	30
Other guarantees			12
Total	48	40	42

In addition, Harvia Group Oy has guaranteed a subsidiary's credit limit of which EUR 926 thousand was in use on March 31, 2019.

5. OTHER NOTES

5.1 RELATED PARTY TRANSACTIONS

CapMan Buyout X Fund A L.P and CapMan Buyout X Fund B Ky 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. The Funds direct holding in company was 12.3 percent as of March 31, 2019.

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

The following transactions were carried out with related parties:

EUR thousand	1-3/2019	1-3/2018	2018
Purchases	0		8
Sales	0		4

5.2 SHARE-BASED INCENTIVE PLAN

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

APPENDIX 1: CHANGES IN ACCOUNTING POLICIES

IFRS 16 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 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 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.

SIGNIFICANT MANAGEMENT JUDGEMENTS

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.

IMPACT OF THE ADOPTION OF A NEW STANDARD

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 March, the amount of lease liability was EUR 2.9 million and right-of-use-asset was EUR 2.8 million.

The adoption of the standard affects the rent expenses for January–March 2019 EUR +149 thousand, depreciations EUR -142 thousand and finance expenses EUR -30 thousand. The effect on EBITDA is EUR +149 thousand and on EBIT EUR +7 thousand.

APPENDIX 2: KEY FIGURES AND CALCULATION OF KEY FIGURES

EUR thousand	1-3/2019	1-3/2018	2018
Key statement of comprehensive income indicators			
Revenue	19,279	16,495	61,942
EBITDA	4,604	2,424	11,533
% of revenue	23.9	14.7	18.6
Adjusted EBITDA	4,730	3,708	13,009
% of revenue	24.5	22.5	21.0
Operating profit	3,845	1,931	9,376
% of revenue	19.9	11.7	15.1
Adjusted operating profit	3,971	3,215	10,852
% of revenue	20.6	19.5	17.5
Adjusted profit before income taxes	3,592	1,302	8,085
Basic EPS (EUR)	0.14	0.16	0.41
Diluted EPS (EUR)	0.14	0.15	0.41
Key cash flow indicators			
Cash flow from operating activities	2,402	2,506	8,820
Operating free cash flow	1,715	1,989	10,019
Cash conversion	36.3 %	53.6 %	77.0 %
Investments in tangible and intangible assets	-457	-583	-1,617
Key balance sheet indicators			
Net debt	31,583	29,822	30,258
Leverage	2.3	2.4	2.3
Net working capital	20,152	18,179	17,500
Capital employed excluding goodwill	37,625	33,863	34,348
Adjusted return on capital employed (ROCE)	30.9 %	31.7 %	31.6 %
Equity ratio	55.7 %	53.4 %	56.3 %
Number of employees at end of period	390	370	400
Average number of employees during the period	389	372	376

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 and are widely used by analysts, investors and other parties.

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	1-3/2019	1-3/2018	2018
Operating profit	3,845	1,931	9,376
Depreciation and amortisation	759	493	2,158
EBITDA	4,604	2,424	11,533
Items affecting comparability			
Costs related to listing		1,265	1,327
Strategic development projects		12	72
Acquisition related expenses	104	7	77
Restructuring expenses	22		
Total items affecting comparability	126	1,284	1,476
Adjusted EBITDA	4,730	3,708	13,009
Depreciation and amortisation	-759	-493	-2,158
Adjusted operating profit	3,971	3,215	10,852
Finance costs, net	-380	-1,913	-2,767
Adjusted profit before income taxes	3,592	1,302	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.
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.

The logo consists of the word "HARVIA" in a bold, white, italicized sans-serif font, centered within a solid red rectangular background.

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