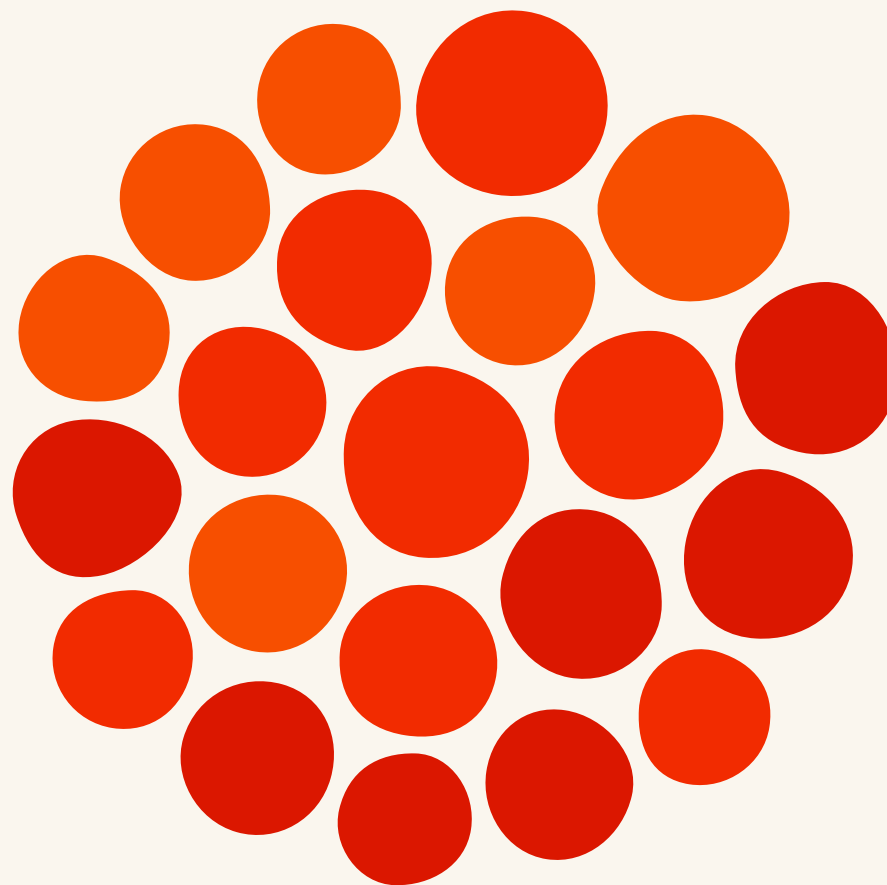


2020



Pihlajalinna

ANNUAL REPORT 2020

Annual report 2020

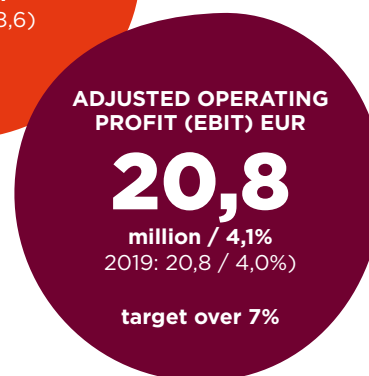
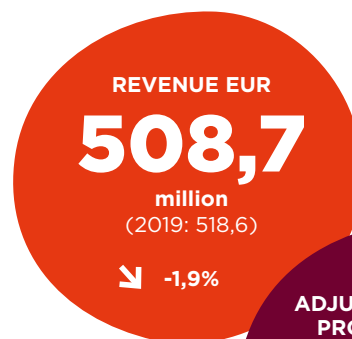
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Pihlajalinna

Key figures



NET DEBT/EBITDA
 31 Dec 2020

3,6

(31 Dec 2019: 3.5)
 target below 3

EARNINGS PER SHARE EUR

0,39

(2019: 0,15)

ADJUSTED EBITDA EUR

54,6

million
 (2019: 55,1)

NUMBER OF PERSONNEL
 31 Dec 2020

5,995

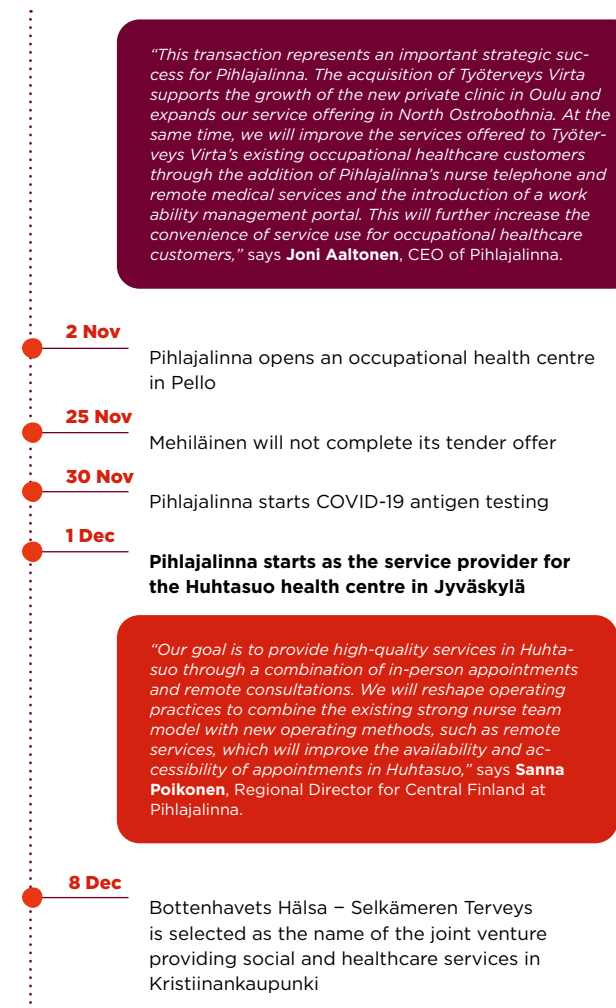
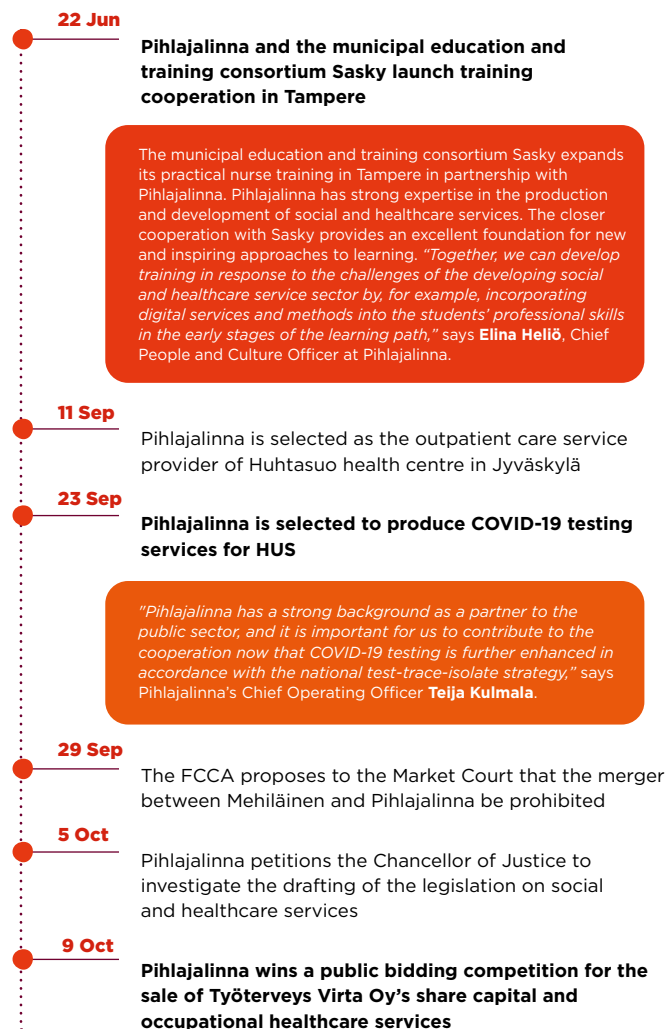
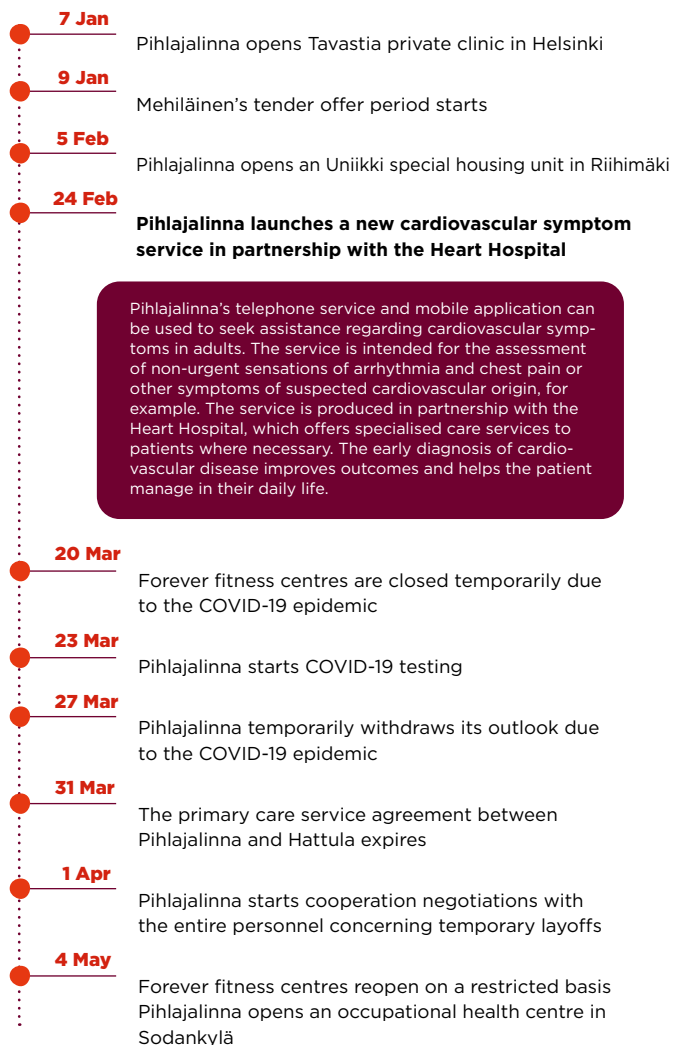
(31 Dec 2019: 5,815)

Pihlajalinna

Pihlajalinna is one of Finland's leading providers of social, healthcare and wellbeing services. The Group's customers include private individuals, businesses, insurance companies and public sector entities, such as municipalities and joint municipal authorities.

- Market leader in the complete outsourcing of social and healthcare services in Finland
- The Group pays all of its taxes to Finland
- Headquartered in Kehräsaari, Tampere
- Extensive range of services offered to both private and public sector customers
- Strong geographical presence in Pirkanmaa, South Ostrobothnia, Central Finland, Pohjois-Savo and the Helsinki Metropolitan Area
- Values: energy, ethics, open-mindedness
- Listed on the main list of Nasdaq Helsinki in 2015

Timeline 2020



"This transaction represents an important strategic success for Pihlajalinna. The acquisition of Työterveys Virta supports the growth of the new private clinic in Oulu and expands our service offering in North Ostrobothnia. At the same time, we will improve the services offered to Työterveys Virta's existing occupational healthcare customers through the addition of Pihlajalinna's nurse telephone and remote medical services and the introduction of a work ability management portal. This will further increase the convenience of service use for occupational healthcare customers," says **Joni Aaltonen**, CEO of Pihlajalinna.



From the CEO

”

We will focus on digital sales and service channels and emphasise the customer's comprehensive health and wellbeing in our services.

The year 2020 was an extraordinary period globally, and its impacts were also seen at Pihlajalinna. I am particularly satisfied with our customer service and the flexibility that our organisation demonstrated in shifting the focus of our services – including public services as well as services offered directly to consumers – during the COVID-19 epidemic.

I am also pleased with our strong profit performance, especially in the fourth quarter, which shows that our efficiency improvement programme has had a long-term impact on our profitability. Partnerships and occupational healthcare have increased the use of our services and elevated the capacity utilisation rates of our operating locations. Nevertheless, we have not yet returned to the normal level of operations seen before the COVID-19 epidemic. However, the final quarter of the year puts us in an excellent position to enter the new year.

Earnings per share improved substantially year-on-year thanks to the measures we have taken over the past couple of years. The substantial leap in profitability

taken in our private clinic, occupational healthcare and hospital operations also supported the improvement in earnings per share.

Our COVID-19 testing operations began in April and the volume of testing services subsequently began to grow significantly in August. COVID-19 testing increased revenue for the financial year 2020 by EUR 11.4 million. In addition to operating its own testing stations, Pihlajalinna produces sample-taking services for municipal customers and HUS, for example.

In October, Pihlajalinna was selected as the best service provider in a public bidding competition organised for the sale of Työterveys Virta Oy's share capital and occupational health services. Our position in the Oulu region will be significantly strengthened by the transaction. Our market share in occupational healthcare services in the region will increase to approximately 30 per cent, which improves our position in all services offered to consumers and partners in North Ostrobothnia.

The operations of Selkämeren Terveys Oy – which is a joint venture between the City of Kristiinankaupunki, Vaasa Hospital District and Pihlajalinna – got off to a good start at the beginning of the new year. The Huhtasuo health centre

outsourcing in Jyväskylä, which began in December, has received good customer feedback. Huhtasuo is an important proving ground for us, as we see broader opportunities for our health centre service models in public services.

Customers' service consumption habits changed quickly due to the COVID-19 epidemic. Pihlajalinna's preparedness to deliver extensive remote services proved to be good. Our remote services were used nearly 500,000 times during the year, representing 44 per cent of all consultations. The use of video and chat consultations grew threefold.

We have specified our strategy further. We continue to focus on good cooperation with our partners. Ensuring that our services are smooth and easy to use is key to winning our customers' trust regardless of who pays for the service. We will focus on digital sales and service channels and emphasise the customer's comprehensive health and wellbeing in our services. More information on our updated strategy is provided on page 5 of this Annual Report.

JONI AALTONEN
CEO

Pihlajalinna's strategy 2021–2023

Strategic priorities

1. The renewal of private services

Pihlajalinna will strengthen its multichannel services and business in the private sector through new service concepts and digital innovation.

2. Cooperation in social and healthcare services

Pihlajalinna will engage in close cooperation with the future wellbeing services counties and build a strong market position in public healthcare.

3. The strengthening of digitalisation

Pihlajalinna has a strong focus on digitalisation in the development of personnel, the customer experience and operational performance.

Objectives

- Pihlajalinna offers the most attractive and diverse range of services.
- Pihlajalinna is the number one choice of consumers and professionals.
- Pihlajalinna's services are easy to access and available without a delay.
- Pihlajalinna ensures profitable growth.

Long-term targets

NET DEBT
UNDER 3x
EBITDA

OPERATING
PROFIT (EBIT)
OVER 7%
of revenue

Performance indicators

The achievement of goals will be measured by, for example, financial indicators, the volume of available expert capacity and the Net Promoter Score (NPS) measurements of the customer experience and employee experience.

Mission

We help Finns to live
a better life

Vision

We bring wellbeing to everyone

Values

Ethics, energy,
open-mindedness

The operating environment

The preparations for the comprehensive reform of social, healthcare and rescue services continued in 2020. The objectives of the reform are to reduce inequalities in health and wellbeing, safeguard equal and high-quality healthcare, social welfare and rescue services and improve the availability and accessibility of services. Further goals include ensuring the availability of skilled labour, responding to the challenges presented by changes in society, curbing the growth of costs and improving safety.

The government's proposal on the reform of healthcare, social welfare and rescue services was submitted to Parliament in December 2020. Under the proposal, the responsibility for the organisation of healthcare, social welfare and rescue services would be transferred from municipalities to 21 wellbeing services counties, the City of Helsinki and partially to the joint county authority for the Hospital District of Helsinki effective from 1 January 2023.

The focus of the healthcare and social welfare system will be shifted towards basic-level services and prevention to

reduce the need for specialised care and demanding special services. The wellbeing services counties would organise healthcare, social welfare and rescue services primarily as public services, but it is estimated that they would also continue to use outsourcing arrangements with private service providers.

As a provider of a wide range of social and healthcare services, Pihlajalinna can offer an effective care chain to individual customers as well as the municipalities that organise the services. There is strong evidence that service provision based on outsourcing has helped municipalities and joint municipal authorities improve the quality and availability of services and keep the growth of costs under control. One of the key objectives of the government programme is fast access to care, and achieving it will only be possible if the services and operating models of all service providers are utilised.

As a provider of a wide range of social and healthcare services, Pihlajalinna can offer an effective care chain to individual customers as well as the municipalities that organise the services.



Pihlajalinna business locations 2020

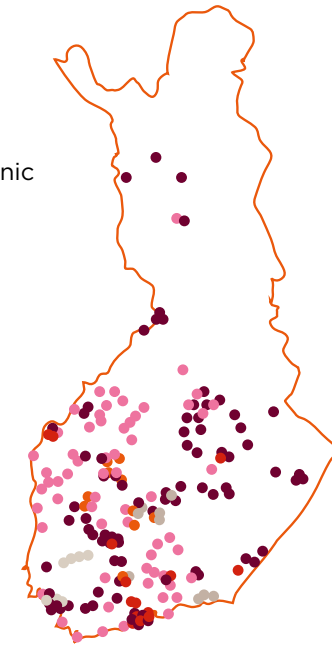
- Private clinic, surgical operation, dental clinic
- Social and healthcare outsourcing
- Residential service
- Fitness centre
- Responsible doctor service

Growing need for services and increasing costs

The demand for social and healthcare services is growing in Finland due to factors such as the ageing of the population. The population is ageing rapidly and the proportion of over 75-year-olds is set to grow by more than 50 per cent by 2030. According to the most recent population forecast by Statistics Finland, 15 years from now there will be no counties in Finland where the birth rate exceeds the death rate if the birth rate were to remain at the current level.

The changing population structure will present challenges related to the organisation of healthcare and social welfare services. It has also been estimated that the implementation of the new nursing ratio in elderly care (0.7) and the seven-day care guarantee would increase the annual healthcare and social welfare service expenses of municipalities by as much as EUR 680 million.

The COVID-19 epidemic brought both permanent and temporary changes and made the development of the operating environment less predictable. Non-urgent care has been temporarily reduced due to



the epidemic, which is reflected in longer queues for treatment. According to the Finnish Institute for Health and Welfare, the number of people who have waited for treatment for more than six months grew significantly in the hospital districts in 2020.

There has been no reduction in the need for occupational healthcare services during the epidemic. Companies have also purchased testing services from occupational healthcare providers to prevent unnecessary extended absences, for example, and keep the wheels of society turning. At the same time, however, the massive lay-offs in 2020 and the decline in private consumption caused by the epidemic have driven companies to cut the contents of their occupational healthcare agreements.

Trends and megatrends that influence our business

Operations and development in the social and healthcare sector are influenced by a number of different trends and megatrends in society. Analysing the trends that influence our industry is an essential aspect of foresight. It helps us determine the focus areas of our business to enable us to respond to the challenges of the social and healthcare service sector now and in the future. We evaluate trends and their impacts against our mission, which is to help Finns to live a better life.

Examining trends supports our view that the focus of healthcare needs to be shifted increasingly towards prevention. This is reflected in our operations in various ways, including the development of extensive remote services, comprehensive occupational health services, the effective solutions we develop together with the public sector and the creation of other care paths that support wellbeing.

The rapid and unpredictable changes caused by the COVID-19 epidemic challenge the prevailing trends. For example, the COVID-19 crisis has been reported to have affected the trend of urbanisation at least temporarily, with migration to

rural municipalities growing in Finland in 2020. However, the overall impact on megatrends of the changes sparked by the epidemic can only be assessed after more time has passed. In the short term, the significant care backlog caused by the COVID-19 epidemic presents a challenge to the Finnish healthcare system.



Technological development and the digital transformation

Rapid technological development and automation are continuing. Interaction is increasingly shifting to virtual environments and remote connections. The use of virtual and augmented reality is a noticeable aspect of the digital transformation. Health technology is developing quickly and becoming part of daily life, and people carry data about their health with them, measured by various devices.

Analysing the trends that influence our industry is an essential aspect of foresight.



Declining municipal economies

The debt of municipalities and joint municipal authorities has increased sharply and the statistics indicate that the growth of indebtedness is accelerating. Social and healthcare services account for a majority of municipalities' expenses. In 2019, the net costs of municipalities' social and healthcare services grew by nearly EUR 1 billion year-on-year. In continental Finland, the per capita net costs of social and healthcare services amounted to EUR 3,490 in 2019.



Urbanisation

People are migrating to areas with jobs and larger markets, especially cities where higher education and education in the sciences is available. It is estimated that, in 2050, approximately 70 per cent of the world's population will live in cities. Urbanisation is reflected in differences in population structure between regions. The ageing of the population is the fastest in regions with negative net migration.



Increasing inequality

Health differences between different socioeconomic groups are large in Finland, even by international comparison. The difference in life expectancy at age 25 between the highest-earning decile and the lowest-earning decile is over 10 years for men and over 5 years for women. There are also clear differences between socioeconomic groups in the use of healthcare service and lifestyle variables that are significant to health.



Increasing wealth

People's increasing wealth contributes to increasing consumption. However, increasing wealth must be examined relative to the growth of household debt, and the growth of wealth has not been evenly distributed. Increasing wealth will give more and more people the ability to purchase voluntary medical expenses insurance. At the end of June 2020, nearly 1.25 million Finns had private medical expenses insurance.



The ageing and diversification of the population

The sharp ageing of the population is still ahead, and the change in the population structure will have a dramatic impact on the dependency ratio. Population forecasts indicate that, in 2050, there will be seven non-working-age persons per 10 working-age persons in Finland. The ageing of the large generations will also be manifested in an increase in age-related illnesses, and this will present an unprecedented challenge to the economy. Global migration will continue to increase.



Increase in lifestyle diseases

The most common diseases among Finns are lifestyle-related. For the working-age population, the most common factors leading to death are tumours, diseases of the circulatory system and the use of alcohol. However, standardised mortality in the working-age population, relative to the age structure and size of the entire population, is declining. While recreational physical activity to promote wellbeing has increased, the changes in people's work and living environments has led to a decrease in overall physical activity.



Sustainable development (ecological and social sustainability)

In addition to the ecological sustainability crisis, we need to respond to questions concerning the future of social sustainability. In addition to participation, a sense of community and accessibility, social sustainability is a matter of the fair distribution of benefits and disadvantages. Social sustainability is reflected in, for example, the wellbeing of companies' employees and maintaining the vitality of different regions.



Interest in health and wellbeing

Concurrently with the effect of increasing wealth on the growth of consumption, people's interest in their health and wellbeing has increased – especially in young age groups. On average, Finns smoke less, eat more healthily and exercise more in their free time. Wellness trends also drive consumer habits, such as nutrition-related choices and the use of health and wellbeing services. The development of lifestyle choices has been fastest among those with higher education.

Diverse remote services

Pihlajalinna continued to expand and develop its range of remote services in 2020. High-quality, effective and diverse remote services are offered to private and occupational healthcare customers as well as public sector customers.

Remote services have been expanded to complement private clinic and occupational health services as well as the public services of the joint ventures between Pihlajalinna and municipalities. The significance of remote services as part of preventive social and healthcare services will continue to grow in the future.

The user volumes of Pihlajalinna's remote services grew significantly in the spring of 2020 when the COVID-19 epidemic began and continued to grow throughout the year.

123 %

Percentage growth of the service volume of the Pihlajalinna health application in 2020.

145

SPECIALISTS

Number of specialists who provided appointments via the Pihlajalinna health application in 2020.

10

SECONDS

The median waiting time of customers using the Pihlajalinna health application in 2020.



132 %

Percentage growth of the service volume of the nurse telephone service in 2020.

15 302

RESPONSIBLE DOCTOR SERVICE CUSTOMERS

Number of customers treated via Pihlajalinna's responsible doctor service in 2020. In Pihlajalinna's responsible doctor model, a physician who is familiar with the patient's overall situation is responsible for their day-to-day care in cooperation with nursing staff. The model is part of our range of services offered to municipal customers.

70

MUNICIPALITIES

Pihlajalinna's responsible doctor service is used by approximately 70 municipalities across Finland. The customers include municipalities as well as joint municipal authorities.

Remote consultations enable physicians to see patients anywhere in Finland. This can help balance regional shortages in physicians.

44 %

44 per cent of all consultations were held remotely.

500,000

Our remote services were used nearly half a million times during the year 2020.

Remote consultations offer flexibility

The number of remote consultations grew significantly in 2020. Pihlajalinna's general practitioner Miika Kurkela says the best outcomes are often achieved by a combination of in-person appointments and remote consultations.

According to Miika Kurkela, remote consultations are a flexible option for physicians, allowing them to work from a holiday home or while travelling, for example. Although most of the work is done alone, support is available electronically from supervisors, colleagues and the IT department.

Kurkela also considers it important that the remote consultation model gives physicians the opportunity to work remotely.

- The opportunity to work remotely improves wellbeing at work, job satisfaction, motivation, productivity and efficiency. It also improves your ability to concentrate on your work. Remote work allows you to maintain a good balance between work and free time and it reduces the time you spend commuting, Kurkela explains.

The fact that remote consultations are not tied to a specific location benefits both the physician and the customer. Remote consultations enable physicians to see patients anywhere in Finland. This can help balance regional shortages in physicians. Remote consultations also

provide flexibility with regard to time by eliminating the need for the customer or physician to travel.

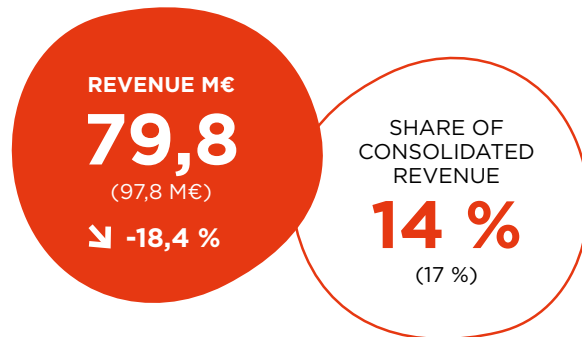
Kurkela believes that, ideally, in-person appointments and remote consultations complement each other. Nearly all ailments can be treated in remote consultations, but the best outcomes are achieved by combining both consultation models.

While many issues can be addressed in a single consultation, Kurkela points out that customers who use remote consultations should prepare for the possibility that remote treatment alone is not enough. However, even in these cases, the remote consultation is far from pointless, as the information gained from interviewing the customer will make the subsequent in-person appointment smoother. The opposite is also true: findings recorded during previous in-person appointments are valuable information for physicians who hold remote consultations.

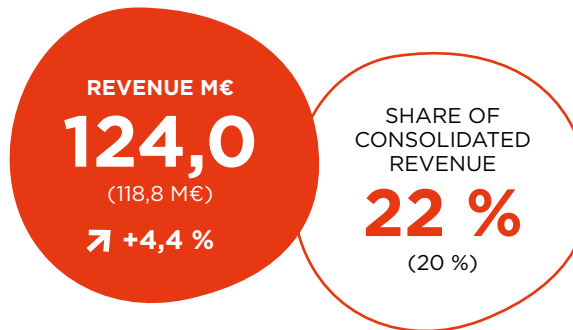


Customer groups

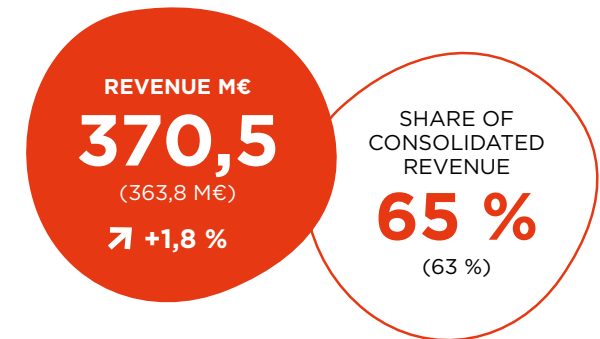
Private customers



Corporate customers



Public sector



Pihlajalinna's customer groups are corporate customers, private customers and public sector customers.

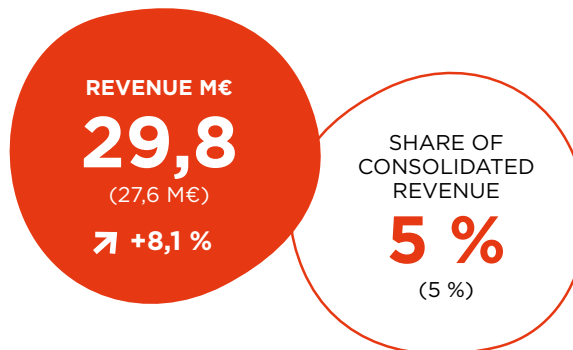
The Group's corporate customer group consists of Pihlajalinna's occupational health customers, insurance company customers and other corporate contract customers.

The Group's private customers are private individuals who pay for services themselves and may subsequently seek compensation from their insurance company.

The Group's public sector customer group consists of public sector organisations in Finland, such as municipalities, joint municipal authorities, congregations, hospital districts and the public administration when purchasing social and healthcare outsourcing services, residential services, occupational health services and staffing services.

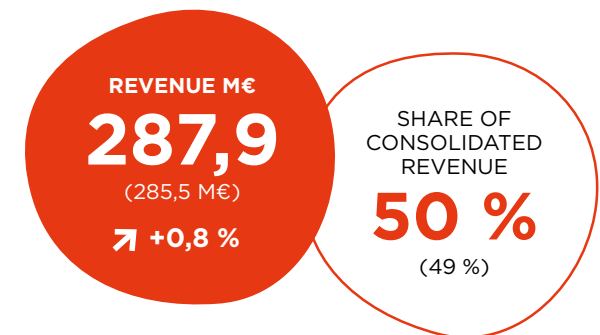
Insurance company customers

(included in corporate customers)



Complete outsourcings

(included in public sector)



Good sleep is important

Sleep is one of the cornerstones of wellbeing.

Sleep is involuntary and it gets easily disrupted when people are under increased stress. The term sleep disorder is used when someone has difficulty falling asleep or staying asleep that results in fatigue during the day. Poor sleep is a risk factor for various longer-term health problems.

There are many solutions for fixing sleep disorders. Sometimes, sleep problems are caused by medical reasons, so they are treated with medical interventions. In most cases, however, sleep disorders are caused by stress. In that case, they are known as functional sleep disorders, which can be remedied by changing habits and routines.

In 2020, Pihlajalinna launched a sleep coaching service aimed at behavioural change. Sleep coaching is available for private and occupational healthcare customers, either individually or in groups.

– Sleep coaching includes learning the basics about the nature of sleep and what factors affect natural sleep positively and negatively. The participants also learn to

identify actions and attitudes that help people fall asleep and stay asleep. As many as 80% of the people who completed the coaching programme saw an improvement in their sleep, says **Susanna Paarlahti**, Service Manager, Occupational Health Psychology, who was involved in the development of the service.

Good sleep improves productivity and quality of life

Insomnia is common in the working-age population. Paarlahti points out that sleep is worth investing in for employers as well.

– From the employer's perspective, it is very beneficial to support the employees' sleep quality, as employees who are alert and energetic are more productive and efficient, Paarlahti explains.

For the individual, good sleep is a quality of life issue. A sleep deficit has a significant impact on cognitive wellbeing, which is reflected in your perceptual and deductive capabilities as well as the ability to regulate emotions.

– The world feels completely different when you wake up well rested and alert and you don't need to struggle with persistent fatigue, Paarlahti adds.

A counter-measure to the increase in mental health problems

Sickness-related absences and retirements caused by mental health problems have grown globally in recent times. Paarlahti believes sleep coaching represents a countermeasure to this trend. Sleep has a significant impact on wellbeing and the perception of balance, whereas stress makes many illnesses worse. Ensuring good sleep can help prevent many mental health disorders.

– Good sleep and improving your sleep means that you've been able to balance or resolve various stress factors. This has a direct link to mental health, Paarlahti explains.

The lessons learned in sleep coaching can also be useful in resolving other psychological issues.

– When you learn to improve your sleep with habits and methods that give you moments of relaxation in daily life, help you address your worries and make behavioural changes that promote good

The lessons learned in sleep coaching can also be useful in resolving other psychological issues.

health, that's more or less everything you need to support your mental health, Paarlahti concludes.



Movement as medicine

Pihlajalinna physician Arvo Haapanen urged Timo Suni, 74, to start exercising. Three days later, Timo walked into a Forever fitness centre. It has now been two years, and Timo is tremendously enthusiastic about exercise and his health has improved.

Timo's career involved a lot of seated work and driving. This gave him a variety of problems, including neck and shoulder pain, headaches and back pain. When he retired, Timo went from seated work to physically demanding forest management, much of which consisted of repetitive movements.

In September 2018, Timo went for his annual check-up with Pihlajalinna. His previous physician had retired and his new doctor was Arvo Haapanen. Haapanen brought up the topic of exercise and urged Timo to get more varied exercise to maintain good health. Three days later, Timo walked into a Forever fitness centre and began working out with a personal trainer.

”

It's important to stay in shape physically, because it also affects the mental side of things.

– My wife had tried to get me to exercise for years, but Haapanen managed to do it in three days, Suni says.

Well-rounded exercise under the guidance of a personal trainer

Timo now works out twice a week with his personal trainer. They work on his core and do mobility and strength exercises.

– My personal trainer makes sure I do the exercises correctly, with sufficient variety and good progress. Had I exercised alone, I wouldn't have achieved the same degree of diversity in my workouts, says Suni in describing his programme with his trainer.

Timo is motivated by his improving health and feeling better. He says his back pain has gone away almost entirely. A well-rounded exercise regimen has also helped him maintain his functional capacity. His exercise programme has improved his balance, core control, strength and mobility, allowing him to continue to work on forest management as a hobby that is close to his heart.

– It's important to stay in shape physically, because it also affects the mental side of things. Hiring a personal trainer is

a small sacrifice, since well-rounded exercise helps with many ailments, Suni says, summarising the benefits of the changes he has made.

Exercise improves overall wellbeing

According to Arvo Haapanen, specialist in geriatrics at Pihlajalinna, simply bringing up the topic of physical activity is often enough to motivate a customer to start exercising.

– We should look at movement as medicine. It's also important to highlight empirical evidence about the health impacts of exercise. If you want to really get the message across, you need to explain the reasons behind it, Haapanen says.

Haapanen believes exercise plays a significant role alongside medical treatment.

– Specific medical issues, such as high blood pressure, can often be treated with medication, but exercise and healthy eating can improve the patient's quality of life in a broader sense. When you keep the big picture in mind, it is likely that the patient's quality of life will remain good for longer than it would if they were only treated by prescribing medication, Haapanen concludes.

A pioneer in resident participation

At the Uniikki unit of Pihlajalinna Special Housing Services, service housing with 24-hour assistance is based on the idea that everyone has the right to dream and live a life that suits their individual circumstances.

Uniikki's service housing with 24-hour assistance is intended for people with developmental disabilities who have severe challenges with behavioural regulation or life management. Such challenges may arise from autism spectrum disorders or mental health problems, for example.

No two days are the same at Uniikki: daily life is planned individually and flexibly to suit each resident's mood, ability to concentrate and energy levels.

According to **Miina Laru**, Managing Director of Pihlajalinna Special Housing Services, service housing with 24-hour assistance at Uniikki is based on the engagement of the residents and the idea that everyone has the right to live a life of dignity that suits their individual circumstances.

– People with developmental disabilities mustn't be put in the same mould, allowing them to only engage in activities that people on the outside believe are realistic possibilities for them. The starting point for our housing services is what each res-

ident wants to do. Only then do we consider how those wishes can be realised in a way that takes the individual's condition and capabilities into account.

At Uniikki, the staff members want to see the individual behind the developmental disability or autism disorder. No-one is forced to adapt to circumstances in which their activities, dreams and wishes are restricted from the outside.

Uniikki is a pioneer in promoting the engagement and participation of people with developmental disabilities and autism spectrum disorders as well as finding ways to help them build a life of their own in spite of difficulties with self-regulation. This can be achieved with sufficient personnel resources as well as the motivation and professional competence of the staff. The staff members' work with the residents is supported by training and strong expert assistance. There are special counsellors working at the units and psychologist services are purchased from two psychologists.

Pihlajalinna's first Uniikki facility was opened in Hämeenlinna in 2018. This was followed by the opening of Uniikki Riihimäki in 2020. The third Uniikki facility is currently under development in Lohja and it is expected to open in August 2021.



A year of development in 2020

Collaborative product development



We partnered with Medanta to develop an antimicrobial non-disposable face mask for use by health-care professionals. The face mask was designed in collaboration between hygiene nurses and workwear designers. The masks are made from flexible two-ply antimicrobial Medanta Microfiber fabric. The quality of the professional mask meets the regulatory requirements for personal protective equipment.

“Our collaboration with Medanta is a good example of private, agile and quick product development at its finest,” says Procurement Manager **Henna Rantanen** from Pihlajalinna.

Launch of cardiovascular symptom service



We partnered with the Heart Hospital to develop a new service for evaluating cardiovascular symptoms. Pihlajalinna's telephone service and mobile application can be used to seek assistance regarding cardiovascular symptoms in adults.

The service is aimed at making it easier for cardiovascular patients to access care, responding to the challenges created by the ageing of the population and curbing the rise in costs. The cardiovascular symptom service is the first cooperatively developed service that crosses the boundary between the public and private sectors. We launched the service in 2020 in Southwest Finland, Uusimaa and the Seinäjoki region.

International recognition



Pihlajalinna Koskiklinikka hospital was recognised by the International Society of Arthroscopy, Knee Surgery and Orthopaedic Sports Medicine. Pihlajalinna Koskiklinikka was granted ISAKOS Approved Teaching Center status.

“The ISAKOS Teaching Center certificate means that we are an internationally acknowledged hospital in the field of knee surgery. Our advanced operations include highly demanding and uncommon surgeries that visiting colleagues want to come see and learn from,” says **Petri Sillanpää**, Pihlajalinna Koskiklinikka's Chief Orthopaedic Surgeon and specialist in orthopaedics and traumatology.

Support for sports clubs



In 2020, we launched Pihlajalinna Bonus, a convenient fundraising method for sports clubs and other non-profits. The members of sports clubs and associations that have signed an agreement with Pihlajalinna can help accumulate bonuses paid to the club or association by joining the Pihlajalinna Bonus programme and focusing their purchases on Pihlajalinna.

Pihlajalinna Bonus was enthusiastically received by sports clubs and we continued to develop it throughout 2020. Adding members was made easier by introducing a joining function in the Pihlajalinna health application.

A year of development in 2020

Nationwide COVID-19 testing



We joined the effort of slowing down the spread of COVID-19 right from the early stages of the epidemic.

We started COVID-19 testing in March and expanded our testing operations nationwide in April. We added rapid antigen testing to our range of services in the autumn of 2020.

The number of our drive-in testing stations was significantly increased in the autumn when the Hospital District of Helsinki and Uusimaa (HUS) chose Pihlajalinna as one of the service providers to collect samples for COVID-19 testing in the Uusimaa and Kymenlaakso regions. We also opened new testing locations for our private and occupational healthcare customers in the autumn based on regional needs.

Deployment of the health centre model



In 2020, we completed a reform process to deploy the health centre model in all of our municipal joint ventures.

The model helps harmonise and clarify appointment reservation practices. For example, when the residents of the municipalities make a call, they do not need to assess whether their issue is urgent or non-urgent, as all reservations are made through the same contact point. At the same time, the range of services available to municipal residents was expanded by the deployment of the Pihlajalinna health application.

The model will be adopted in the spring of 2021 by Selkämeren Terveys, a joint venture that began service production in Kristiinankaupunki on 1 January 2021.

Development of online reservation services



Our online reservation services were one of our most significant areas of digital development in 2020.

For example, we offered our customers the opportunity to seek COVID-19 testing via a symptom questionnaire added to our online reservation system. We also developed our services for occupational healthcare customers to enable them to make an appointment for influenza vaccination directly online, for instance.

The development of online reservation services was especially important last year due to the sharp increase in the number of calls caused by the COVID-19 epidemic.

Wellbeing for the residents of municipalities



When the COVID-19 restrictions began to shape people's daily lives, our joint venture Kolmostien Terveys and the City of Parkano took action and created the VirtaParkki wellbeing channel.

It combines online activities related to recreation, wellbeing and health in one calendar. VirtaParkki includes programme content produced by the city, Kolmostien Terveys and third-sector operators for children, young people, adults and senior citizens.



Responsibility for health and wellbeing

It is easier, more inexpensive and more straightforward for the body to keep a person healthy rather than cure someone who is already ill. With this in mind, Pihlajalinna develops services that focus on keeping people healthy and preventing illnesses. Pihlajalinna's mission is to help people to live a better life.

Pihlajalinna bears responsibility for the health and wellbeing of the Finnish people, the use of society's funds and the payment of taxes to Finland, for employees, and for the appropriate storage and processing of customer data. Pihlajalinna places the highest priority on ensuring the quality, safety and effectiveness of services, looking after its personnel and assuring the data protection and privacy of its customers.

Pihlajalinna's quality policy and quality control system support the strategy of Pihlajalinna Group. The joint quality policy is followed throughout Pihlajalinna Group.

The company's operations comply with the current legislation, regulations issued by the authorities and any licences and requirements of the industry. We monitor the development of the customer experience, medical quality, employee satisfaction and process quality.

Pihlajalinna's mission is to help people to live a better life.

Medical key figures 2020

2,45

COMPLAINTS*

0,19

OFFICIAL COMPLAINTS*

NPS INDEX

+74

PRIVATE CLINICS

+90

HOSPITALS

1 050 300

TOTAL NUMBER OF VISITS

0,95 %

PATIENT INJURY NOTIFICATIONS
FILED IN 2020*

+84

DENTAL CLINICS

+65

TELEPHONE SERVICES

0,06

SURGICAL INFECTIONS**
DEEP INFECTIONS

25 %

SHARE OF THE PATIENT INSURANCE
CENTRE'S DECISIONS IN 2020 IN
WHICH THE PATIENT WAS ENTITLED
TO COMPENSATION

+69

MUNICIPAL
JOINT VENTURES

* The number of complaints, official complaints and patient injury notifications per 100,000 visits. The patient injury notifications include cases in which the policyholder is Pihlajalinna Lääkärikeskukset Oy or Pihlajalinna Terveys Oy. The Group does not necessarily receive information about complaints, official complaints or patient injury notifications related to the operations of practitioners working at Pihlajalinna Group's clinics. The cases that the Group is aware of are reported in the statistics. Both the number of visits and complaints, official complaints and patient injury notifications encompass Pihlajalinna's private clinics, the Group's hospitals, occupational health centres and dental clinics.

** The surgical area infection percentage has been calculated in relation to the number of procedures in Pihlajalinna's hospitals.

The measurement covers all Pihlajalinna private clinics, hospitals, the operating locations of municipal joint ventures except the operating locations of Kuusiolinna Terveys Oy, dental clinics and telephone services. The total number of feedback submissions was 117,488. The range of the Net Promoter Score index is -100 to +100.

Data protection and information security

Pihlajalinna's goal is to ensure the data protection of its customers and patients as well as secure the operation of IT systems, services and data networks that are critical for its operations, prevent their unauthorised use and the accidental or intentional corruption of data.

The Group prepares itself for disturbances and exceptional conditions so that operations can be continued with as little disruption as possible in all circumstances. Information security and data protection are monitored actively and deviations are processed quickly. Information security is

established and maintained with state-of-the-art, up-to-date solutions.

In 2020, we paid special attention to enhancing information security, partly in response to widely publicised security-related events in the healthcare sector. We have further strengthened the processes and technologies related to secure sign-in in our services. For example, we have adopted strong authentication practices in our public services. We have also worked with an external partner to increase the internal and external scanning of our information networks to further enhance information security.

Data protection and information security indicators

	Target	2020	2019	2018
Number of successful attempts to gain unauthorised access	0	0	0	6*
Number of detected viruses and malware	Computers are free of viruses and malware	72 automatically removed viruses 98 automatically removed malware programs	78 automatically removed viruses 1,988 automatically removed malware programs	89 automatically removed viruses 2,884 automatically removed malware programs
Volume of junk mail	Less than 1% of junk mail makes it through to users	Target achieved	Target achieved	Target achieved
Information security updates are current	All information security updates are installed within 24 hours of being released	80% of updates installed within one week of being released	90% of updates installed within one week of being released	90% of updates installed within one week of being released

* The attempts to gain unauthorised access were detected quickly, the situation was normalised and the systems were subsequently updated.

Information security practices



Training

The personnel receive regular training on data protection and information security. All Pihlajalinna professionals are required to complete general training on data protection, including an examination. Those who process patient data also need to take an additional examination concerning patient data. The personnel have access to up-to-date guidelines.



Risk assessment

Data protection and information security risks are assessed and analysed regularly and always in the new system specification phase and in connection with significant changes.



User rights management

In all systems, user rights and access management are centralised. System administrators determine the principles for granting user rights. The rights of external users are managed in a centralised manner.



Supervision and monitoring

The status of data protection and information security is reported in connection with internal and external audits. Technical information security is constantly assessed and separate information security inspections are made to the most critical environments. The general work related to data protection is led by a steering group and operational activities are led by the data protection and information security team.



Service provider monitoring

Suppliers and external service providers must commit to complying with information security requirements defined by the Group and suppliers are subject to regular audits. When external services change, information security requirements are reviewed.



Processing of deviations in information security

Pihlajalinna Group has defined procedures and tools for detecting deviations in information security. In addition, there are action plans for exceptional circumstances. Each deviation in information security is recorded and processed for further action.



Connection to the data network

A connection to Pihlajalinna Group's data network and associated services can only be formed with hardware and software managed or approved by data administration. In order to ensure information security, software and file formats used in the systems are supervised and, when necessary, restricted. The most significant systems only accept logins from the local area network. Two-factor authentication is used for logins from the wide area network.

Our employees, the most important resource

In social and healthcare services, the personnel play a key role in the provision of high-quality services and the creation of customer value. Wellbeing at work as well as the availability and motivation of personnel also have a significant impact on the company's profit performance.

Pihlajalinna develops wellbeing at work among its personnel by, among other things, high-quality supervisory work, preventive occupational healthcare and wellbeing projects. The active caring model used by Pihlajalinna involves agreeing on the responsibilities of the various parties concerned as well as operating methods aimed at resolving challenges related to work ability and performance.

Pihlajalinna observes labour legislation and collective agreements at all of its operating locations, respects its employees' right to unionisation and trade union activities and also develops cooperation based on trust and openness with employee representatives. We treat our

employees equally and do not condone any discrimination against employees and practitioners. The Group has an operating model against inappropriate treatment at work, which applies to everyone employed by Pihlajalinna Group.

The employees' voices are heard

The Pihlis Pulse survey is a tool developed by Pihlajalinna's occupational healthcare and HR experts to support the development of the work community. The Pulse survey supports the identification of teams' strengths and weaknesses as well as the planning of development measures. Since it is conducted 3-4 times per year, the survey also enables the monitoring of wellbeing at work and the employee experience. It also serves as a communication channel that promotes interaction between the management, supervisors and the personnel. The results of the Pulse survey are discussed by the Group Management Team and the progress of devel-

opment measures is monitored regularly.

Pihlajalinna employees are empowered to exercise influence on their jobs and working environments in various ways, including the company's Together activities. Together is a Group-wide co-operation organisation involving Together representatives selected by employees as well as employee delegates and occupational safety and health delegates. The aim of the activities is to create a coherent company culture, develop dialogue based on trust and openness as well as respond to the statutory requirements concerning employer-employee cooperation. We strengthened our internal cooperation organisation in 2020 by engaging in negotiations with labour unions regarding the organisation of operations.

In 2020, Pihlajalinna conducted cooperation negotiations concerning temporary lay-offs. The entire Group was within the

The Pihlis Pulse survey is a tool developed by Pihlajalinna's occupational healthcare and HR experts to support the development of the work community.

scope of the negotiations. The cooperation negotiations were conducted in response to the changes in the operating environment caused by the COVID-19 epidemic.



HR focus areas in 2020

- Change support for managers and employees
- Development of HR processes (performance management and recruitment)
- Improving the quality of HR data and information management processes
- Development of the cooperation organisation and statutory cooperation
- Preventive occupational safety and health

PERMANENT
EMPLOYEES
72 %
(85 %)

FIXED-TERM
EMPLOYEES
28 %
(15 %)

High-quality supervisory work and continuous development

Pihlajalinna's efforts to develop supervisory work and leadership are aimed at ensuring that the organisation has highly competent and inspiring supervisors who enable the success of their teams. The success of managers and supervisors is supported by diverse training and effective HR processes. In 2020, the focus of Pihlajalinna's efforts to support supervisory work was on change support for managers and supervisors. The success of teams is also supported by a goal-driven performance management process.

At Pihlajalinna, competence development involves learning on the job, training and sharing knowledge. The focus is on learning on the job, which makes the roles of the manager and work community particularly significant. The Pihlajalinna Academy online learning environment provides a foundation for the continuous development of competence.

Physicians are offered remote lectures on a weekly basis, for example. The physicians employed by Pihlajalinna can also undertake specialisation training in, for example, general medicine, occupational healthcare and geriatrics as well as

Personnel indicators

Indicator	2020	2019
Average number of personnel (FTE)	4 308	4515
Personnel at the end of the period (NOE)	5 995	5 815
Ratio of average annual pay to highest annual pay	5,4%	8,7%
Personnel exit turnover	11,1%	14,5%
Ratio of women to men among personnel	87% / 13%	86% / 14%
Ratio of fixed-term employees to permanent employees	28% / 72%	15% / 85%
Equality and non-discrimination plan	valid	valid
Action plan against inappropriate treatment at work	valid	valid
Sickness-related absences*	7,7%	7,6%
Occupational accidents**/work-related fatalities	480/0	520/0
Infringements against labour law	0	0

* The sickness-related absence rate is calculated as the ratio of sickness-related absences to planned working hours. The figure includes sickness-related absences caused by accidents.

** Occupational accidents include accidents that occurred at work and during commutes and work-related travel

required training in areas related to their specialisation.

Professional training is provided by both Pihlajalinna's own experts and external training providers. Our recommendation is that an individual competence development plan should be drafted annually for each employee.

We focus on health and safety

The goal of Pihlajalinna's occupational safety and health activities is ensuring a healthy and safe working environment and the effective prevention of accidents and occupational illnesses. Occupational

safety at Pihlajalinna is evaluated at three levels, starting from the continuous observation of the environment, identifying hazards, assessing risks and preparing for accidents.

Observing the working environment is very important. Generally, workplaces where the number of reported safety observations has increased have achieved a reduction in accidents. Pihlajalinna encourages everyone to report their observations whenever they recognise a potential safety issue. A total of 2,141 safety observations were reported in 2020, which is roughly equal to the previous year. Safety

observations are processed together with employees without delay. We monitor the number of safety observations as well as the processing times.

Our preventive efforts have produced good results. Pihlajalinna's total number of occupational accidents decreased in 2020. A total of 480 accidents were reported in 2020, compared to 520 in 2019. A particularly significant observation regarding the accident statistics is that serious accidents have decreased sharply, from 21 in 2019 to only 7 in 2020. The decrease in serious accidents also led to a reduction in sickness-related absences and compensation days.

About 75 per cent of all accidents are caused by falling, physical stress, violence or sharp objects. Slipping and falling account for nearly half of all days of incapacity for work. In 2020, we paid particular attention to falling and slipping accidents by arranging occupational safety and health information sessions as well as sharing best practices. Accidents and absences involving falling and slipping turned to a noticeable decline as a result.

Our occupational safety and health activities in 2020 were also influenced by the COVID-19 epidemic. Pihlajalinna's Medical Management Team has been regularly convened by the Medical Director to issue guidelines on issues pertaining to the personal protection of employees and support the occupational safety and health organisation. Risk assessments conducted at Pihlajalinna's operating locations have played a significant role in occupational safety and health efforts during the epidemic.

Comments from employees



"My team includes highly competent occupational health physicians, occupational health nurses, occupational health psychologists and occupational health physiotherapists. We also work together with office secretaries and laboratory technicians. We have nice and professionally competent employees who are always ready to help. Cooperation here is very smooth!"

Erja Taimiaho,
occupational health nurse



"What I like about my job is having variety and challenging situations that give me the opportunity to maintain my expertise and learn new things. My colleagues are lovely and supportive. I've also had the chance to participate in work trial arrangements to find out what types of duties I'm best suited for. I have been given responsibility and diverse tasks, which is something that I believe practical nurses should be given more of in general."

Miia Hellgren,
practical nurse



"Although I am relatively new to Pihlajalinna, my job description has been quite broad right from the start and I have enjoyed having challenges in many different areas. At the same time, my job has enabled me to learn new things, develop myself as a professional and meet new people. Being given responsibility right from the early stages has been nice and it has given more meaning to my work. I also appreciate the high quality of managerial work here. Pihlajalinna provides an interesting front-row seat to the world of healthcare from the perspective of a private-sector organisation."

Mikael Landvik,
Business Controller



"What I really like about my job is that the team and my supervisor trust me and give me encouragement. My supervisor gives me freedom and flexibility in my work. I find that the advantages of working for a private-sector organisation include employee benefits and a relaxed approach to work as well as efficiency and the ease of networking. We are encouraged to develop ourselves and we have many opportunities to participate in training."

Lea Toivaala,
instruments attendant and cleaning supervisor



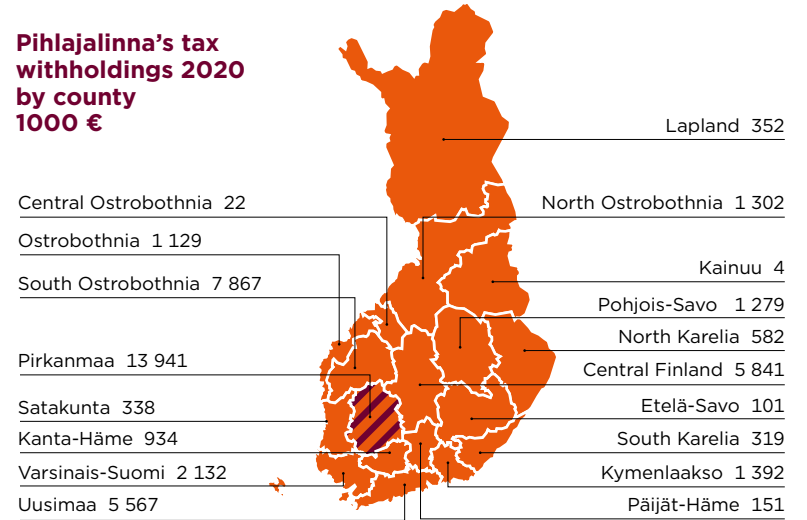
"I work for Pihlajalinna's Nurse Telephone Service. My job is dynamic, varied and unpredictable. I get to make decisions independently. I like the fact that you never know what the caller needs to discuss. I get to use my professional skills to assess the need for treatment and provide instructions for home care and further action as necessary. I'm surrounded by a supportive community of professionals. It's the best community I've been a part of in my career so far. My immediate supervisor is easy to get a hold of and always ready to provide assistance and support."

Sonja Niittyoja,
registered nurse

All taxes paid to Finland

Pihlajalinna Group's tax footprint

EUR million	2020	2019
Direct tax payable for the period		
Income tax (business income tax)	4,2	4,1
Employer's pension contributions	27,0	31,0
Social security contributions	2,5	1,4
Employer's unemployment insurance contributions	2,5	3,1
Contribution to accident insurance and group life insurance	1,3	1,0
Employer contributions, total	33,3	36,4
Property taxes	0,1	0,1
Transfer taxes	0,4	0,2
Direct tax payable for the period, total	37,9	40,8
Value added tax of goods and services paid by the company		
Value added taxes, estimate	11,3	12,3
Tax for the period		
Withholding taxes	43,3	45,1
Employee pension contributions, deferred	13,7	13,0
Employee unemployment insurance contributions, notional	2,2	2,7
Payroll tax, total	59,2	60,8
Net value-added tax	1,9	0,9
Total tax for the period	61,1	61,7
Tax footprint	110,4	114,7
Revenue	508,7	518,6
Profit before taxes	13,8	6,3
Average number of personnel (FTE)	4 308	4 515
Public subsidies	1,4	0,7



A trusted partner for municipalities

At Pihlajalinna, responsible social and healthcare services are also efficient. Limited resources, such as tax revenue, must be converted into the highest possible amount of wellbeing.

Pihlajalinna is a trusted partner for many municipalities. In 2020, Pihlajalinna was responsible for the social and healthcare services of approximately 100,000 residents.

Under the model developed by the company, Pihlajalinna establishes a joint venture with the municipality or joint municipal authority in question, with both parties owning a stake.

The model benefits society in many different ways. The joint ventures also pay significant dividends to the municipalities. In addition, income accrued through the sale of shares has helped balance the finances of municipalities.

The joint ventures are domiciled in each partner municipality, with the municipality receiving 30.34% of the company's corporate income taxes. For example, the largest payer of corporate income tax in the City of Jämsä in 2019 was Jokilaakson Terveys, a joint venture between Pihlajal-

inna and the Central Finland Health Care District, which paid nearly 700,000 in corporate income taxes.

Local vitality

Local companies are important for the local business sector. The joint ventures not only produce social and healthcare services but they also strive to promote the development of local vitality through their operations and choices. The joint ventures acquire products and services needed in their service production from local businesses and make use of local expertise and circumstances in their service solutions.

The model developed by Pihlajalinna for municipal services is based on keeping people as healthy as possible through prevention, quick and effective primary care as well as immediate specialised care available locally. This reduces the need for expensive specialised care. The joint venture model has been successful in halting the growth of social and healthcare service costs in the partner municipalities and even decrease the costs.

The average growth rate of the net operating costs of social and healthcare services in Pihlajalinna's partner municipalities has slowed from 4.5 per cent to 0.1 per cent after the start of cooperation. This calculation is based on the joint ventures' average development of the cost index three years before the start of cooperation and five years after the start of cooperation. The growth of the net operating costs of social and healthcare services in Pihlajalinna's partner municipalities has been substantially more moderate than elsewhere in Finland over the past few years.

The annual margins of Pihlajalinna's partner municipalities have developed very favourably as a result of the cooperation. Comparing the average per capita annual margin for the three years before the start of cooperation with the years after cooperation began, the margin in the partner municipalities has grown by as much as hundreds of per cent. For example, the average per capita annual margin has increased by 631 per cent in Mänttä-Vilppula and 274 per cent in Kuortane.

The joint venture model has been successful in halting the growth of social and healthcare service costs in the partner municipalities and even decrease the costs.

Pihlajalinna's ownership structure

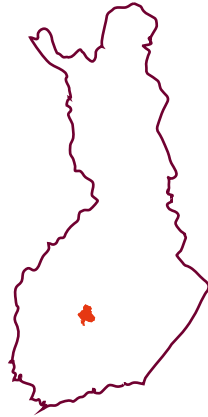
31 December 2020	HOLDING
Foreign ownership	0,08 %
Nominee-registered	4,59 %
Finnish ownership (direct)	95,33 %



Jämsän Terveys and Jokilaakso Hospital

Jämsän Terveys (JT) is a joint venture established between Pihlajalinna and the municipality of Jämsä. It has produced social and healthcare services for Jämsä starting from 1 September 2015 under an outsourcing agreement signed in spring 2015. The agreement period is 10 years. The company is responsible for providing primary and specialised care to 20,200 inhabitants in Jämsä.

Jokilaakso Hospital is a hospital that provides public specialised care. The hospital is part of the Pihlajalinna Group. The hospital's services are produced by **Jokilaakson Terveys (JLT)**, established in 2010, a joint venture between Pihlajalinna and the Central Finland Hospital District.



NUMBER OF EMPLOYEES

496 (JT) **226** (JLT)

EMPLOYMENT TYPE FIXED-TERM

18 % (JT) **15 %** (JLT)

PERMANENT

82 % (JT) **85 %** (JLT)

AVERAGE AGE OF PERSONNEL

46,1 (JT) **45,5** (JLT)

LARGEST AGE GROUP

56-60 (JT) **56-60** (JLT)

THE WORK ABILITY INDEX average total score

8,0 (JT) **7,8** (JLT)

CORPORATE TAXES TO THE MUNICIPALITIES

€ 1 373 (JT)
€ 642 807 (JLT)

WITHHOLDING TAXES TO THE MUNICIPALITIES

€ 3 193 527 (JT)
€ 1 694 948 (JLT)

PIHLAJALINNA GROUP'S WITHHOLDING TAXES TO THE REGIONAL GOVERNMENT: Central Finland

€ 5 841 241

Purchase price for shares to the City of Jämsä and dividends paid to the City and the Central Finland Health Care District during the period 2014-2020 (JLT)

Purchase price for shares:

EUR 4.3 MILLION

Dividends:

EUR 1.9 MILLION

Equity repayment*:

EUR 0.5 MILLION

* Equity repayment from the reserve for invested unrestricted equity.

LOCAL SUBCONTRACTORS

Jämsän Terveys: **88**

Jokilaakson Terveys: **38**

VALUE OF COOPERATION

€ 514 369,80 (JT)

€ 104 263,69 (JLT)



OWNERSHIP

Jämsän Terveys

51 %

Pihlajalinna

49 %

Jämsä municipality

OWNERSHIP

Jokilaakson Terveys

90 %

Pihlajalinna

10 %

Central Finland Health Care District

BOARD OF DIRECTORS

Jämsän Terveys

50 %

Pihlajalinna representatives

50 %

Jämsä municipality representatives

SPECIALISED CARE AND SERVICES

22
SPECIAL-
ITIES

Most significant specialities:
ORTHOPAEDICS AND SURGERY, INTERNAL MEDICINE, NEUROLOGY, CARDIOLOGY

Nearly
2000
surgical
operations
annually

APPOINTMENTS WITH PHYSICIANS

PRIMARY CARE: **14 170** (Jämsä, Koskenpää, Läkipohja, Kuorevesi)

EMERGENCY AND ON-CALL SERVICES: **9187**

SPECIALISED CARE: **17 267**

DENTAL CARE: **13 881**

ADULT PSYCHIATRY: **1988**

ADOLESCENT PSYCHIATRY: **58**

SUBSTANCE ABUSE CLINIC: **177**

FAMILY SERVICE CENTRE: **1928**

NPS-INDEX

+69*

* Jämsän Terveys and Jokilaakso Hospital have been involved in the measurement since October 2020. NPS (Net Promoter Score) Index measures customer experience. The range of the score is -100 to +100.

COMPLAINTS AND OFFICIAL COMPLAINTS

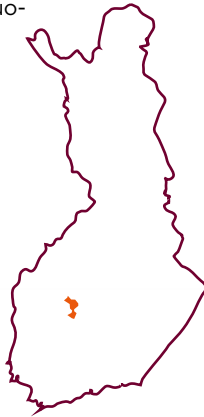
15

DAYS OF CARE

78 421

Mäntänvuoren Terveys

Mäntänvuoren Terveys Oy is a joint venture established in 2013 between the municipality and Pihlajalinna. The current agreement between the municipality and Pihlajalinna is valid until 2026, followed by a five-year option period. Mäntänvuoren Terveys is responsible for providing social and healthcare services to 11,700 customers in Mänttä-Vilppula and Juupajoki.



NUMBER OF
EMPLOYEES

390

EMPLOYMENT TYPE
FIXED-TERM

13 %

PERMANENT

87 %

AVERAGE AGE OF
PERSONNEL

44,8

LARGEST AGE GROUP

56-60

THE WORK ABILITY INDEX
average total score

7,7

CORPORATE TAXES
TO THE MUNICIPALITIES

€ 937 276

WITHHOLDING TAXES
TO THE MUNICIPALITIES

€ 2 548 967

PIHLAJALINNA GROUP'S
WITHHOLDING TAXES TO THE
REGIONAL GOVERNMENT: Pirkanmaa

€ 13 940 717

Purchase price for shares and
dividends paid to the City of
Mänttä-Vilppula during the
period 2016-2020

Purchase price for shares:

EUR 7.9 MILLION

Dividends:

EUR 2.4 MILLION

Equity repayment*:

EUR 0.6 MILLION

* Equity repayment from the reserve
for invested unrestricted equity.

LOCAL SUBCONTRACTORS

70

VALUE OF COOPERATION

€ 2 156 302,39



OWNERSHIP

91 %

Pihlajalinna

9 %

Mänttä-Vilppula municipality

BOARD OF DIRECTORS

50 %

Pihlajalinna representatives (3)

50 %

Mänttä-Vilppula municipality
representatives (3)

SPECIALISED CARE AND SERVICES

GERIATRICS

SURGERY

PLASTIC SURGERY

PSYCHIATRY

INTERNAL MEDICINE CARDIOLOGY

LUNG DISEASES

DIALYSIS UNI



NPS-INDEX

+69*

*Mäntänvuoren Terveys has
been involved in the meas-
urement since April 2020.
NPS (Net Promoter Score)
Index measures customer
experience. The range of
the score is -100 to +100.

APPOINTMENTS WITH
PHYSICIANS

18 744

DENTIST APPOINTMENTS

7 459

DAYS OF CARE

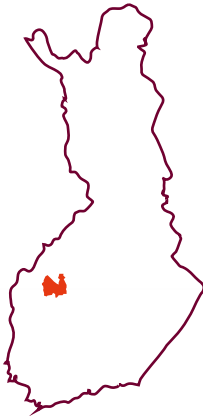
80 141

COMPLAINTS AND
OFFICIAL COMPLAINTS

7

Kuusiolinna Terveys

Kuusiolinna Terveys Oy is a joint venture established by Pihlajalinna and the municipalities of Alavus, Ähtäri, Kuortane and Soini. The agreement period is 10 years and the agreement includes a five-year option. It has produced social and healthcare services for the sub-region since 1 January 2016. The company is responsible for providing primary care to 22,700 inhabitants in total.



NUMBER OF EMPLOYEES

1075

AVERAGE AGE OF PERSONNEL

44,3

EMPLOYMENT TYPE
FIXED-TERM

13 %

LARGEST AGE GROUP

56-60

PERMANENT

87 %

THE WORK ABILITY INDEX
average total score

8,0

CORPORATE TAXES
TO THE MUNICIPALITIES

€ 304 688

WITHHOLDING TAXES
TO THE MUNICIPALITIES

€ 7 217 833

PIHLAJALINNA GROUP'S
WITHHOLDING TAXES TO THE
REGIONAL GOVERNMENT:
South Ostrobothnia

€ 7 867 167

Purchase price for shares paid to
the municipalities of Alavus, Ähtäri
and Soini, dividends paid to the
municipalities during the period
2017-2020

Purchase price for shares:

EUR 16.3 MILLION

Dividends:

EUR 4.6 MILLION

LOCAL SUBCONTRACTORS

213

VALUE OF COOPERATION

€ 5 732 236,93



OWNERSHIP

90 %

Pihlajalinna

10 %

Alavus, Kuortane, Ähtäri and
Soini municipalities

BOARD OF DIRECTORS

50 %

Pihlajalinna representatives (4)

50 %

The municipality
representatives (4)

SPECIALISED CARE
AND SERVICES

Most significant
special services:

INTERNAL MEDICINE
GERIATRICS
CARDIOLOGY
ORTHOPAEDICS AND SURGERY
UROLOGY
ENT

14
SPECIAL-
ITIES

NPS-INDEX

+69*



* The score is the average result of Pihlajalinna's joint ventures in 2020. Kuusio-linna Terveys will introduce the NPS measurement during the spring 2021. NPS (Net Promoter Score) Index measures customer experience. The range of the score is -100 to +100.

APPOINTMENTS WITH PHYSICIANS

PRIMARY CARE, EMERGENCY
AND ON-CALL SERVICES: **29 391**

SPECIALISED CARE: **1 951**

DENTAL CARE: **16 719**

PSYCHIATRIC POLYCLINIC: **1 678**

FAMILY SERVICES: **3 711**

DAYS OF CARE

179 655

COMPLAINTS
AND OFFICIAL
COMPLAINTS

9

Kolmostien Terveys

Kolmostien Terveys Oy is a joint venture established between Pihlajalinna and the municipality of Parkano. It has produced social and healthcare services for Parkano and Kihniö starting from 1 September 2015. The agreement period is 10 years and the agreement includes a five-year option. The company is responsible for providing primary care to 8,300 inhabitants in Parkano and Kihniö.



NUMBER OF EMPLOYEES

417

AVERAGE AGE OF PERSONNEL

43,8

EMPLOYMENT TYPE FIXED-TERM

14 %

LARGEST AGE GROUP

56-60

PERMANENT

86 %

THE WORK ABILITY INDEX average total score

8,1

CORPORATE TAXES TO THE MUNICIPALITIES

€ 30 932

WITHHOLDING TAXES TO THE MUNICIPALITIES

€ 2 438 211

PIHLAJALINNA GROUP'S WITHHOLDING TAXES TO THE REGIONAL GOVERNMENT: Pirkanmaa

€ 13 940 717

Purchase price for shares and dividends paid to the City of Parkano during the period 2016-2020

Purchase price for shares:
EUR 4.6 MILLION
Dividends:
EUR 0.5 MILLION

LOCAL SUBCONTRACTORS

71

VALUE OF COOPERATION

455 385,16 €



OWNERSHIP

96 %

Pihlajalinna

4 %

Parkano municipality

BOARD OF DIRECTORS

50 %

Pihlajalinna representatives (3)

50 %

Parkano municipality representatives (3)

SPECIALISED CARE AND SERVICES

GERIATRICS
GYNECOLOGY
PSYCHIATRY
YOUTH PSYCHIATRY
NEUROLOGY
INTERNAL MEDICINE
RADIOLOGY AND
GENERAL MEDICINE



NPS-INDEX

+66*

*Kolmostien Terveys has been involved in the measurement since March 2020. NPS (Net Promoter Score) Index measures customer experience. The range of the score is -100 to +100.

APPOINTMENTS WITH PHYSICIANS

20 577

DAYS OF CARE

63 280

COMPLAINTS AND OFFICIAL COMPLAINTS

11

Board of Directors



Mikko Wirén

Chairman of the Board of Directors
b. 1972, Lic.Med., Member of the Board of Directors since 2016



Leena Niemistö

Vice Chairman of the Board of Directors
b. b. 1963, D.Med.Sc., Specialist in Psychiatry,
Member of the Board of Directors since 2014
Board Professional
Independent of the Company and its major shareholders



Matti Jaakola

b. 1955, M.Sc. (Econ.), Member of the Board of Directors since 2019
Board Professional, management consultant
Independent of the Company and its major shareholders



Hannu Juvonen

b. 1955, Lic.Med., Specialist, MBA, Member of the Board of Directors since 2019
Practitioner, management consultant
Independent of the Company and its major shareholders



Mika Manninen

b. 1975, M.Sc. (Econ.), Member of the Board of Directors since 2019
Group CFO, Fennia Group
Independent of the Company



Kati Sulin

b. 1974, Master of Arts, Member of the Board of Directors since 2018
Managing Director, Ifolor Oy
Independent of the Company



Seija Turunen

b. 1953, M.Sc. (Econ.), Member of the Board of Directors since 2016
Board Professional
Independent of the Company and its major shareholders

Management Team



Joni Aaltonen

CEO

b. 1970, BBA

Employed by the Company since 2008



Teija Kulmala

**Group COO, CEO of Jämsän Terveys Oy and
Jokilaakson Terveys Oy**

b. 1969, MD, Specialist in obstetrics and
gynaecology, eMBA

Employed by the Company since 2016



Tarja Rantala

CFO

b. 1972, M.Sc. (Econ.)

Employed by the company since 2014



Elina Heliö

Chief People and Culture Officer

b. 1972, Master of Laws with court training

Employed by the Company since 2019



Sanna Määttänen

**Chief Business Development Officer and
Chief Information Officer**

b. 1967, Specialist in geriatrics, eMBA

Employed by the Company since 2012



Marko Savolainen

Chief Legal Officer

b. 1967, Master of Laws with court training

Employed by the Company since 2017



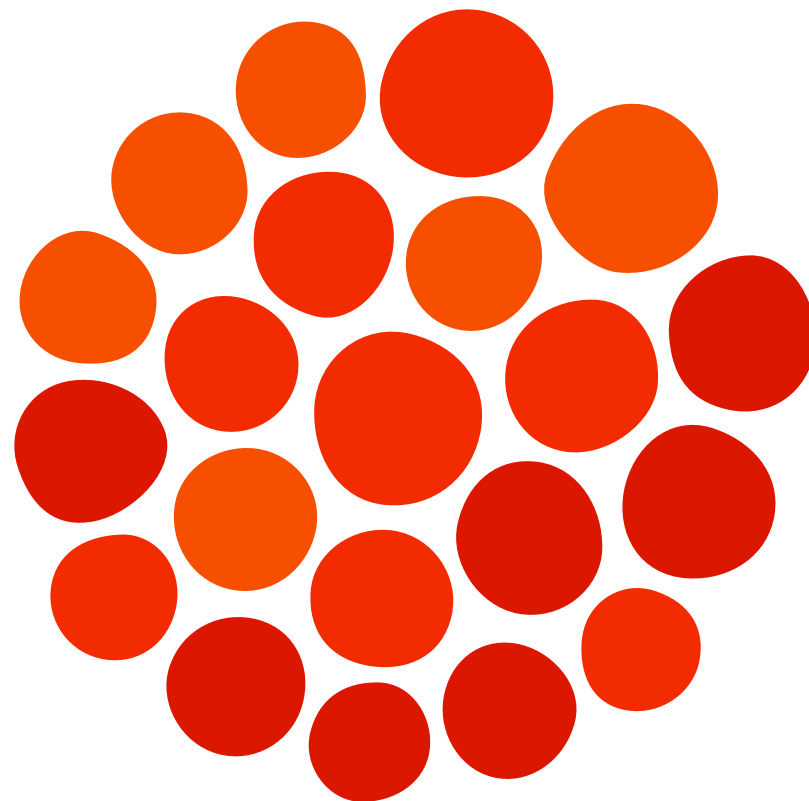
Juha-Pekka Halttunen

Sales Director

b. 1969, Vocational Qualification in Business

Employed by the Company since 2005

For more information on
the members of Pihlajalinna
Plc's Board of Directors and
Management Team, please refer
to Corporate Governance in the
Investors section
[http://investors.
pihlajalinna.fi/corporate-
governance](http://investors.pihlajalinna.fi/corporate-governance)



Pihlajalinna

REPORT BY THE BOARD OF DIRECTORS
AND FINANCIAL STATEMENTS

2020

Report by the Board of Directors

Financial year 1 January–31 December 2020

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Report by the Board of Directors for the financial year 1 January–31 December 2020

Joni Aaltonen, CEO of Pihlajalinna:

I am satisfied with our customer service and the flexibility that our organisation demonstrated in shifting the focus of our services – including public services as well as services offered directly to consumers – during the COVID-19 epidemic.

I am also pleased with our strong profit performance, which shows that our efficiency improvement programme has had a long-term impact on our profitability. Our revenue in the final quarter of 2020 exceeded the previous year's level. Partnerships and occupational healthcare have increased the use of our services and elevated the capacity utilisation rates of our operating locations. Nevertheless, we have not yet returned to the normal level of operations seen before the COVID-19 epidemic. While the direction is good, there is still room for improvement. The final quarter of the year puts us in an excellent position to enter the new year.

Earnings per share improved substantially year-on-year thanks to the measures we have taken over the past couple of years. The substantial leap in profitability taken in our private clinic, occupational healthcare and hospital operations also supported the improvement in earnings per share.

Pihlajalinna's acquisition of Työterveys Virta Oy further strengthens our position as we start the new year. Our position in the Oulu region will be significantly strengthened by the transaction. Our market share in occupational healthcare services in the region will increase to approximately 30 per cent, which improves our position in all services offered to consumers and partners in North Ostrobothnia. Early this year, we also won a significant proportion of a competitive bidding process for the outpatient clinic, surgery and inpa-

tient services of the Northern Ostrobothnia Hospital District.

In Kristiinankaupunki, the operations of Selkämeren Terveystoiminta Oy have got off to a good start. The Huhtasuo health centre outsourcing in Jyväskylä, which began in December, has received good customer feedback. Huhtasuo is an important proving ground for us, as we see broader opportunities for our service models in public services.

Preventive services are the primary purpose of occupational healthcare and the remote work situation has further increased the need for these services. For a long time now, the most common causes of disability have been mental health disorders and musculoskeletal disorders. This year, the focus of Pihlajalinna's development of digital occupational health services will be especially on care paths for musculoskeletal disorders and services to support mental health. We are also developing products in collaboration with our Forever fitness centre chain. We believe we have an excellent opportunity to grow the number of Pihlajalinna's occupational healthcare customers and the impact of occupational health services.

Customers' service consumption habits changed quickly due to the COVID-19 epidemic. Pihlajalinna's preparedness to deliver extensive remote services proved to be good. Our remote services were used nearly 500,000 times during the year, representing 44 per cent of all consultations. The use of video and chat consultations grew threefold. The work of healthcare professionals who provide remote consultations is flexible, and the opportunity to work remotely improves employee satisfaction and the productivity of work. Ideally, however, in-person appointments and remote consultations complement each other. Nearly all ailments can be treated

in remote consultations, but the best outcomes are achieved by combining both consultation models. Certain routine healthcare tasks can also be automated.

Pihlajalinna will publish minor revisions to its strategy during the beginning of the year 2021. We continue to focus on good cooperation with our partners. Ensuring that our services are smooth and easy to use is key to winning our customers' trust regardless of who pays for the service. We will focus on digital sales and service channels and emphasise the customer's comprehensive health and wellbeing in our services.

Revenue by geographical business area

Pihlajalinna reports its revenue based on the following geographical regions: Southern Finland, Mid-Finland, Ostrobothnia and Northern Finland.

- Southern Finland includes Pihlajalinna's business operations in the regions of Uusimaa, South West Finland, Päijät-Häme, Kymenlaakso and South Karelia.
- Mid-Finland includes Pihlajalinna's business operations in the regions of Pirkanmaa, Satakunta, Kanta-Häme, Central
- Finland, South Savo, North Karelia and North Savo.
- Ostrobothnia includes Pihlajalinna's business operations in the regions of Southern Ostrobothnia, Ostrobothnia and Central Ostrobothnia.
- Northern Finland includes Pihlajalinna's business operations in the regions of North Ostrobothnia, Kainuu and Lapland.

October–December 2020

EUR million	10-12/2020	%	10-12/2019	%	change	change %
Southern Finland	34.1	22	31.1	21	3.0	9.7
Mid-Finland	83.6	54	82.5	56	1.1	1.3
Ostrobothnia	29.9	19	30.0	20	-0.1	-0.5
Northern Finland	5.1	3	3.9	3	1.2	31.2
Other operations	2.8	2	1.9	1	0.9	46.7
Intra-Group sales	-18.4		-15.8		-2.6	
Total consolidated revenue	137.2	100	133.8	100	3.4	2.6

October–December 2020

Revenue for Southern Finland amounted to EUR 34.1 (31.1) million, an increase of EUR 3.0 million, or 9.7 per cent. COVID-19 testing increased the revenue for the business area by EUR 4.0 million. Revenue from surgical operations increased as activity in the public sector picked up in working through treatment queues in cataract and vascular surgery. The demand for remote services increased. Revenue from fitness centre operations decreased by EUR 0.9 million due to a decline in the number of members caused by the restrictions in place in the spring and the prevailing COVID-19 situation.

Revenue in Mid-Finland amounted to EUR 83.6 (82.5) million, an increase of EUR 1.1 million, or 1.3 per cent. COVID-19 testing increased the revenue for the business area by EUR 2.0 million, but this did not fully compensate for the lower other demand for private clinic services and occupational healthcare services. The expiration of the healthcare service agreement with Hattula as well as agreements concerning reception centre operations contributed to the decrease in revenue for the region.

Revenue for Ostrobothnia was EUR 29.9 (30.0) million, a decrease of EUR 0.1 million, or 0.5 per cent. A complete outsourcing agreement for social and healthcare services accounts for a significant proportion of the region's revenue. The region's revenue remained stable thanks to the steady recognition of revenue from the complete outsourcing agreement and annual price adjustments.

Revenue for Northern Finland amounted to EUR 5.1 (3.9) million, an increase of EUR 1.2 million, or 31.2 per cent. COVID-19 testing increased the revenue for the business area by EUR 1.2 million.

January–December 2020

Revenue for Southern Finland was EUR 114.7 (118.2) million, a decrease of EUR 3.4 million, or 2.9 per cent. Pihlajalinna's Forever fitness centres were closed entirely for six weeks in mid-March in accordance with the recommendations of the Finnish Government. Operations continued on a very limited basis at the beginning of May. All group exercise activities, for example, were suspended entirely until 31 July 2020. The opening hours of fitness centres only returned to normal on 1 August 2020 and service production was still restricted during the remaining part of the year. Revenue from fitness centres declined by 38 per cent and was EUR 6.2 million lower than in the corresponding period in the previous year. The demand for staffing services among industry operators was substantially reduced due to the epidemic and the agreements were terminated. The revenue of dental care services decreased by 15 per cent due to the reduction in demand caused by the COVID-19 epidemic. Revenue from occupational healthcare services grew by 16 per cent thanks to COVID-19 testing, the growth of the customer base and the higher share of fixed-price agreements. The total revenue from COVID-19 testing in the area came to EUR 6.2 million.

January–December 2020

EUR million	2020	%	2019	%	change	change %
Southern Finland	114.7	20	118.2	20	-3.4	-2.9
Mid-Finland	316.8	55	324.1	56	-7.3	-2.3
Ostrobothnia	116.8	20	115.7	20	1.1	1.0
Northern Finland	16.2	3	14.7	3	1.5	10.0
Other operations	9.8	2	7.7	1	2.0	26.6
Intra-Group sales	-65.6		-61.8		-3.8	
Total consolidated revenue	508.7	100	518.6	100	-9.9	-1.9

Revenue for Mid-Finland was EUR 316.8 (324.1) million, a decrease of EUR 7.3 million, or 2.3 per cent. The COVID-19 epidemic reduced revenue by 9 per cent in private clinic services, 4 per cent in occupational healthcare services and 29 per cent in dental care services. The expiration of the healthcare service agreement with Hattula as well as agreements concerning reception centre operations also contributed to the decrease in revenue for the region. The total revenue from COVID-19 testing in the area came to EUR 3.6 million. Pihlajalinna Special Housing Services opened a new Uniikki unit in Riihimäki in February to provide service housing with 24-hour assistance.

Revenue for Ostrobothnia amounted to EUR 116.8 (115.7) million, an increase of EUR 1.1 million, or 1.0 per cent. A complete outsourcing agreement for social and healthcare services accounts for a significant proportion of the region's revenue. The region's revenue remained stable thanks to the steady recognition of revenue from the complete outsourcing agreement and annual price adjustments. Revenue fell by 6 per cent in private clinic services and 29 per cent in dental care services due to the decline in demand caused by the COVID-19 epidemic. Revenue from occupational health services grew by 17 per cent thanks to the growth of the customer base. Revenue from surgical operations increased by 41 per cent due to an increase in surgeries in Seinäjoki.

Revenue for Northern Finland amounted to EUR 16.2 (14.7) million, an increase of EUR 1.5 million, or 10.0 per

October–December 2020

EUR million	10-12/2020	%	10-12/2019	%	change	change %
Corporate customers	36.1	23	31.9	21	4.2	13.0
of which insurance company customers	8.6	6	7.9	5	0.7	8.2
Private customers	22.0	14	24.9	17	-2.9	-11.8
Public sector	97.5	63	92.7	62	4.8	5.2
of which complete outsourcing	73.7	47	72.5	48	1.2	1.6
of which staffing	5.8	4	5.8	4	0.0	-0.2
of which occupational healthcare and other services	18.1	12	14.4	10	3.7	25.4
Intra-Group sales	-18.4		-15.8		-2.6	
Total consolidated revenue	137.2	100	133.8	100	3.4	2.6

cent. Revenue from occupational health services grew by 15 per cent due to COVID-19 testing and the growth of the customer base. The revenue of dental care services decreased by 25 per cent due to the reduction in demand caused by the COVID-19 epidemic. The total revenue from COVID-19 testing in the area came to EUR 1.4 million.

Revenue by customer group

Pihlajalinna's customer groups are corporate customers, private customers and public sector customers.

- The Group's corporate customer group consists of Pihlajalinna's occupational health customers, insurance company customers and other corporate contract customers.
- The Group's private customers are private individuals who pay for services themselves and may subsequently seek compensation from their insurance company.
- The Group's public sector customer group consists of public sector organisations in Finland, such as municipalities, joint municipal authorities, congregations, hospital districts and the public administration when purchasing social and healthcare outsourcing services, residential services, occupational health services and staffing services.

October–December 2020

Revenue from corporate customers amounted to EUR 36.1 (31.9) million, an increase of EUR 4.2 million, or 13.0 per cent. Sales to insurance company customers increased by EUR 0.7 million, or 8.2 per cent. In the corporate customer group, revenue from COVID-19 testing came to EUR 3.5 million.

Revenue from private customers was EUR 22.0 (24.9) million, a decrease of EUR 2.9 million, or 11.8 per cent. The decline in customer volumes caused by the COVID-19 epidemic reduced the revenue of fitness centres by 26 per cent, or EUR 1.1 million. Among private customers, the demand for private clinic services decreased by 26 per cent and the demand for dental care services decreased by 14 per cent. In the private customer group, revenue from COVID-19 testing came to EUR 0.4 million.

Revenue from the public sector amounted to EUR 97.5 (92.7) million, an increase of EUR 4.8 million, or 5.2 per cent. COVID-19 testing as a partner to the public sector increased revenue by EUR 3.5 million. The annual price adjustments of complete outsourcing agreements increased revenue. Demand increased for public sector occupational health services, responsible doctor services and special housing services. The expiration of the healthcare service agreement with Hattula as well as agreements concerning reception centre operations contributed to the decrease in revenue. The COVID-19-related costs, such as COVID-19 testing, of complete outsourcing

January–December 2020

EUR million	2020	%	2019	%	change	change %
Corporate customers	124.0	22	118.8	20	5.3	4.4
of which insurance company customers	29.8	5	27.6	5	2.2	8.1
Private customers	79.8	14	97.8	17	-18.0	-18.4
Public sector	370.5	65	363.8	63	6.6	1.8
of which complete outsourcing	287.9	50	285.5	49	2.4	0.8
of which staffing	22.9	4	23.6	4	-0.7	-3.0
of which occupational healthcare and other services	59.7	10	54.7	9	5.0	9.1
Intra-Group sales	-65.6		-61.8		-3.8	
Total consolidated revenue	508.7	100	518.6	100	-9.9	-1.9

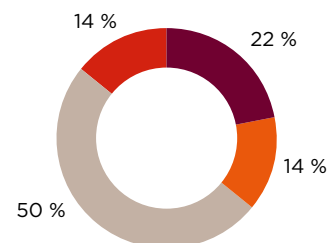
agreements for social and healthcare services do not increase Pihlajalinna's revenue, as they are treated as cost compensation under the agreements.

January–December 2020

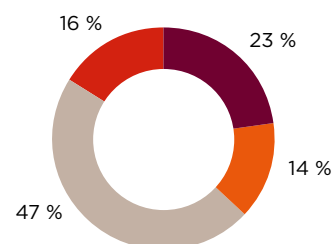
Revenue from corporate customers amounted to EUR 124.0 (118.8) million, an increase of EUR 5.3 million, or 4.4 per cent. Sales to insurance company customers increased by EUR 2.2 million, or 8.1 per cent. The demand for staffing services among industry operators was substantially reduced due to the epidemic and the agreements were terminated. The number of remote consultations increased manifold. In the corporate customer group, revenue from COVID-19 testing came to EUR 5.8 million.

Revenue from private customers was EUR 79.8 (97.8) million, a decrease of EUR 18.0 million, or 18.4 per cent. The demand for private clinic services by self-paying private customers declined due to the COVID-19 epidemic by EUR 7.0 million, or 15 per cent. Pihlajalinna's Forever fitness centres were closed entirely for six weeks in mid-March in accordance with the recommendations of the Finnish Government. Operations continued on a very limited basis at the beginning of May. All group exercise activities, for example, were suspended entirely until 31 July 2020. The opening hours of fitness centres only returned to normal on 1 August 2020 and service production was still restricted during the remaining part of the

**Revenue by customer group
2020, %**



Q4 2020



■ Corporate customers ■ Complete outsourcings
■ Private customers ■ Other private sector services

**Revenue by customer group,
M€**

518,6	-1,9 %	508,7
78	+5 %	83
286	+1 %	288
98	-18 %	80
119	+4 %	124
2019		2020

Q4 2020

133,8	+2,6 %	137,2
20	+18 %	24
72	+2 %	74
25	-12 %	22
32	+13 %	36
Q4/2019		Q4/2020

year. Fitness centre revenue declined by EUR 6.7 million, or 36 per cent. The demand for dental care services declined by EUR 4.0 million, or 21 per cent. The volume of surgical services for private customers declined due to the COVID-19 restrictions and the COVID-19 situation by EUR 0.8 million, or 12 per cent. Revenue from COVID-19 testing came to EUR 1.0 million. Demand for fertility treatments and remote consultations grew.

Revenue from the public sector amounted to EUR 370.5 (363.8) million, an increase of EUR 6.6 million, or 1.8 per cent. COVID-19 testing as a partner to the public sector increased revenue by EUR 4.6 million. The demand for public sector occupational health services grew by EUR 2.0 million, or 16 per cent. Demand grew by 8 per cent for respon-

sible doctor services and by 35 per cent for public surgical operations. The expiration of the healthcare service agreement with Hattula as well as agreements concerning reception centre operations contributed to the decrease in revenue. The demand for staffing services decreased. Complete outsourcing agreements for social and healthcare services account for approximately half of Pihlajalinna's total revenue. Revenue remained stable in spite of the COVID-19 situation thanks to the steady recognition of revenue from complete outsourcing agreements and annual price adjustments. The COVID-19-related costs of complete outsourcing agreements for social and healthcare services do not increase Pihlajalinna's revenue, as they are treated as cost compensation under the agreements.

Seasonal variation

Pihlajalinna's business operations are to a certain extent influenced by seasonal fluctuations. Pihlajalinna's complete outsourcing for social and healthcare services and other fixed-price invoicing is accompanied by a steady period of recognition of revenue as income. During the summer holidays, especially in July, staff costs related to such agreements are reduced and profitability improves mainly due to wage accruals. On the other hand, service demand by Pihlajalinna's private and corporate customers is lower and profitability is weaker during holiday seasons, especially in July–August and December. At the quarterly level, seasonal fluctuations have historically had a positive effect on profitability for the third quarter of the year.

Consolidated revenue and result

October–December 2020

Pihlajalinna's revenue totalled EUR 137.2 (133.8) million, an increase of EUR 3.4 million, or 2.6 per cent.

COVID-19 testing increased revenue by EUR 7.3 million. COVID-19 vaccinations as a partner to the public sector began. Revenue from remote services grew particularly in chat and video appointments. Revenue was reduced by the expiration of agreements in staffing services, healthcare services in Hattula and reception centre operations. The member volumes of fitness centres and the demand for private clinic services and dental care services by private customers have not recovered to the levels seen before the COVID-19 epidemic.

EBITDA was EUR 15.1 (12.3) million, an increase of EUR 2.8 million, or 23.0%. Adjusted EBITDA was EUR 15.7 (14.4) million, an increase of EUR 1.3 million, or 9.0 per cent. EBITDA adjustments amounted to EUR 0.6 (2.1) million.

Increased COVID-19 testing volumes improved profitability. The previous year's efficiency improvement programme has increased profitability across the board in private clinic services, occupational healthcare services, surgical operations and dental care services. Profitability was negatively affected by the higher costs of specialised care under complete outsourcing agreements, services for the elderly and health services, the expi-

ration of staffing services agreements, the decrease in the number of members of fitness centres and the reduced capacity utilisation rates of services for the elderly.

Depreciation, amortisation and impairment amounted to EUR 8.4 (8.6) million. Adjustments to depreciation, amortisation and impairment, which mainly consisted of items related to the closure of operating locations, amounted to EUR -0.1 (-0.2) million. Depreciation of intangible assets amounted to EUR 1.6 (1.9) million, of which depreciation related to purchase price allocations amounted to EUR 0.7 (1.1) million. Depreciation, amortisation and impairment of property, plant and equipment amounted to EUR 2.1 (2.1) million, and depreciation and impairment of right-of-use assets totalled EUR 4.6 (4.6) million.

Pihlajalinna's operating profit amounted to EUR 6.8 (3.7) million, an increase of EUR 3.1 million, or 84.5 per cent. The EBIT-to-revenue ratio (EBIT margin) was 4.9 (2.7) per cent. Adjusted EBIT amounted to EUR 7.3 (5.6) million. The adjusted EBIT margin was 5.3 (4.2) per cent. Adjustments to EBIT amounted to EUR 0.5 (1.9) million.

Pihlajalinna's revenue from public specialised care included in fixed-term complete outsourcings of social and healthcare services was EUR 22.4 (22.3) million. The EBITDA of public specialised care amounted to EUR -0.3 (0.6) million and the operating result amounted to EUR -0.4 (0.6) million. The cost accumulation of public specialised care involves random fluctuation. Individual cases falling within the scope of the hospital districts' pooling system for high-cost care and possible variable elements of compensation may influence the costs of specialised care considerably during the financial year, and between financial periods, in Pihlajalinna's municipal companies.

The group's net financial expenses amounted to EUR -1.0 (-1.0) million. Profit before taxes came to EUR 5.7 (2.7) million. Taxes in the income statement amounted to EUR -2.8 (-0.6) million. Pihlajalinna Terveys Oy redeemed nearly all of its series B shares in December 2020. A change in deferred taxes of EUR -1.6 million was recognised in the consolidated income statement due to the redemption of the shares. Profit came to EUR 3.0 (2.1) million. Earnings per share (EPS) was EUR 0.15 (0.16).

January-December 2020

Pihlajalinna's revenue amounted to EUR 508.7 (518.6) million, a decrease of EUR 9.9 million, or 1.9 per cent. Well over half of Pihlajalinna's business volume remained stable in spite of the COVID-19 epidemic that began in mid-March. Pihlajalinna's complete outsourcings for social and healthcare services and other fixed-price invoicing involve a steady recognition of revenue over time.

Pihlajalinna's Forever fitness centres were closed entirely for six weeks in mid-March in accordance with the recommendations of the Finnish Government. The opening hours of fitness centres only returned to normal on 1 August 2020 and service production was still restricted during the remaining part of the year. Fitness centre revenue declined by EUR 6.7 million, or 36 per cent. The COVID-19 epidemic and the related restrictions also significantly reduced the demand for dental care services and private clinic services. In addition, revenue was reduced by the expiration of agreements in staffing services, healthcare services in Hattula and reception centre operations. COVID-19 testing increased revenue by EUR 11.4 million. In 2020, approximately 44 per cent all customer appointments took place via remote services. The figure does not take into account the total number of customer appointments in Pihlajalinna's outsourcings.

In June, the Finnish Government decided on support for business costs for companies that had suffered a significant decrease in revenue due to the COVID-19 epidemic and that have had costs that are difficult to adjust. Pihlajalinna recognised financial support intended primarily to cover the fixed costs of the Group's fitness centres in other operating income. Pihlajalinna received EUR 0.8 million in cost support, which is the Group-specific maximum amount.

To minimise the negative financial impacts of the COVID-19 epidemic, the Group held cooperation negotiations in the spring 2020 that led to full-time and part-time lay-offs of the personnel. The number and duration of the temporary lay-offs were significantly affected by flexibility in employment relationships and the possibility of temporarily relocating to another task.

EBITDA was EUR 52.4 (47.8) million. Adjusted EBITDA was EUR 54.6 (55.1) million, a decrease of EUR 0.5 million, or 0.9 per cent. EBITDA adjustments amounted to EUR 2.2 (7.3) million. Volumes recovered in surgical operations and the previous year's efficiency improvement programme and flexibility in employment relationships improved profitability. The profitability of private clinic services improved due to COVID-19 testing and the efficiency improvement programme implemented in 2019. The profitability of occupational health services improved thanks to COVID-19 testing, the efficiency improvement programme, the growth of customer volumes and an increase in the relative share of fixed-price agreements. The surgical volumes of Jokilaakso Hospital rose to a record high as the public sector worked through surgery queues. Profitability was significantly reduced by the higher costs of specialised care under complete outsourcing agreements, services for the elderly and health services as well as the decrease in the number of members of fitness centres caused by the COVID-19 restrictions. The reduced capacity utilisation rates of services for the elderly and the expiration of agreements for staffing services and reception centre operations also reduced profitability.

Depreciation, amortisation and impairment amounted to EUR 34.3 (37.7) million. Adjustments to depreciation, amortisation and impairment, which mainly consisted of the impairment of lease liabilities arising from the closure of operating locations, amounted to EUR 0.4 (3.3) million. Depreciation of intangible assets amounted to EUR 6.5 (7.4) million, of which depreciation related to purchase price allocations amounted to EUR 3.1 (4.6) million. Depreciation, amortisation and impairment of property, plant and equipment amounted to EUR 8.8 (7.7) million, and depreciation and impairment of right-of-use assets totalled EUR 18.9 (22.5) million.

Pihlajalinna's operating profit amounted to EUR 18.2 (10.2) million, an increase of EUR 8.0 million, or 78.5 per cent. The EBIT-to-revenue ratio (EBIT margin) was 3.6 (2.0) per cent. Adjusted EBIT amounted to EUR 20.8 (20.8) million. The adjusted EBIT margin was 4.1 (4.0) per cent. Adjustments to EBIT amounted to EUR 2.6 (10.6) million.

Pihlajalinna's revenue from public specialised care included in fixed-term complete outsourcings of social and healthcare services was EUR 89.6 (88.2) million. The EBITDA of public specialised care amounted to EUR 0.2 (3.7) million and the operating result amounted to EUR 0.0 (3.5) million. The cost accumulation of public specialised care involves random fluctuation. Individual cases falling within the scope of the hospital districts' pooling system for high-cost care and possible variable elements of compensation may influence the costs of specialised care considerably during the financial year, and between financial periods, in Pihlajalinna's municipal companies.

The Group's net financial expenses amounted to EUR -4.4 (-3.9) million. Net financial expenses were increased by a waiver expense associated with a financing arrangement in the spring and higher interest rate margins. Profit before taxes came to EUR 13.8 (6.3) million. Taxes in the income statement amounted to EUR -4.8 (-1.8) million. Pihlajalinna Terveys Oy redeemed nearly all of its series B shares in December 2020. A change in deferred taxes of EUR -1.6 million was recognised in the consolidated income statement due to the redemption of the shares. The profit was EUR 8.9 (4.5) million. Earnings per share (EPS) was EUR 0.39 (0.15).

The operating environment

The preparations for the comprehensive reform of social, healthcare and rescue services continued in 2020. The government's proposal on the reform of healthcare, social welfare and rescue services was submitted to Parliament on 8 December 2020. Under the proposal, the responsibility for the organisation of healthcare, social welfare and rescue services would be transferred from municipalities to 21 wellbeing services counties, the City of Helsinki and partially to the joint county authority for the Hospital District of Helsinki effective from 1 January 2023. The entry into effect of the comprehensive reform of social and healthcare services is subject to the parliament's approval.

While the focus of the reform is on public services, they will continue to be complemented by private and third-sector service provision. The objectives of the

reform include equality, faster access to care and shifting the focus of healthcare towards preventive services. The sustainability of municipal finances also requires mitigating the upward pressure on social and healthcare service expenses. Achieving these objectives calls for taking advantage of the services and operating models of all parties in the field of social and healthcare services. There is strong evidence that service provision based on outsourcing has helped municipalities and joint municipal authorities improve the quality and availability of services and keep the growth of costs under control.

The next steps in the preparations for the reform of social and healthcare services include a survey of municipalities conducted by Statistics Finland to collect information on the net expenses of social, health and rescue services at the local government level. Commissioned by the Ministry of Finance, the survey will provide material for assessing the impacts of the comprehensive reform of social and healthcare services. In parliament, the discussion of the reform will continue with committee hearings scheduled to start at the beginning of 2021.

The progress of the reform of social and healthcare services still involves significant risks. These risks are related to, for example, political decision-making, the implementation and funding of the reforms as well as constitutional questions. These risks have also been recognised by the group in charge of the reform of social and healthcare services, which has promised to address them during the committee hearings, for example.

The COVID-19 epidemic continues to make changes in the operating environment less predictable to a significant degree, and the impacts of the epidemic on the social and healthcare service market is impossible to predict. Consumer behaviour and the various economic impacts are substantially affected by the balancing act between COVID-19 restrictions and the health impacts of the epidemic.

The second wave of the epidemic temporarily slowed down economic growth in Finland in late 2020. According to the most recent economic survey of the Ministry of Finance, domestic service demand remains weak at the beginning of 2021. The survey also notes that the

deficit in public finances will remain significant in 2021 as responding to the epidemic keeps public sector expenses high. The forecast indicates that the deficit will gradually decrease in the coming years. However, even if society begins to return to normal, public debt relative to GDP looks to continue to grow through the first half of the 2020s.

In the autumn 2020, the Permanent Secretary of the Ministry of Social Affairs and Health estimated that working through the treatment queues caused by the COVID-19 epidemic can take as long as two years. At the end of December 2020, a total of 141,471 patients were waiting for access to treatment in hospitals belonging to the hospital districts. Of these, 5.4 per cent had waited for access to non-urgent specialised care for more than six months. Comparing the number of people waiting for access to treatment with the corresponding date in previous years, it can be said that the situation was exceptional.

The demand for occupational health services has not decreased as a result of the COVID-19 epidemic. The social responsibility of employers has been emphasised during the epidemic, as evidenced by, for example, the willingness of businesses to purchase COVID-19 testing services. Private social and healthcare service providers are also a significant partner in COVID-19 vaccinations, which began in Finland at the end of 2020.

Many municipalities and other public sector entities have divested, or are in the process of divesting, the occupational healthcare providers they currently own. According to the Finnish Institute for Health and Welfare and Statistics Finland, the private sector's share of service provision in occupational healthcare increased by about 10 per cent between 2015 and 2019, which means that approximately 360,000 people moved under private-sector services. The number of Pihlajalinna's individual occupational healthcare customers increased by nearly 150,000 during the same time period.

Consolidated statement of financial position and cash flow

Pihlajalinna Group's total statement of financial position amounted to EUR 442.1 (438.4) million. Consolidated cash and cash equivalents amounted to EUR 13.3 (27.0) million.

Net cash flow from operating activities in the quarter amounted to EUR 18.6 (19.8) million. Taxes paid amounted to EUR -0.6 (-1.1) million. The change in net working capital was EUR 4.0 (8.6) million.

The net cash flow from operating activities during the financial year amounted to EUR 47.2 (36.8) million. Taxes paid amounted to EUR -3.6 (-4.7) million. The change in net working capital was EUR -1.8 (-6.2) million.

Net cash flow from investing activities totalled EUR -2.0 (-4.3) million during the quarter. Net cash flow from investing activities totalled EUR -4.4 (-19.5) million for the financial year. Acquisitions of subsidiaries had an impact of EUR -1.4 (-4.9) million on net cash flow from investing activities for the financial year. Investments in tangible and intangible assets amounted to EUR -9.9 (-15.4) million, and the proceeds from the disposal of tangible assets amounted to EUR 6.8 (0.8) million. Pihlajalinna sold and leased back two care properties in Laihia in May 2020.

The Group's cash flow after investments (free cash flow) was EUR 16.7 (15.4) million for the quarter and EUR 42.8 (17.4) million for financial year.

Net cash flow from financing activities totalled EUR -9.5 (-12.9) million for the quarter. The change in financial liabilities, including changes in credit limits, amounted to EUR -3.2 (-1.5) million. Payments for financial lease liabilities amounted to EUR -5.4 (-6.1) million, and interest paid and other financial expenses amounted to EUR -0.9 (-0.8) million. A total of EUR 0.0 (4.4) million in dividends was paid to non-controlling interests.

Net cash flow from financing activities during the financial year totalled EUR -56.5 (-26.7) million. The change in financial liabilities, including changes in credit limits, amounted to EUR -12.2 (7.7) million. Payments for financial lease liabilities amounted to EUR -20.6 (-22.7) million, and interest paid and other financial expenses amounted

to EUR -4.5 (-3.8) million. The net effect of the change in non-controlling interests on cash flow was EUR -18.3 (-1.3) million. In January 2020, Pihlajalinna paid EUR 16.3 million in total for shares in Kuusiolinna Terveys to the municipalities of Alavus, Ähtäri and Soini as well as EUR 2.0 million to the city of Mänttä-Vilppula for shares in Mäntänvuoren Terveys. A total of EUR 0.2 (4.4) million in dividends was paid to non-controlling interests. Pihlajalinna Plc did not pay dividends for the financial year 2019. The Group has acquired its own shares for its incentive scheme in the amount of EUR 0.7 (0.0) million.

The Group's gearing was 169.4 (181.7) per cent. Interest-bearing net debt amounted to EUR 194.8 (192.7) million. The Group paid EUR 1.4 (1.5) million in contingent considerations (earnout payments) during the financial year.

Return on capital employed was 5.7 (3.1) per cent and return on equity was 8.1 (3.8) per cent.

Financing arrangements

Pihlajalinna has a five-year EUR 120 million unsecured financing arrangement with Danske Bank and Nordea. The arrangement comprises a EUR 50 million revolving credit facility and a long-term bullet loan of EUR 70 million. It also includes an opportunity to increase the total amount by EUR 60 million (to EUR 180 million), subject to separate decisions on a supplementary loan from the funding providers.

The financing arrangement includes the customary financial covenants concerning leverage (ratio of net debt to pro forma EBITDA) and gearing. The calculation of covenants will continue with the creditor banks in accordance with the accounting principles confirmed in the original financing arrangement (frozen GAAP, i.e. excluding the IFRS 16 impact). The Group met the set covenants on 31 December 2020.

Due to the changes in the operating environment caused by the COVID-19 epidemic, Pihlajalinna and the creditor banks agreed on a temporary adjustment to the covenants of the financing arrangement at the end of March. The temporary covenants for the first and second quarter of the year were as follows: leverage must not ex-

ceed 4.25 and gearing must not exceed 140 per cent. The original covenants of the financing arrangement – leverage of 3.75 and gearing of 115 per cent – took effect again when the covenants were reviewed in the third quarter.

As part of the agreement, a permanent new margin ceiling was added to the financing arrangement. The margin ceiling will enter into effect if leverage exceeds 3.50. On 31 December 2020, leverage in accordance with the financing arrangement stood at 2.78.

The Group has credit limit agreements valid until further notice, totalling EUR 10 million. The notice period of the credit limit agreements is one month. At the end of the review period, Pihlajalinna had a total of EUR 40.0 million in unused committed credit limits.

Capital expenditure

Gross investments, including acquisitions, amounted to EUR 25.7 (44.1) million. The Group's gross investments in property, plant and equipment and intangible assets, which consisted of development investments, additional investments and replacement investments required for growth, amounted to EUR 10.7 (12.6) million during the financial year. Gross investments in connection with the opening of new units amounted to EUR 0.3 (9.4) million. Gross investments in relation to M&A transactions amounted to EUR 0.0 (3.8) million. Gross investments in right-of-use assets amounted to EUR 14.6 (18.4) million, including the opening of new units in Riihimäki (Uniikki special needs residential services) and Helsinki (Pihlajalinna Tavastia private clinic).

Investment commitments for the Group's development, additional and replacement investments amounted to approximately EUR 2.5 (0.5) million. The investment commitments are related to additional and replacement investments in clinical equipment and information system projects.

At the end of the financial year 2019, Pihlajalinna agreed on the acquisition of three social and healthcare service buildings with the city of Mänttä-Vilppula. A municipal complaint was lodged regarding the transaction and the conditions for the acquisition were not met by the due date of 31 December 2020.

Complete and partial outsourcings

Company	Pihlajalinna's holding, 31 December 2019	Pihlajalinna's holding, 31 December 2020	First year of service production under the current contract	Duration of contract (years)
Jokilaakson Terveys Oy	90%	90%	internal service provision	internal service provision
Jämsän Terveys Oy	51%	51%	2015	10
Kuusiolinna Terveys Oy	90%	90%	2016	15
Mäntänvuoren Terveys Oy	91%	91%	2016	15
Kolmostien Terveys Oy	96%	96%	2015	15
Ab Bottenhavets Hälsa - Selkämeren Terveys Oy		83%	2021	15–20 years

Summary of the revenue and profitability of complete and partial outsourcing agreements (intra-Group sales eliminated)

Complete and partial outsourcings	10-12/2020 3 months	10-12/2019 3 months	2020 12 months	2019 12 months
INCOME STATEMENT				
Revenue, EUR million	66.9	66.5	264.2	262.4
EBITDA, EUR million	1.4	2.1	11.0	15.3
EBITDA, %	2.0	3.1	4.2	5.8
Adjusted EBITDA, EUR million*	1.4	3.9	11.0	17.5
Adjusted EBITDA, %*	2.0	5.9	4.2	6.7
Operating profit (EBIT), EUR million	0.7	1.5	8.2	13.0
Operating profit, %	1.0	2.2	3.1	4.9
Adjusted operating profit (EBIT), EUR million*	0.7	3.3	8.2	15.1
Adjusted operating profit, %*	1.0	5.0	3.1	5.8
Profit before tax (EBT), EUR million	0.6	1.5	8.1	12.8

Changes in Group structure

Merged company	Target company	Date of time
Forever Matinkylä Oy Etelä-Karjalan Liikuntakeskus Oy Forever Hiekkaharju Oy Forever Varisto Oy Keravan Forever Oy Klaari Oy	Forever Helsinki Oy	1 January 2020
Kompassi Hammaslääkärikeskus Oy	Pihlajalinna Seinäjoen Oy	1 February 2020
Forever Herttoniemi Oy Forever Hämeenlinna Oy	Forever Helsinki Oy	1 September 2020
Pihlajalinna Solutions Oy Impact Care Oy	Pihlajalinna Lääkärikeskukset Oy	1 September 2020
Leaf Areena Oy Forever Järvenpää Oy Forever Lahti Oy	Pihlajalinna Liikunta- keskukset Oy	31 December 2020

Research and development

Development costs that fulfilled the criteria for capitalisation amounted to EUR 0.4 (0.5) million during the financial year.

In the financial year 2020, development operations were focused, for example, on a remote service model for municipal residents for use in social and healthcare outsourcing, mobile solutions, an occupational healthcare portal and research services processes.

Personnel

At the end of the review period, the number of personnel was 5,995 (5,815). The Group's personnel averaged 4,308 (4,515) persons as full-time equivalents, a decrease of 207 persons or 5 per cent. The Group's employee benefit expenses totalled EUR 214.2 (222.0) million, a decrease of EUR 7.7 million or 3 per cent.

Management Team

CEO Joni Aaltonen serves as the Chairman of the Management Team. The Management Team also includes COO Teija Kulmala, CFO Tarja Rantala, Chief Legal Officer Marko Savolainen, Chief People and Culture Officer Elina Heliö, Head of Service Development and CIO Sanna Määtänen and, starting from 25 June 2020, Sales Director Juha-Pekka Halttunen.

On 17 December 2020, Pihlajalinna announced that medical specialist Sari Riihijärvi, PhD, had been appointed as Medical Director. The appointment will take effect on 2 July 2021, at which time Riihijärvi will take up her position and join the Management Team.

Board of Directors

The Annual General Meeting on 15 April 2020 confirmed the number of the members of the Board of Directors as seven. Matti Jaakola, Hannu Juvonen, Mika Manninen, Leena Niemistö, Kati Sulin, Seija Turunen and Mikko Wirén were re-elected to the Board of Directors for a term of office ending at the conclusion of the next Annual General Meeting.

The Annual General Meeting elected Mikko Wirén as the Chairman of the Board and Leena Niemistö as the Vice-Chairman.

Shareholders' Nomination Board

The Shareholders' Nomination Board is comprised of the following representatives:

- Jari Eklund, Group Director and Board member, Local-Tapiola General Mutual Insurance Company and Local-Tapiola Mutual Life Insurance Company (Chairman), until 3 December 2020
- Juha Koponen, Group Director and Board member, LocalTapiola General Mutual Insurance Company and LocalTapiola Mutual Life Insurance Company, starting from 3 December 2020
- Mikko Wirén, Managing Director, MWW Yhtiö Oy
- Antti Kuljukka, CEO, Fennia Mutual Insurance Company
- Hanna Hiidenpalo, Director, Chief Investment Officer, Elo Mutual Pension Insurance Company

Committees nominated by the Board

Pihlajalinna Plc's Board of Directors appointed the following members to its committees at its constitutive meeting on 15 April 2020:

Audit Committee: Seija Turunen (chairman), Matti Jaakola, Mika Manninen and Hannu Juvonen

Remuneration Committee: Mikko Wirén (chairman), Leena Niemistö and Kati Sulin

It was agreed that all members of the Board of Directors may join any of the committee meetings.

Remuneration of the members of the Board of Directors

The Annual General Meeting on 15 April 2020 decided that the remuneration of the Board of Directors be kept unchanged, and that the following annual remuneration be paid to the members of the Board of Directors to be elected at the Annual General Meeting for the term of office ending at the close of the Annual General Meeting 2021: to the full-time Chairman of the Board of Directors EUR 250,000 per year; to the Vice-Chairman EUR 36,000 per year, and to members EUR 24,000 per year.

In addition, the AGM decided that each Board member shall be paid a meeting fee of EUR 500 for each Board and Committee meeting. Reasonable travel expenses will also be reimbursed to the members of the Board in accordance with the Company's travel policy.

Board authorisations

The Annual General Meeting on 15 April 2020 authorised the Board of Directors to decide on the acquisition of a maximum of 2,061,314 shares, which is approximately 9 per cent of the Group's current share volume. Under this authorisation, the acquisition of the Group's own shares is only permitted using unrestricted equity. Targeted share acquisition is possible. The authorisation is effective until the next Annual General Meeting, or until 30 June 2021 at the latest.

The Annual General Meeting also authorised the Board of Directors to decide on a share issue and other special rights conferring an entitlement to shares under Chapter 10, Section 1 of the Limited Liability Companies Act. The

amount of shares to be issued cannot exceed 3,091,971 shares, which corresponds to approximately 14 per cent of all the shares in the Group. The authorisation concerns both the issuance of new shares and the sale or transfer of the Group's own shares. The authorisation permits a targeted share issue. The authorisation is effective until the next Annual General Meeting, or until 30 June 2021 at the latest.

Auditors and auditing

At Pihlajalinna's Annual General Meeting held on 15 April 2020, KPMG Oy Ab, a firm of authorised public accountants, was elected as the company's auditor for the financial year 1 January–31 December 2020. Lotta Nurminen, APA, is the principal auditor.

Shares and shareholders

At the end of the financial period, Pihlajalinna Plc's share capital entered in the Trade Register amounted to EUR 80,000 and the total number of shares was 22,620,135, of which 22,617,841 were outstanding and 2,294 were held by the company. The company has one share series, with each share entitling its holder to one vote at the Annual General Meeting. All of the outstanding shares bestow their holders with equal rights to dividends and other distribution of the company's assets. At the end of the review period, the company had 14,141 (11,752) shareholders. A list of the largest shareholders is available on the company's investor website at investors.pihlajalinna.fi.

The trading code for the shares on the Nasdaq Helsinki main market is PIHLIS. Pihlajalinna Plc has been classified as a Mid Cap company in the Healthcare sector.

Mehiläinen did not complete its tender offer for Pihlajalinna, the merger process has ended

On 5 November 2019, Mehiläinen Yhtiöt Oy and Pihlajalinna Plc entered into a combination agreement, pursuant to which Mehiläinen made a voluntary recommended public cash tender offer for all issued and outstanding shares in Pihlajalinna. The offer period commenced on 9 January 2020 at 9:30 a.m. (Finnish time) and it expired on 20

Share-related information, outstanding shares	10-12/2020	10-12/2019	2020	2019
No. of shares outstanding at the end of the period	22,617,841	22,620,135	22,617,841	22,620,135
Average no. of shares outstanding during the period	22,574,207	22,620,135	22,586,212	22,620,135
Highest price, EUR	10.45	15.88	15.66	15.88
Lowest price, EUR	8.72	10.40	8.72	8.70
Average price, EUR*	9.31	14.68	12.09	12.77
Closing price, EUR	9.38	15.28	9.38	15.28
Share turnover, 1,000 shares	2,628	2,127	6,620	4,062
Share turnover, %	11.6	9.4	29.3	18.0
Market capitalisation at the end of the period, EUR million	212.2	345.6	212.2	345.6

* average rate weighted by trading level

November 2020 at 4:00 p.m. (Finnish time).

Merger control clearance was not obtained for the tender offer and the minimum acceptance condition of the tender offer was not fulfilled. Consequently, Mehiläinen will not complete the tender offer and the merger process between the companies has ended.

Risk management

In its risk management, Pihlajalinna's aim is to operate as systematically as possible and incorporate risk management in normal business processes. Furthermore, the group invests in quality management systems and the management of occupational safety and health risks. Pihlajalinna's Risk Management Policy defines and categorises the group's risks and describes the goals of risk management. In addition, it defines risk management principles, operating methods and responsibilities.

Pihlajalinna sharpened its management system in response to the COVID-19 epidemic. The Group Management Team actively monitors the epidemiological situation and operational indicators and assesses what measures are necessary. The Medical Management Team meets weekly and issues instructions to the Group's units

in accordance with the guidelines and policies issued by the national and regional authorities. While the COVID-19 epidemic continues, the safety and health of the Group's personnel and customers remain the first priority in Pihlajalinna's management system. Regional management, personnel and practitioners are kept up to date on the situation through continuous communication on the intranet despite the fact that daily crisis management has been discontinued.

Internal risk reporting is included in the regular business reporting as well as in business planning and decision-making. The material risks and their management are reported to stakeholders regularly and, when necessary, on a case-by-case basis.

The Group employs an Enterprise Risk Management system and process. Risks are categorised into strategic, operational, financial and damage risks.

Strategic risks refers to uncertainty related to the implementation of the Group's short-term and long-term strategy. An example is structural changes in society.

Operational risks are risks that are caused by external factors, technology, actions of employees, the operations of the organisation or the functionality of processes.

These risks are managed by, for instance, monitoring the competitive situation systematically and reacting to its changes.

Financial risks refers to risks that are related to the Group's financial position, such as profitability, the functionality of financing processes and taxation.

Damage risks are related to accidents or other damage that may occur to the Group's assets, personnel, customers, stakeholders or environment. The company has liability and patient insurance to cover potential malpractice caused by the company's own personnel.

A factor that links all risk categories together is the reputational risk that may affect the reputation of the Group's brands or the entire Group. Breaches of information security and data protection may lead to financial losses, claims for compensation and loss of reputation.

The goal of Pihlajalinna's risk management is to promote the achievement the Group's strategic and operational targets, shareholder value, the Group's operational profitability and the realisation of responsible operating methods. Risk management seeks to ensure that the risks affecting the company's business operations are known, assessed and monitored.

The Group and operative management are responsible for risk management according to reporting responsibilities. In addition, risk management specialists guide and develop the group's risk management. Everyone working at Pihlajalinna must also know and manage risks related to their responsibilities.

Risks and uncertainties in business operations

It is still hard to assess and predict the financial impact caused by the restrictions recommended by the Finnish Government and the duration of the COVID-19 situation on Pihlajalinna's business operations.

In addition to the scenarios pertaining to the continuation of the COVID-19 epidemic, the most essential risks and uncertainties affecting the Group's operations are connected to the complete outsourcing agreements on social and healthcare service, material amendments to legislation, opening new locations, success in acquisitions

and information system projects, tax-related risks and the commitment and recruitment of competent management.

A tax audit of the Group's main companies began in the spring 2017. The tax audit was completed in its entirety in February 2021. No additional taxes became payable as a result of the tax audit with regard to income taxation (the Act on the Taxation of Business Profits and withholding taxes (Tax Prepayment Act)). No notable sanctions arose from the tax audit with regard to value added taxes (Value Added Tax Act).

Policy adjustments and amendments were made to the Government's draft proposal for social and healthcare services reform based on the consultation round that ended in September. Instead of the nullification of outsourcing agreements, which was proposed before the draft was circulated for consultation, the new draft proposes that some agreements would be subject to a termination procedure. Under the draft proposal, the nullification of outsourcing agreements concerning social and health services would be limited to very comprehensive and significant agreements and areas of operation for which outsourcing is specifically prohibited (e.g. the exercise of public authority, 24-hour social services). In the view of Pihlajalinna's management and legal experts, the nullification of such agreements or making them subject to a termination procedure would still potentially be in conflict with the Constitution and contract law.

Determining the annual profitability of the Group's fixed-term complete social and healthcare services outsourcing agreements may become accurate with a delay. The Group may not always be aware of the actual costs of the agreements at the time of preparing the financial statements, and the agreements may involve variable elements of compensation. The cost accumulation of public specialised care involves random fluctuation. In addition, individual cases falling within the scope of the hospital districts' pooling system for high-cost care may influence the cost liability of specialised care considerably during the financial year, and between financial periods, in Pihlajalinna's municipal companies.

The fixed-term service agreements for all of the Group's complete outsourcing arrangements are highly

similar with regard to their principles and basic terms. Pihlajalinna has calculated and recognised the variable compensation components and cost compensation under the agreements using the same criteria and model for all clients. Demands for the compensation of cost increases due to changes in services corresponding to the actual costs and investment costs that serve operations after the end of the term of the contract being the client's responsibility constitute the majority of costs and variable compensation components that are specified with a delay. For 2020, the assessment of investment costs and COVID-19 related costs included in invoicing by hospital districts can only be carried out after the hospital districts have published their financial statements.

Pihlajalinna has recognised only part of these legally justified claims in its income statement. The parties to the agreements are bound by an obligation to negotiate and negotiation is the primary procedure. If the obligation to negotiate does not lead to payment, the receivables are sought through legal action, which may further delay the collection of items presented in current receivables in the financial statements.

Items that may, according to the management's estimate, influence the profitability of complete outsourcing agreements with a delay:

The City of Jämsä has taken legal action against Jämsän Terveys Oy regarding a matter concerning the price adjustment provision in the service agreement. The difference in views regarding whether the fixed annual price for social and healthcare services can decrease due to price adjustments amounted to approximately EUR 2.6 million at the end of the financial year. The District Court has postponed the hearing of the main case due to Jämsän Terveys possibly being in the process of bringing an additional counterclaim against the City of Jämsä. The additional counterclaim concerns the effect of changes in the services under the service agreement on price and the service provider's liability for financing investments by the Pirkanmaa Hospital District insofar as such investments serve operations after the term of the service agreement. The service provider is entitled to price

adjustments corresponding to increases in costs and the contractual parties are under an obligation to negotiate and try to reach an agreement. In its counterclaim, Jämsän Terveys claims a total of approximately EUR 15 million from the City of Jämsä. The total amount of variable compensation under the potential counterclaim that Jämsän Terveys has recognised as revenue and recorded in its receivables amounts to EUR 3.4 (3.2) million.

The total amount of contractually and legally justified variable compensation that Kuusiolinna Terveys Oy has recognised as revenue and recorded in its receivables amounts to EUR 6.3 (4.6) million. The protocol on interpretation signed with the municipalities of Alavus, Ähtäri and Soini in conjunction with the share transactions carried out in 2019 were also intended to agree on the principles of charging the variable elements of compensation in question. The company's receivables from variable compensation components are related to cost increases caused by service changes and compensating such increases in accordance with the costs as well as an assessment of the investment cost liability in specialised care. The costs of services for the elderly, the investment costs associated with specialised care, the costs of child welfare services and Kuusote's own administrative costs have increased significantly compared to the time the bid was made. A share transaction has not yet been completed with Kuortane, and no corresponding protocol on interpretation has been signed. The total claims from the clients amounted to approximately EUR 12 million based on the previously mentioned grounds at the time of drawing up the financial statements.

The total amount of contractually and legally justified variable compensation from the City of Mänttä-Vilppula that Mäntänvuoren Terveys Oy has recognised as revenue and recorded in its receivables amounts to EUR 3.2 (2.1) million. The variable compensation recognised as revenue in accordance with the agreement includes an estimate of compensation for specialised care costs to the service provider of the Pirkanmaa Hospital District's investment costs allocated to the client. The receivables from variable compensation components are also related to cost increases caused by service changes and compensating

such increases in accordance with the actual costs. The total claims from the client amounted to approximately EUR 6 million based on the previously mentioned grounds at the time of drawing up the financial statements.

The total amount of contractually and legally justified variable compensation from the City of Parkano that Kolmostien Terveys Oy has recognised as revenue and recorded in its receivables amounts to EUR 0.6 (0.6) million. The variable compensation recognised as revenue in accordance with the agreement includes an estimate of compensation for specialised care costs to the service provider of the Pirkanmaa Hospital District's investment costs allocated to the client. During the financial year, the client approved cost increases arising from changes to services for the elderly as part of the annual fee under the service agreement. The total claims from the client amounted to approximately EUR 1.5 million based on the previously mentioned grounds at the time of drawing up the financial statements.

Pending legal processes:

The City of Jämsä has taken legal action against Jämsän Terveys Oy regarding a matter concerning the price adjustment provision in the service agreement as mentioned above under Possible items that may, according to the management's estimate, influence the profitability of complete outsourcing agreements with a delay.

The municipality of Hattula filed an application for a summons with the District Court regarding confirmation, contractual penalty and claim for damages based on a breach of contract. The claim filed by the municipality of Hattula in the dispute is for the total amount of EUR 2.9 million plus penalty interest and the claimant's legal fees. Pihlajalinna has disputed the presented claims and alleged breach of contract and filed a counterclaim of approximately EUR 1.7 million for the groundless termination of the agreement, amongst other things. Pihlajalinna's service production in Hattula ended on 31 March 2020.

A claim based on breach of contract has been filed against a subsidiary of the Group in arbitration proceedings. The claim is estimated to be entirely unfounded.

Impairment testing of goodwill

At the end of the review period, goodwill on Pihlajalinna's statement of financial position amounted to EUR 173.6 (173.6) million. Pihlajalinna checks annually and, if necessary, quarterly, that the carrying amount of goodwill does not exceed the fair value. Due to the duration and severity of the COVID-19 epidemic, the Group decided to also conduct impairment testing on goodwill during the financial year, concerning the situation on 30 June 2020. The annual impairment testing was conducted on the situation on 30 November 2020. Pihlajalinna observed no indications of the carrying amount of goodwill being greater than its estimated recoverable amount. If negative changes were to occur in the development of Pihlajalinna's profit and growth, this could lead to an impairment of goodwill. This could have an unfavourable impact on Pihlajalinna's operating result and equity.

Flagging notifications

The company did not receive any flagging notifications under Chapter 9, Section 5 of the Securities Markets Act during the financial year.

Current incentive schemes

At its meeting on 14 February 2019, the Board of Directors approved the terms of a share-based long-term incentive programme for Pihlajalinna Group's senior management (LTIP 2019). The incentive programme is effective from 1 January 2019 onwards and it is aimed at the CEO, the Management Team and other key employees selected for inclusion in the programme. LTIP 2019 includes an overall five-year plan period and none of the share rewards received by the key employees thereunder may be sold or transferred prior to the year 2022 and, as a rule, they also include a restriction period of the same duration. In the event that a beneficiary's employment ends during the restriction period, shares that have already been received must be returned. The key employee is required to have made an investment in Pihlajalinna shares as a precondition for participation in the programme. At the end of the financial year, the incentive programme included 20 key employees.

The fixed matching share programme (commitment shares) consisted of a commitment period from the beginning of 2019 to the payment of the fixed share reward at the end of 2020. In this scheme, the company matched each key employee's share investments with additional shares at a fixed rate. A total of 97,000 matching shares were awarded. This figure is the gross reward, from which the applicable taxes were deducted, leaving a net amount of 45,105 shares that were transferred to the participants on 28 December 2020. The shares are subject to a transfer restriction but not a restriction period.

The performance- and quality-based matching share plan includes three one-year performance periods (the calendar years 2019–2021), during which the participants can earn performance-based additional shares, provided that the company reaches the performance objectives set by the Board of Directors. Based on each individual performance period, the participant can earn a maximum of two additional shares for three shares invested without consideration (gross before the deduction of the applicable payroll tax). The performance-based share rewards will be delivered after the respective performance periods according to the programme in the spring of 2020, 2021 and 2022.

No performance- and quality-based share rewards materialised for the first performance period 2019 pursuant to the matching share plan, as the minimum objectives set for the programme were not achieved.

For the second performance period of 2020 under the performance- and quality-based matching share plan, the gross reward for the Group's management is 56,583 shares. The shares will be paid to the participants after the financial statements have been completed. The shares are subject to the normal transfer restriction but not a restriction period.

Repurchasing own shares for the incentive programme

The Board of Directors of Pihlajalinna Plc decided on 20 March 2020 to start repurchasing the company's own shares on the basis of the authorisation given by the Annual General Meeting on 4 April 2019. The shares were

acquired for use as part of the company's incentive programme in public trading on Nasdaq Helsinki Ltd at the market price prevailing at the time of purchase.

Pihlajalinna started repurchasing the company's own shares on 31 March 2020 and completed it on 17 April 2020. During that time, Pihlajalinna acquired a total of 47,399 of its own shares for an average price of EUR 14.56 per share.

Following the repurchase, Pihlajalinna held a total of 47,399 of its own shares, corresponding to 0.21% of the total number of shares. On 28 December 2020, Pihlajalinna conveyed 45,105 shares held by the company to key employees in accordance with the incentive programme. After the share transfer, the number of treasury shares held by the company was 2,294 shares.

The Board of Directors' proposal for profit distribution and the Annual General Meeting 2021

The Board of Directors proposes that a dividend of EUR 0.20 per share be paid for the financial year that ended on 31 December 2020.

Calculation of the parent company's distributable funds:

EUR	31 December 2020
Reserve for invested unrestricted equity	183,190,483.50
Retained earnings	23,552,697.95
Profit for the period	7,698,486.16
Capitalised development costs	-752,840.27
Total	213,688,827.34

On the balance sheet date, the number of shares entitling their holder to dividend was 22,617,841, and consequently, the total dividend amount would be EUR 4,523,568.20. No material changes have taken place in the company's financial position after the end of the financial year. The company's liquidity position is good and, in the view of the Board of Directors, the proposed distribution does not jeopardise the company's ability to fulfil its obliga-

tions. While determining the proposal for profit distribution, the Board of Directors has also taken into consideration the impact of the repurchase of own shares after the financial year on the distributable funds.

Earnings per share for the financial year was EUR 0.39. The proposed dividend of EUR 0.20 is 51.8 per cent of earnings per share.

Pihlajalinna Plc's Annual General Meeting will be held on 15 April 2021 in Tampere. The Board of Directors will decide on the notice of the General Meeting and the included proposals at a later date.

The annual report for 2020, including the Board of Directors' report and the financial statements, will be published on the company's investor website at investors.pihlajalinna.fi in week 13.

Pihlajalinna's outlook for 2021

It is still hard to assess and predict the financial impacts of the duration of the COVID-19 situation. National or regional restrictions aimed at preventing a third wave of COVID-19 and potential delays in COVID-19 vaccinations may have a negative impact on consumer demand. At the same time, extensive COVID-19 testing, the start of vaccinations, working through the queues in the public sector and the release of other pent-up demand help compensate for the decline in consumer demand.

Pihlajalinna's consolidated revenue is expected to increase clearly and adjusted EBIT is expected to improve clearly compared to 2020.

Pihlajalinna is updating its strategy and will publish the new strategy during the beginning of the year 2021.

Corporate Governance Statement

Pihlajalinna publishes its Corporate Governance Statement separately on the company's investor website at investors.pihlajalinna.fi at the same time as the Board of Directors' report during week 13. Up-to-date information about compliance with and deviations from the Corporate Governance Code is maintained on the investor site at investors.pihlajalinna.fi.

Statement of non-financial information

Pihlajalinna publishes its statement of non-financial information separately on the company's investor website at investors.pihlajalinna.fi at the same time as the Board of Directors' report during week 13.

Events after the balance sheet date

Acquisition of Työterveys Virta Oy

The city government of Oulu and municipal government of Liminka decided in their meetings on Monday, 11 January 2021, to sell the shares of Työterveys Virta Oy to Pihlajalinna. The governments also chose Pihlajalinna to be their contracting party for occupational healthcare services. The other owners of Työterveys Virta will also make their decisions about selling the shares and procuring occupational healthcare services during January–February.

On 9 October 2020, Pihlajalinna announced it had won a public bidding competition for the sale of Työterveys Virta Oy's share capital and occupational healthcare services. In order to complete the transaction, the appropriate due diligence procedures were carried out, and the acquisition has proceeded to the contract stage and the approval of the contracts of sale. The total price of the shares with cash reserve is EUR 17.6 million.

Repurchase of own shares

Pihlajalinna completed the repurchase of own shares that began on 15 January 2021 and ended on 21 January 2021. During that time, Pihlajalinna acquired a total of 60,000 of its own shares for an average price of EUR 9.70 per share. The repurchased shares were acquired on the basis of the authorisation given by the Annual General Meeting on 15 April 2020 and shall be used as a part of the company's incentive programme.

Following the repurchase, Pihlajalinna holds a total of 62,294 of its own shares, corresponding to approximately 0.28 per cent of the total number of shares.

The Shareholders' Nomination Board's proposals to the Annual General Meeting 2021

The number of members and composition of the Board of Directors:

The Nomination Board proposes to the Annual General Meeting of Pihlajalinna Plc to be held on 15 April 2021 that the number of the members of the Board be confirmed to be six instead of the current seven.

The Nomination Board proposes that Hannu Juvonen, Mika Manninen, Leena Niemistö, Kati Sulin, Seija Turunen and Mikko Wirén, currently members of the Board of Directors, be re-elected as members of the Board of Directors.

Of the current members, Matti Jaakola will not continue as a member of the Board of Directors.

The personal details of the current members of the Board and the details of their positions of trust are available at investors.pihlajalinna.fi/corporate-governance/board-of-directors.

The Nomination Board further proposes that the Annual General Meeting elect Mikko Wirén as the Chairman of the Board and Leena Niemistö as the Vice-Chairman.

Remuneration of the members of the Board of Directors

The Shareholders' Nomination Board proposes that the remuneration of the Board of Directors be kept unchanged, except for the remuneration of the Chairman of the Audit Committee, and that the following annual remuneration be paid to the members of the Board of Directors to be elected at the Annual General Meeting for the term of office ending at the close of the Annual General Meeting 2022: to the full-time Chairman of the Board of Directors EUR 250,000 per year; to the Vice-Chairman and the Chairman of the Audit Committee EUR 36,000 per year, and to the other members of the Board of Directors EUR 24,000 per year.

The proposal is that the annual remuneration to be paid in company shares and cash so that about 40 per cent of the remuneration is used to purchase the company's shares on behalf of the members and the remaining share of the remuneration is paid in cash. The remuneration can

be paid either entirely or partially in cash if the member of the Board of Directors has, on the day of the General Meeting, 15 April 2021, been in possession of over EUR 1,000,000 worth of company shares. The company is responsible for the expenses and transfer tax arising from the acquisition of the shares. The remuneration to be paid in shares can be paid by transferring company shares in possession of the company to the members of the Board of Directors or by purchasing shares directly on behalf of the Board members within three weeks after the interim report for the period of 1 January–31 March 2021 has been published. If this is not, due to legal or other regulatory reasons, such as insider regulations, possible at the first available time after this, the alternative is to pay the remuneration in cash. If the term of a Board member ends before the Annual General Meeting of 2022, the Board is entitled to decide on the possible recovery of the remuneration in a manner it deems appropriate.

In addition, the Nomination Board proposes that each Board member be paid meeting remuneration in the amount of EUR 500 for each Board and Committee meeting. In addition, reasonable travel expenses would be reimbursed in accordance with the company's travel policy.

The above-mentioned proposals will also be included in the notice of the Annual General Meeting which is to be published at a later date.

Key financial figures

Scope of operations	2020	2019	2018	2017 without IFRS 16	2016 without IFRS 16
Revenue, EUR million	508,7	518,6	487,8	424,0	399,1
Change, %	-1,9	6,3	15,0	6,2	87,1
Organic revenue growth, EUR million	-11,3	13,4	-2,0	10,1	134,5
Change, %	-2,2	2,8	-0,5	2,5	63,0
Gross investments, EUR million	25,7	44,1	160,0	30,4	27,3
% of revenue	5,1	8,5	32,8	7,2	6,9
Capitalised development costs, EUR million	0,4	0,5	1,3	1,2	
% of revenue	0,1	0,1	0,3	0,3	
Employee benefit expenses, EUR million	214,2	222,0	208,4	175,4	167,2
Personnel at the end of the period (NOE)	5 995	5 815	5 850	4 753	4 407
Average number of personnel (FTE)	4 308	4 515	4 618	3 879	3 526

Profitability	2020	2019	2018	2017	2016
EBITDA, EUR million	52,4	47,8	44,8	33,3	27,9
EBITDA, %	10,3	9,2	9,2	7,9	7,0
Adjusted EBITDA, EUR million	54,6	55,1	45,9	34,1	28,9
Adjusted EBITDA, %	10,7	10,6	9,4	8,0	7,2
Operating profit (EBIT), EUR million	18,2	10,2	13,2	19,1	15,1
Operating profit, %	3,6	2,0	2,7	4,5	3,8
Adjusted operating profit (EBIT), EUR million	20,8	20,8	14,4	20,0	16,6
Adjusted operating profit, %	4,1	4,0	3,0	4,7	4,2
Net financial expenses, EUR million	-4,4	-3,9	-3,8	-1,7	-1,4
% of revenue	-0,9	-0,8	-0,8	-0,4	-0,4
Profit before tax, EUR million	13,8	6,3	9,5	17,4	13,7
% of revenue	2,7	1,2	1,9	4,1	3,4
Income tax, EUR million	-4,8	-1,8	-2,7	-3,4	-3,0
Profit for the period	8,9	4,5	6,8	14,1	10,8
Cash flow after investments, EUR million	42,8	17,4	-18,8	16,4	6,8
Return on equity (ROE), %	8,1	3,8	5,7	13,6	11,1
Return on capital employed (ROCE), %	5,7	3,1	4,7	11,8	10,8

Funding and financial position	2020	2019	2018	2017	2016
Interest-bearing net financial debt, EUR million	194,8	192,7	178,0	34,2	22,1
% of revenue	38,3	37,2	36,5	8,1	5,5
Equity ratio, %	26,1	24,3	29,9	41,8	46,5
Gearing, %	169,4	181,7	136,6	32,3	21,9
Net debt/adjusted EBITDA	3,6	3,5	3,9	1,0	0,8

Share related information

* Alternative performance measure

	2020	2019	2018	2017	2016
Earnings per share (EPS)	0,39	0,15	0,16	0,46	0,39
Equity per share, EUR	4,85	4,47	5,36	4,87	4,74
Dividend per share, EUR (the Board of Directors' proposal)	0,20		0,10	0,16	0,15
Dividend per share, % (the Board of Directors' proposal)	51,8		64,0	34,7	38,4
Effective dividend yield, % (the Board of Directors' proposal)	2,1		1,2	1,2	0,8
Number of shares at year-end	22 617 841	22 620 135	22 620 135	20 613 146	20 613 146
Average number of shares	22 586 212	22 620 135	22 224 236	20 613 146	20 613 146
Market capitalisation, EUR million	212,2	345,6	195,0	274,0	379,7
Dividends paid, EUR million (the Board of Directors' proposal)	4,5		2,3	3,3	3,1
P/E ratio	24,3	102,7	55,1	28,9	47,2
Highest quotation, EUR	15,66	15,88	15,28	18,42	18,87
Lowest quotation, EUR	8,72	8,70	8,56	12,60	12,90
Average quotation, EUR	12,09	12,77	12,18	16,30	16,38
Closing price at year-end, EUR	9,38	15,28	8,62	13,34	18,42
Trading volume of shares, 1,000 shares	6 620	4 062	6 182	5 189	8 196
Trading volume of shares, %	29,3	18,0	27,8	25,2	39,8

Quarterly information

1 000 €	Q4/20	Q3/20	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19
INCOME STATEMENT								
Revenue	137 194	123 855	114 659	132 974	133 761	122 660	129 710	132 465
Other operating income	472	634	937	336	710	186	381	352
Materials and services	-53 539	-47 496	-44 202	-52 740	-53 942	-45 928	-49 684	-50 658
Employee benefit expenses	-55 478	-50 093	-52 296	-56 368	-54 970	-52 443	-57 592	-56 962
Other operating expenses	-13 506	-10 236	-10 595	-12 067	-13 253	-11 547	-12 370	-13 034
EBITDA	15 142	16 663	8 503	12 136	12 307	12 928	10 446	12 163
Adjusted EBITDA	15 739	17 240	9 007	12 664	14 444	17 367	10 753	12 563
Adjusted EBITDA, %	11,5	13,9	7,9	9,5	10,8	14,2	8,3	9,5
Depreciation, amortisation and impairment	-8 378	-8 681	-8 392	-8 804	-8 640	-11 546	-8 844	-8 622
Operating profit (EBIT)	6 764	7 983	112	3 332	3 667	1 382	1 601	3 541
Adjusted operating profit (EBIT)	7 291	8 656	615	4 214	5 557	9 257	2 057	3 941
Adjusted operating profit (EBIT), %	5,3	7,0	0,5	3,2	4,2	7,5	1,6	3,0
Financial income	50	73	64	46	30	42	27	22
Financial expenses	-1 066	-1 100	-1 075	-1 396	-1 007	-1 017	-995	-1 028
Profit before taxes	5 748	6 956	-899	1 982	2 690	407	633	2 535
Income taxes	-2 791	-1 534	62	-583	-561	-302	-269	-652
Profit for the period	2 957	5 422	-837	1 399	2 129	104	364	1 884
Share of the result for the financial year attributable to owners of the parent company	3 405	4 620	-568	1 263	3 703	-1 284	-490	1 436
Share of the result for the financial year attributable to non-controlling interests	-448	802	-269	137	-1 574	1 389	853	448
EPS	0,15	0,20	-0,03	0,06	0,16	-0,06	-0,02	0,06
Personnel at the end of the period (NOE)	5 995	5 882	5 640	5 865	5 815	5 936	6 100	5 871
Change in personnel during the quarter	113	243	-226	50	-121	-164	230	21

Calculation of key financial figures and alternative performance measures

Key figures

Earnings per share (EPS)	$\frac{\text{Profit for the financial period attributable to owners of the parent company}}{\text{Average number of shares during the financial year}}$
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Alternative performance measures

Equity per share	$\frac{\text{Equity attributable to owners of the parent company}}{\text{Number of shares at the end of the financial period}}$
Dividend per share	$\frac{\text{Dividend distribution for the financial year (or proposal)}}{\text{Number of shares at the end of the financial period}}$
Dividend/result, %	$\frac{\text{Dividend per share}}{\text{Earnings per share (EPS)}} \times 100$
Effective dividend yield, %	$\frac{\text{Dividend per share}}{\text{Closing price for the financial year}} \times 100$
P/E ratio	$\frac{\text{Closing price for the financial year}}{\text{Earnings per share (EPS)}}$
Share turnover, %	$\frac{\text{Number of shares traded during the period}}{\text{Average number of shares}} \times 100$
Return on equity (ROE), %	$\frac{\text{Profit for the period (rolling 12 months)}}{\text{Equity (average)}} \times 100$
Return on capital employed, % (ROCE)	$\frac{\text{Profit before taxes (rolling 12 months) + financial expenses (rolling 12 months)}}{\text{Total statement of financial position - non-interest-bearing liabilities (average)}} \times 100$
Equity ratio, %	$\frac{\text{Equity}}{\text{Total statement of financial position - prepayments received}} \times 100$
Gearing, %	$\frac{\text{Interest-bearing net debt - cash and cash equivalents}}{\text{Equity}} \times 100$

EBITDA

Operating profit + depreciation, amortisation and impairment

EBITDA, %

$$\frac{\text{Operating profit + depreciation, amortisation and impairment}}{\text{Revenue}} \times 100$$

Adjusted EBITDA*

Operating profit + depreciation, amortisation and impairment + adjustment items

Adjusted EBITDA*

$$\frac{\text{Operating profit + depreciation, amortisation and impairment + adjustment items}}{\text{Revenue}} \times 100$$

Net debt/Adjusted EBITDA*, rolling 12 months

$$\frac{\text{Interest-bearing net debt - cash and cash equivalents}}{\text{Adjusted EBITDA (rolling 12 months)}}$$

Cash flow after investments

Net cash flow from operating activities + net cash flow from investing activities

Adjusted operating profit (EBIT)*

Operating profit + adjustment items

Adjusted operating profit, %*

$$\frac{\text{Adjusted operating profit (EBIT)}}{\text{Revenue}} \times 100$$

Profit before taxes

Profit for the financial year + income tax

Gross investments

Increase in tangible and intangible assets and in right-of-use assets

Organic revenue growth, %

$$\frac{\text{Revenue for the period - revenue from M\&A transactions for the period - revenue for the previous period}}{\text{Revenue for the previous period}} \times 100$$

* Significant transactions that are not part of the normal course of business, infrequently occurring events or valuation items that do not affect cash flow are treated as adjustment items affecting comparability between review periods. According to Pihlajalinna's definition, such items include, for example, restructuring measures, impairment of assets and the remeasurement of previous assets held by subsidiaries, the costs of closing down businesses and business locations, gains and losses on the sale of businesses, costs arising from operational restructuring and the integration of acquired businesses, costs related to the termination of employment relationships as well as fines and corresponding compensation payments. Pihlajalinna does not recognise adjustments affecting comparability for acquisition-related transfer taxes and expert fees (IFRS 3 costs) or purchase price allocation (PPA) amortisation.

Reconciliations with alternative key figures and ratios

Pihlajalinna publishes a wide range of alternative performance measures, i.e. key figures that are not based on financial reporting standards, because they are considered to be significant for investors, the management and the Board of Directors in assessing the group's financial position and profitability. The alternative performance measures should not be considered to be replacements for the key figures defined in IFRS standards. The table below presents the reconciliation calculations for the alternative performance measures and the justifications for their presentation.

Reading notes:

/divide by the next number/numbers

- deduct the next number/numbers

+ add the next number/numbers

EUR 1,000, unless otherwise specified	2020	2019
Return on equity (ROE), %		
Profit for the period (rolling 12 months)/	8 941	4 480
Equity at beginning of period	106 083	130 322
Equity at end of period	114 990	106 083
Equity (average) x 100	110 537	118 202
Return on equity (ROE), %	8,1	3,8
Return on equity is one of the most important indicators of a company's profitability used by shareholders and investors. The indicator illustrates the company's ability to look after the capital invested by shareholders in the company. The figure indicates how much return was accumulated on equity during the financial year.		
Return on capital employed (ROCE), %	2020	2019
Profit before taxes (rolling 12 months) +	13 786	6 264
Financial expenses (rolling 12 months)	4 637	4 047
/	18 423	10 311
Total statement of financial position at beginning of period - non-interest-bearing liabilities at beginning of period	438 446	436 764
	112 655	92 101
	325 790	344 663
Total statement of financial position at end of period - Non-interest-bearing liabilities at end of period	442 138	438 446
	119 031	112 655
	323 107	325 790
Average x 100	324 449	335 227
Return on capital employed (ROCE), %	5,7	3,1

Return on capital employed is one of the most important indicators produced by financial statements analysis. It measures the company's relative **profitability**, or the return on capital invested in the company that requires interest or other returns.

Equity ratio, %	2020	2019
Equity/	114 990	106 083
Total statement of financial position -	442 138	438 446
Advances received x 100	1 158	1 069
Equity ratio, %	26,1	24,3

The equity ratio measures the company's **solvency**, the capacity to tolerate losses and the ability to manage commitments in the long term. The indicator shows the percentage of the company's assets that are financed by equity.

Gearing, %	2020	2019
Interest-bearing financial liabilities -	208 117	219 707
Cash and cash equivalents/	13 306	27 004
Equity x 100	114 990	106 083
Gearing, %	169,4	181,7

Gearing illustrates the company's indebtedness. The figure reveals the ratio between the equity invested in the company by shareholders and the interest-bearing debt borrowed from lenders. The second financial covenant of the Group's financing arrangements is the gearing ratio. The maximum value of this key figure is 115% excluding the effect of IFRS 16 (frozen GAAP). On the financial statements date, gearing calculated according to the financing agreement was 94%.

Net debt/adjusted EBITDA, rolling 12 months	2020	2019
Interest-bearing financial liabilities -	208 117	219 707
Cash and cash equivalents	13 306	27 004
Net debt/	194 810	192 703
Adjusted EBITDA (rolling 12 months)	54 649	55 127
Net debt/adjusted EBITDA, rolling 12 months	3,6	3,5

This figure illustrates how quickly, at the current profit rate, the company would have paid off its debts if the EBITDA were to be used in full to repay the debts, if the company does not, for example, invest or distribute any dividend. The second financial covenant linked to the Group's financing arrangement is based on the ratio of the Group's net debt to pro forma EBITDA (leverage). The maximum value of the covenant linked to the financing arrangement is 3.75. The closer the value of the covenant is to the maximum value, the higher the loan margin. The Group's management and Board of Directors monitor the fulfilment of the covenant on a monthly basis and the covenant is reported to the lenders on a quarterly basis. The covenant calculations are also updated with forecasts whenever the Group is about to carry out a significant acquisition. On the financial statements date, leverage calculated according to the financing agreement was 2.78.

EBITDA and Adjusted EBITDA	2020	2019
Profit for the period	8 941	4 480
Income taxes	-4 845	-1 784
Financial expenses	-4 637	-4 047
Financial income	232	120
Depreciation, amortisation and impairment	-34 255	-37 653
EBITDA	52 445	47 844
Total EBITDA adjustments*	2 204	7 284
Adjusted EBITDA	54 649	55 127

EBITDA indicates how much is left of the company's revenue after deducting operating expenses. Assessments of whether EBITDA is sufficiently high should take into account the company's financial expenses, depreciation requirements and intended profit distribution. Adjusted EBITDA provides significant additional information on profitability by eliminating items that do not necessarily reflect the profitability of the company's operative business. Adjusted EBITDA improves comparability between periods and is frequently used by analysts, investors and other parties.

The Group Management Team and operative management monitor and forecast adjusted EBITDA on a monthly basis.

EBITDA, %	2020	2019
EBITDA/ Revenue x 100	52 445 508 682	47 844 518 596
EBITDA, %	10,3	9,2

Adjusted EBITDA, %		
Adjusted EBITDA/ Revenue x 100	54 649 508 682	55 127 518 596
Adjusted EBITDA, %	10,7	10,6

Operating profit (EBIT) and Adjusted operating profit (EBIT)

Profit for the period	8 941	4 480
Income taxes	-4 845	-1 784
Financial expenses	-4 637	-4 047
Financial income	232	120
Operating profit	18 191	10 191
Total adjustments of depreciation, amortisation and impairment**	381	3 337
Total EBITDA adjustments*	2 204	7 284
Total operating profit (EBIT) adjustments	2 585	10 621
Adjusted operating profit (EBIT)	20 775	20 812

Operating profit indicates how much is left of the proceeds of actual business operations before financial items and taxes. With operating profit, the company must cover, among other things, financial expenses, taxes and the distribution of dividends. Adjusted operating profit provides significant additional information on profitability by eliminating items that do not necessarily reflect the profitability of the company's operative business. Adjusted operating profit improves comparability between periods and is frequently used by analysts, investors and other parties.

The Group Management Team and operative management monitor and forecast adjusted operating profit on a monthly basis.

Operating profit (EBIT), %	2020	2019
Operating profit/ Revenue x 100	18 191 508 682	10 191 518 596
Operating profit (EBIT), %	3,6	2,0

Adjusted operating profit (EBIT), %

Adjusted operating profit/ Revenue x 100	20 775 508 682	20 812 518 596
Adjusted operating profit (EBIT), %	4,1	4,0

Cash flow after investments

Net cash flow from operating activities	47 185	36 840
Net cash flow from investing activities	-4 406	-19 452
Cash flow after investments	42 780	17 387

Cash flow after investments (free cash flow) indicates how much cash is left for the company after deducting the cash tied up in operative business and investments. It indicates how much the company has left for its shareholders and creditors. Free cash flow indicates how sustainable the foundation of the company's profitability is, and it is used as the basis of the company's valuation.

Profit before taxes	2020	2019
Profit for the period	8 941	4 480
Income tax	-4 845	-1 784
Profit before taxes	13 786	6 264

Gross investments

Property, plant and equipment at the end of the period	43 996	53 237
Right-of-use assets at the end of the period	102 832	108 109
Other intangible assets at end of period	16 337	19 084
Goodwill at end of period	173 607	173 607
Depreciation, amortisation and impairment for the period are added	34 255	37 653
-		
Property, plant and equipment at the start of the period	53 237	43 281
Right-of-use assets at the start of the period	108 109	115 970
Other intangible assets at beginning of the period	19 084	22 914
Goodwill at beginning of the period	173 607	169 927
Proceeds from the sale of property, plant and equipment during the period	-8 700	-4 483
Gross investments	25 691	44 081

Gross investments refers to the acquisition of long-term factors of production, including M&A transactions. Divestments and proceeds from the sale of property, plant and equipment are not deducted from investments. Investments are also presented on a cash flow basis in the cash flow statement.

Organic revenue growth, %	2020	2019
Revenue for the period -	508 682	518 596
Revenue from M&A transactions during the period	1 424	17 386
Revenue for the previous period	518 596	487 764
Organic revenue growth/	-11 338	13 446
Revenue for the previous period x 100	518 596	487 764
Organic revenue growth, %	-2,2	2,8
Revenue growth due to M&A transactions, %	0,3	3,6
Revenue growth	-9 914	30 832
Revenue growth, %	-1,9	6,3

Organic revenue growth is growth in existing business operations that has not come about as a result of M&A transactions. Organic growth can be achieved through increasing the service offering, new customer acquisition, growth in custom from existing customers, price increases and digitalisation. Social and healthcare outsourcing contracts won through public competitive bidding and new business locations established by the group itself are included in organic growth.

	2020	2019
EBITDA	52 445	47 844
Adjustments to EBITDA		
Dismissal-related expenses	-60	3 019
Compensation under the share-based incentive scheme in relation to the expired tender offer	1 517	266
Change in fair value of contingent consideration		281
IAS 37, contingent assets		1 845
Onerous contracts		1 843
Other	747	30
Adjustments to EBITDA in total	2 204	7 284
Adjusted EBITDA	54 648	55 127
Depreciation, amortisation and impairment	-34 255	-37 653
Adjustments to depreciation, amortisation and impairment		
Double depreciation arising from a merger with no cash flow effect	354	
Closure of operating locations	26	3 337
Adjustments to depreciation, amortisation and impairment in total	381	3 337
Adjustments to operating profit in total	2 585	10 621
Adjusted operating profit (EBIT)	20 775	20 812
Operating profit (EBIT)	18 191	10 191
Financial income	232	120
Financial expenses	-4 637	-4 047
Income tax	-4 845	-1 784
Profit for the period	8 941	4 480

The adjustment items are presented in the income statement items as follows:

	2020	2019
Revenue		1 845
Employee benefit expenses	1 457	3 285
Other operating expenses	747	2 154
EBITDA adjustment items total	2 204	7 284
Depreciation, amortisation and impairment	381	3 337
Operating profit adjustment items total	2 585	10 621

Shares and shareholders

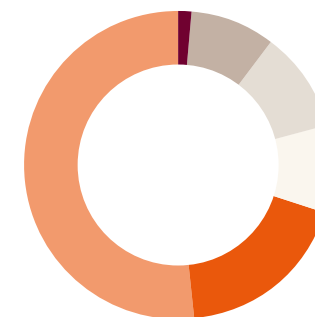
Major shareholders, 31 Dec. 2020

		Number of shares	Percentage of shares and votes
1	Localtapiola General Mutual Insurance Company	3 481 641	15,4 %
2	Mww Yhtiö Oy	2 309 010	10,2 %
3	Fennia Mutual Insurance Company	1 998 965	8,8 %
4	Localtapiola Mutual Life Insurance Company	1 891 385	8,4 %
5	Elo Mutual Pension Insurance Company	1 267 161	5,6 %
6	Niemistö Leena Katriina	703 475	3,1 %
7	Ilmarinen Mutual Pension Insurance Company	490 000	2,2 %
8	Skandinaviska Enskilda Banken Ab (Publ), Helsinki Branch	486 802	2,2 %
9	Fondita Nordic Micro Cap Mutual Fund	470 000	2,1 %
9	Nordea Bank Abp	378 727	1,7 %
	10 largest, total	13 477 166	59,6 %
	Other shareholders	9 142 969	40,4 %
	Total	22 620 135	100,0 %

Distribution of shareholding by size range, 31 Dec. 2020

Shares per shareholder	Number of shareholders	% of shareholders	Number of shares	Percentage of shares, %
1-100	7 301	51,6 %	342 660	1,5 %
101-1,000	5 855	41,4 %	2 040 759	9,0 %
1,001-10,000	870	6,2 %	2 351 955	10,4 %
10,001-100,000	91	0,6 %	2 058 576	9,1 %
100,001-500,000	18	0,1 %	4 174 548	18,5 %
500,001-	6	0,0 %	11 651 637	51,5 %
	14 141	100,0 %	22 620 135	100,0 %
of which nominee-registered shares	9		1 038 125	4,6 %
Outstanding shares			22 620 135	100,0 %

**Distribution of shareholding
31 Dec. 2020**



1-100 shares/shareholder	1,5 %
101-1,000	9,0 %
1,001-10,000	10,4 %
10,001-100,000	9,1 %
100,001-500,000	18,5 %
500,001-	51,5 %

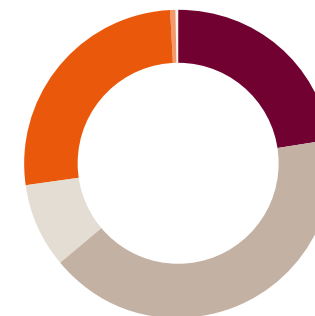
Distribution of shareholding by sector, 31 Dec. 2020

	Number of shareholders	% of shareholders	Number of shares	Percentage of shares, %
Private companies	544	3,8 %	4 888 697	22,7 %
Financial and insurance institutions	28	0,2 %	8 958 039	41,5 %
Public entities	4	0,0 %	1 872 650	8,7 %
Households	13 506	95,5 %	5 714 342	26,5 %
Non-profit organisations	39	0,3 %	129 333	0,6 %
Foreign shareholders	20	0,1 %	18 949	0,1 %
	14 141	100,0 %	21 582 010	95,4 %
Nominee registered			1 038 125	4,6 %
Outstanding shares			22 620 135	100,0 %

Shareholding by the management, 31 Dec. 2020

	Direct holding		Indirect holding	
	Number of shares	Percentage of shares and votes	Number of shares	Percentage of shares and votes
Board of Directors				
Mikko Wirén (MWW Yhtiö Oy)			2 309 010	10,2 %
Leena Niemistö	703 475	3,1 %		
Matti Jaakola (Capwell Oy)			1 000	0,0 %
Hannu Juvonen				
Mika Manninen				
Kati Sulin				
Seija Turunen				
Management Team				
Joni Aaltonen	33 233	0,1 %		
Teija Kulmala	11 460	0,1 %		
Tarja Rantala	14 055	0,1 %		
Elina Heliö	1 464	0,0 %		
Sanna Määttänen	15 300	0,1 %		
Marko Savolainen	7 600	0,0 %		
Juha-Pekka Halttunen	4 725	0,0 %		

Distribution of shareholding 31 Dec. 2020



Private companies	22,7 %
Financial and insurance institutions	41,5 %
Public entities	8,7 %
Householders	26,5 %
Non-profit organisations	0,6 %
Foreign shareholders	0,1 %

Financial statements

1 Jan–31 Dec 2020

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Auditor's report

Information for shareholders

Consolidated statement of comprehensive income, IFRS

EUR 1,000	Note	1.1.-31.12.2020	1.1.-31.12.2019
Revenue	1	508 682	518 596
Other operating income	2	2 379	1 630
Materials and services	3	-197 977	-200 212
Employee benefit expenses	4	-214 235	-221 967
Other operating expenses	6	-46 397	-50 205
Share of profit in associated companies and joint ventures	29	-7	2
EBITDA		52 445	47 844
Depreciation, amortisation and impairment	7	-34 255	-37 653
Operating profit		18 191	10 191
Financial income	9	232	120
Financial expenses	10	-4 637	-4 047
Financial income and expenses		-4 404	-3 926
Profit before taxes		13 786	6 264
Income tax	11	-4 845	-1 784
Profit for the period		8 941	4 480
Total comprehensive income for the period		8 941	4 480
To the owners of the parent company		8 720	3 365
To non-controlling interests		221	1 115
Earnings per share for profit attributable to owners of the parent company, EUR			
Basic	12	0,39	0,15
Diluted		0,39	0,15

Consolidated statement of financial position, IFRS

EUR 1,000	Note	31.12.2020	31.12.2019
Non-Current assets			
Property, plant and equipment	13	43 996	53 237
Goodwill	14	173 607	173 607
Other intangible assets	14	16 337	19 084
Right-of-use assets	15	102 832	108 109
Interests in associates	29	17	24
Other investments		126	146
Other receivables	16	5 503	1 975
Deferred tax assets	20	5 355	6 006
		347 774	362 188

Current assets	Note	31.12.2020	31.12.2019
Inventories		3 400	2 322
Trade and other receivables	17	75 771	46 062
Current tax assets		1 886	869
Cash and cash equivalents		13 306	27 004
		94 364	76 258

Total assets		442 138	438 446
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Equity and liabilities

Equity attributable to owners of the parent	22		
Share capital		80	80
Reserve for invested unrestricted equity		116 520	116 520
Retained earnings		-6 839	-15 481
		109 761	101 119
Non-controlling interests		5 230	4 965
Total equity		114 990	106 083

Liabilities

Non-currents liabilities

Deferred tax liabilities	20	5 761	5 726
Provisions	18	114	170
Lease liabilities	15	95 475	96 404
Financial liabilities	21	92 523	103 862
Other non-current liabilities		1 152	1 302
		195 024	207 465

Current liabilities

Trade and other payables	19	109 352	102 002
Current tax liabilities		2 004	423
Provisions	18	648	1 636
Lease liabilities	15	18 705	17 747
Financial liabilities	21	1 415	3 090
		132 124	124 898

Total liabilities		327 147	332 362
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Total equity and liabilities		442 138	438 446
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Consolidated statement of cash flows, IFRS

EUR 1,000	Note	1.1.-31.12.2020	1.1.-31.12.2019
Cash flow from operating activities:			
Profit for the financial year attributable to the owners of the parent		8 720	3 365
Taxes		4 845	1 784
Depreciation, amortisation and impairment		34 255	37 653
Financial income and expenses		4 411	3 925
Other		155	964
Net cash generated from operating activities before change in working capital		52 387	47 691
Change in working capital		-1 830	-6 227
Interest received		223	109
Taxes paid		-3 594	-4 733
Net cash flow from operating activities		47 185	36 840
Cash flow from investing activities:			
Investments in property, plant and equipment and intangible assets		-9 878	-15 406
Proceeds from disposal of property, plant and equipment and intangible assets		6 843	801
Changes in other investments		20	-1
Dividends received		10	11
Acquisition of subsidiaries less cash and cash equivalents at date of acquisition	27	-1 400	-4 857
Net cash flow from investing activities		-4 406	-19 452
Cash flow from financing activities:			
Acquisitions of non-controlling interests		-18 282	-1 267
Acquisition of own shares		-692	
Proceeds from short-term liabilities	24		501
Repayment of short-term liabilities	24	-501	
Proceeds from long-term liabilities	24	0	9 000
Repayment of long-term liabilities	24	-11 675	-1 785
Repayment of lease liabilities	24	-20 604	-22 656
Interest and other operational financial expenses		-4 512	-3 838
Dividends paid and other profit distribution		-212	-6 653
Net cash flow from financing activities		-56 477	-26 699
Changes in cash and cash equivalents		-13 697	-9 312
Cash at the beginning of the financial year		27 004	36 316
Cash at the end of the financial year		13 306	27 004

Consolidated statement of changes in equity, IFRS

Equity attributable to owners of the parent company					
	Share capital	Reserve for invested unrestricted equity	Retained earnings	Non-controlling interests	Total equity
Total equity, 1 Jan. 2019	80	116 520	4 551	9 171	130 322
Profit for the period			3 365	1 115	4 480
Total comprehensive income for the period			3 365	1 115	4 480
Dividends paid			-2 262	-4 930	-7 192
Investments in group subsidiaries,			95	-91	5
Total transactions with owners			-2 167	-5 021	-7 188
Changes in NCI without a change in control			-21 230	-301	-21 531
Total changes in subsidiary shareholdings			-21 230	-301	-21 531
Total equity, 31 Dec. 2019	80	116 520	-15 481	4 965	106 083

Equity attributable to owners of the parent company					
	Share capital	Reserve for invested unrestricted equity	Retained earnings	Non-controlling interests	Total equity
Total equity, 1 Jan. 2020	80	116 520	-15 481	4 965	106 083
Profit for the period			8 720	221	8 941
Total comprehensive income for the period			8 720	221	8 941
Dividends paid			0	-312	-312
Acquisition of own shares			-692		-692
Share-based benefits			1 312	0	1 312
Total transactions with owners			620	-312	308
Changes in NCI without a change in control			-698	356	-342
Total changes in subsidiary shareholdings			-698	356	-342
Total equity, 31 Dec. 2020	80	116 520	-6 839	5 230	114 990

Accounting policies

Company profile

Pihlajalinna is one of the leading private social and healthcare service providers in Finland. The Group serves private persons, companies, insurance companies and public sector entities, such as municipalities and hospital districts. Pihlajalinna provides a broad range of social and healthcare services as well as wellbeing services. The service selection includes general practitioner and medical specialist services, occupational healthcare, social and healthcare outsourcing, fitness centre services, responsible doctor and remote consultation services as well as residential services and staffing services.

At the end of the financial year, the total number of Pihlajalinna's private clinics, hospitals, dental clinics, fitness centres and service housing units with 24-hour assistance was approximately 140. In addition, Pihlajalinna has four major complete social and healthcare outsourcing agreements that collectively cover some 60 locations (including health centres, maternity and child health clinics, service housing units with 24-hour assistance and daytime activity centres).

The Group's parent company, Pihlajalinna Plc, is a Finnish public limited company established under the laws of Finland, whose Business ID is 2617455-1. The company is domiciled in Tampere, and its registered address is Kehräsaari B, FI-33200 Tampere, Finland. Pihlajalinna Plc's shares are listed on the NASDAQ OMX Helsinki main market. A copy of the consolidated financial statements is available on the internet at investors.pihlajalinna.fi or can be obtained at the head office of the Group's parent company, address Kehräsaari B, 33200 Tampere, Finland.

The Board of Directors of Pihlajalinna Plc approved these financial statements in its meeting on 18 February 2021. In accordance with the Finnish Limited Liability Companies Act, the shareholders may adopt or reject the financial statements at the Annual General Meeting held after their

publication. The Annual General Meeting can also decide on modifications to be made to the financial statements.

Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), and their preparation complies with the IAS and IFRS as well as SIC and IFRIC interpretations effective on 31 December 2020. International Financial Reporting Standards, as intended in the Finnish Accounting Act and the regulations issued pursuant to the Act, refer to the standards that have been approved for application within the EU in accordance with Regulation (EC) No. 1606/2002 and interpretations thereof. The notes to the consolidated financial statements also comply with the Finnish accounting and company legislation that complements the IFRS regulations.

Accounting policies that influence a particular note to the consolidated financial statements are indicated with the heading **Accounting policies** in the note in question.

The consolidated financial statements are presented in euros and all figures are rounded to the nearest thousand, unless otherwise specified.

New and revised standards and interpretations applied in the past financial year

In 2020, the Group has adopted the following amended standards published by the IASB. They are not, however, estimated to have a material effect on Pihlajalinna's financial statements.

Amendments to IFRS 3 Business Combinations — Definition of a Business (effective for financial years beginning on or after 1 January 2020)

The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing inputs or processes, specify the definitions of business and outputs and provide additional guidance to assist entities in assessing whether the object of an acquisition is an independent process. The amendments also introduce an optional fair value concentration test.

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors — Definition of Material (effective for financial periods beginning on or after 1 January 2020)

The purpose of the amendments is to align the definition of "material" across the standards and to clarify certain aspects of the definition. The amendments clarify that materiality will depend on the nature or magnitude of information, or both.

Amendments to IFRS 9 Financial Instruments, IAS 39: Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures — Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020)

Amendments have been issued to address uncertainties related to the reform of interbank offered rates (IBOR). The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead-up to IBOR reform.

Amendments to IFRS 16 Leases — COVID-19-related Rent Concessions (effective for financial years beginning on or after 1 June 2020)

The amendment gives lessees the opportunity to apply a practical expedient that simplifies the accounting treatment of rent concessions that are the direct result of COVID-19. Lessees that apply the practical expedient are not required to assess whether rent concessions constitute changes in leases if the criteria presented in the amendment to the standard are fulfilled. The expedient was not applied to the financial statements for 2020.

Consolidation principles

Subsidiaries

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

Intragroup shareholdings are eliminated using the acquisition method. The consideration transferred and the acquired entity's identifiable assets and assumed liabilities are measured at fair value at the date of acquisition. Acquisition-related costs are expensed. Any contingent consideration is measured at fair value at the date of acquisition and classified as a liability. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group retrospectively adjusts the provisional amounts recognised at the acquisition date to reflect any new information. The measurement period may not exceed one year from the acquisition date. A contingent consideration classified as a liability is measured at fair value at the end of each reporting period, and any resulting gain or loss is recognised in profit or loss after the end of the measurement period.

Non-controlling interests in the acquiree are recognised either at fair value or an amount that corresponds to their pro rata share of the acquiree's net assets. The amount by which the consideration transferred, non-controlling interests in the acquiree and previously owned holding combined exceed the fair value of the acquired net assets is recognised as goodwill in the consolidated statement of financial position. If the combined value of the consideration, non-controlling interests and previously owned holding is lower than the fair value of the acquiree's net assets, the difference is recognised in the statement of comprehensive income.

Acquired subsidiaries are consolidated from the date when the Group obtained control, and disposed subsidiaries are consolidated until the date when the Group lost control. All intragroup transactions, receivables, liabilities, unrealised profits and internal profit distribution are eliminated in the preparation of the consolidated financial statements. Unrealised losses will not be eliminated in case of impairment losses. Profit or loss for the financial year attributable to the owners of the parent company and to the non-controlling interests is presented in the consolidated statement of comprehensive income. Comprehensive income is attributed to the owners of the parent company and to the non-controlling interests, even if this would lead to a situation where the portion attributable to the non-controlling interests is negative. The portion of equity attributable to the non-controlling interests is presented as a separate item under equity in the consolidated statement of financial position. Such changes in the parent company's ownership interest in a subsidiary that do not lead to loss of control are treated as equity transactions.

In connection with step-by-step acquisitions, the former ownership interest is measured at fair value, and the resulting gain or loss is recognised in profit or loss. When the Group loses control of a subsidiary, any remaining interest is measured at fair value at the date of loss of control, and the resulting difference is recognised in profit or loss.

Associates and joint arrangements

Associates are companies over which the Group has significant influence. As a rule, significant influence is established when the Group holds more than 20% of a company's voting power or otherwise has significant influence but no control.

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control involves contractually agreed sharing of control of an arrangement, which exists only when decisions about relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture. A joint venture is an arrangement whereby the Group has rights to the net assets of the arrangement, whereas in a joint operation the Group has rights to the assets, and obligations for the liabilities, relating to the arrangement.

Associates and joint ventures are consolidated using the equity method. If the Group's share of the loss of an associate or a joint venture exceeds the carrying amount of the investment, then the investment is carried at zero value, and the losses exceeding the carrying amount are not consolidated, unless the Group is committed to fulfilling the obligations of the associate or joint venture. An investment in an associate or a joint venture includes the goodwill generated through the acquisition. Unrealised profits between the Group and an associate or a joint venture are eliminated in proportion to the Group's ownership interest. The Group's pro rata share of an associate's or a joint venture's profit for the financial year is included in operating profit.

The Group owns 31% in Kiinteistö Oy Levin Pihlaja, which is consolidated as a joint operation according to the pro rata share, using the proportionate consolidation method.

Foreign currency translation

The consolidated financial statements are presented in euros, which is the functional currency and presentation currency of the Group's parent company and of the subsidiaries engaged in business activities. In their own accounting, Group companies translate day-to-day

transactions denominated in foreign currency into their functional currency applying the exchange rates of the transaction date. Foreign exchange gains and losses related to the business are included in the corresponding expense items.

Accounting policies requiring management judgement and major sources of estimation uncertainty

In the course of preparing the financial statements, it is necessary to make estimates and assumptions about the future. However, such estimates and assumptions may later prove inaccurate compared with actual outcomes. The Group regularly monitors the realisation of the estimates and assumptions and changes in the underlying factors together with the business units by using several, both internal and external, sources of information. Any changes in estimates and assumptions are recognised in the financial year during which the estimate or assumption is corrected and in all subsequent financial years. Additionally, it is necessary to exercise judgement in the application of the accounting policies. The most significant estimates and assumptions are presented under the note in question under the heading **Key accounting estimates and decisions based on management judgement**.

New and revised standards and interpretations to be applied in future financial years

Amendments to IFRS 9 Financial Instruments, IAS 39: Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases* – Interest Rate Benchmark Reform – Phase 2 (effective for annual periods beginning on or after 1 January 2021)

Amendments address issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of interest rate benchmark reform. Amendments assist companies in providing useful information about the effects of interest rate benchmark reform on financial statements.

Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use* (effective for annual periods beginning on or after 1 January 2022)

Under the amendments, proceeds from selling items before the related item of PPE is available for use should be recognised in profit or loss, together with the costs of producing those items.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Costs of Fulfilling a Contract* (effective for annual periods beginning on or after 1 January 2022)

When an onerous contract is accounted for based on the costs of fulfilling the contract, the amendments clarify that these costs comprise both the incremental costs and an allocation of other direct costs.

Annual Improvements to IFRS Standards 2018–2020* (effective for annual periods beginning on or after 1 January 2022).

The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments clarify the following standards:

- *IFRS 1 First-time Adoption of International Financial Reporting Standards* – Subsidiary as a first-time adopter: A subsidiary that becomes a first-time adopter later than its parent may elect to measure cumulative translation differences at amounts included in the consolidated financial statements of the parent.
- *IFRS 9 Financial Instruments* – Fees in the ‘10 per cent’ test for derecognition of financial liabilities: This amendment clarifies that – for the purpose of performing the ‘10 per cent test’ for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf.
- *IFRS 16 Leases*, example 13: The amendment removes the illustration of payments from the lessor relating to leasehold improvements. The example was not clear as to why such payments are not a lease incentive.

Notes to the consolidated financial statements, IFRS

1. Revenue from contracts with customers and segment information

Accounting policies

The Group's revenue consists of payments related to the sale of healthcare services, social services and wellbeing services measured at fair value, adjusted by any discounts and other adjustment items. The healthcare services provided by the Group consist of occupational health services, services provided at private clinics, hospitals and remotely, responsible doctor services, diagnostics services, rehabilitation services and dental care services. The social services provided by the Group consist of services for the elderly and the disabled, mental health and substance abuse group services, and asylum seeker reception centre operations. A significant part of the consolidated revenue consists complete social and healthcare outsourcing, which also includes the provider's liability for the costs of specialised care. The Group also provides wellbeing services and physician recruitment services. Forever fitness centres offer diverse wellbeing services for adults who exercise. Fitness centre services complement Pihlajalinna's preventive occupational healthcare services and rehabilitation services carried out after specialised care procedures.

The Group recognises the remunerations of employed healthcare professionals, contract-based practitioners and holders of Series B shares of Pihlajalinna Terveys Oy (arrangement valid until 30 November 2020) as revenue on a gross basis, i.e. based on total customer invoicing. According to the management's view, Pihlajalinna has primary responsibility for the provision of services to its customers. Therefore, the Group is involved in a contrac-

tual relationship as a principal which is exposed to significant risks and benefits related to the sale of services. The Group records the remunerations of contract-based practitioners and holders of Series B shares of Pihlajalinna Terveys Oy in the income statement under the item External services.

IFRS 15 Revenue from Contracts with Customers includes a five-step model for recognising revenue from contracts with customers: when to recognise revenue, and at what amount. Revenue can be recognised over time or at a point in time, and the passing of control is a key criterion. Pihlajalinna has identified the following major performance obligations:

Social and Healthcare Outsourcings

- statutory social and healthcare services of a municipality's residents separately described in the contracts with customers
- individual social and healthcare service visits by residents of other municipalities

Residential services (including asylum seeker reception centres)

- statutory social and healthcare services separately described in the contracts with customers
- capacities of reception centres on each day covered by the agreement
- elderly care home services on each day covered by the agreement
- individual separately charged additional services or health centre visits

Private Clinics and Dental Care

- individual customer visits to healthcare services at operating locations or remotely

Surgical Operations and Public Specialised Care

- statutory social and healthcare services of a municipality's residents separately described in the contracts with customers
- individual social and healthcare service visits by residents of other municipalities
- other individual visits (e.g. private individuals who pay for their services themselves or through insurance companies)

Occupational healthcare

- individual occupational healthcare customer visits (e.g. appointments with occupational healthcare nurses and doctors, laboratory tests) at operating locations or remotely
- preventive and health-promoting separately agreed services (e.g. occupational health check-ups, workplace-specific occupational health surveys)
- other additional services agreed upon with the customer (e.g. first aid course)

Fitness centre services

- obligations related to monthly and annual fees for fitness centre services
- individual separately charged additional services

Recruitment services

- customer-specific monthly fees for recruitment services
- individual separately charged recruitment services

Responsible doctor services

- location-specific daily charges described in the customer agreement

Staffing service

- selling a healthcare professional's labour event-specifically or based on time
- customer-specific monthly fees for emergency and on-call services

The transaction price primarily comprises individual services according to the price list or annual, monthly, daily or hourly rates based on customer agreements. In most cases, the price concerns an individual performance obligation. In some cases, the price includes a variable element of consideration (e.g. discount, penalty charge, bonus), which is allocated to one or more performance obligations. The performance obligations are primarily fulfilled either over time (e.g. outsourcings, residential services, fitness centre services, recruitment services, responsible doctor services) or at a point in time (e.g. occupational healthcare services, individual customer visits, additional services).

The performance obligation in social and healthcare outsourcings is the municipality's statutory social and healthcare service operations described in the customer agreement. The outsourcings are primarily based on a fixed annual price, and they are recognised as revenue over time. The recognition of revenue from the Group's complete social and healthcare services outsourcing agreements may become more accurate with a delay. The Group may not always be aware of the actual costs of the agreements, which may also affect revenue recognition.

Revenue from individual services is recognised on a treatment visit-specific or service--specific basis based on service use.

Pihlajalinna's CEO makes significant operational decisions at the Group level. The senior operating decision-maker monitors the Group's result. The key performance indicators that are monitored are EBITDA and operating profit. Adjusted EBITDA and adjusted operating profit also provide significant additional information on profitability, as these alternative performance measures eliminate items that do not necessarily reflect the profitability of the company's operative business. The alternative performance measures, adjusted EBITDA and adjusted operating profit, improve comparability between periods.

The adjustment items of these alternative performance measures are specified in Note 8 Adjusted EBITDA and adjusted operating profit.

Key accounting estimates and decisions based on management judgement

Determining the annual profitability of the Group's fixed-term complete social and healthcare services outsourcing agreements may become accurate with a delay. The Group may not always be aware of the actual costs of the agreements at the time of preparing the financial statements, and the agreements may involve variable elements of compensation. The cost accumulation of public specialised care involves random fluctuation. In addition, individual cases falling within the scope of the hospital districts' pooling system for high-cost care may influence the cost liability of specialised care considerably during the financial year, and between financial periods, in Pihlajalinna's municipal companies.

The fixed-term service agreements for all of the Group's complete outsourcing arrangements are highly similar with regard to their principles and basic terms. Pihlajalinna has calculated and recognised the variable compensation components and cost compensation under the agreements using the same criteria and model for all clients. Demands for the compensation of cost increases due to changes in services corresponding to the actual costs and investment costs that serve operations after the end of the term of the contract being the client's responsibility constitute the majority of costs and varia-

ble compensation components that are specified with a delay. For 2020, the assessment of investment costs and COVID-19 related costs included in invoicing by hospital districts can only be carried out after the hospital districts have published their financial statements.

Pihlajalinna has recognised only part of these legally justified claims in its income statement. The parties to the agreements are bound by an obligation to negotiate and negotiation is the primary procedure. If the obligation to negotiate does not lead to payment, the receivables are sought through legal action, which may further delay the collection of items presented in current receivables in the financial statements.

Revenue by region

Pihlajalinna reports its sales revenue divided into the following geographical regions:

- Southern Finland includes Pihlajalinna's business operations in the regions of Uusimaa, South West Finland, Päijät-Häme, Kymenlaakso and South Karelia.
- Mid-Finland includes Pihlajalinna's business operations in the regions of Pirkanmaa, Satakunta, Kanta-Häme, Central Finland, South Savo, North Karelia and North Savo.
- Ostrobothnia includes Pihlajalinna's business operations in the regions of Southern Ostrobothnia, Ostrobothnia and Central Ostrobothnia.
- Northern Finland includes Pihlajalinna's business operations in the regions of North Ostrobothnia, Kainuu and Lapland.

EUR 1,000	2020	%	2019	%
Southern Finland	114 749	20	118 198	20
Mid-Finland	316 810	55	324 140	56
Ostrobothnia	116 808	20	115 676	20
Northern Finland	16 176	3	14 703	3
Other operations	9 755	2	7 705	1
Intra-Group sales	-65 617		-61 826	
Total consolidated revenue	508 682	100	518 596	100

Sales revenue by customer group

Pihlajalinna's customer groups are corporate customers, private customers and public sector customers.

- The Group's corporate customer group consists of Pihlajalinna's occupational health customers, insurance company customers and other corporate contract customers.
- The Group's private customers are private individuals who pay for services themselves and may subsequently seek compensation from their insurance company.
- The Group's public sector customer group consists of public sector organisations in Finland, such as municipalities, joint municipal authorities, congregations, hospital districts and the public administration when purchasing social and healthcare outsourcing services, residential services, occupational health services and staffing services.

EUR 1,000	2020	%	2019	%
Corporate customers	124 023	22	118 758	20
of which insurance company customers	29 830	5	27 587	5
Private customers	79 820	14	97 837	17
Public sector	370 456	65	363 827	63
of which complete outsourcing	287 897	50	285 541	49
of which staffing	22 892	4	23 600	4
of which occupational healthcare and other services	59 667	10	54 686	9
Intra-Group sales	-65 617		-61 826	
Total consolidated revenue	508 682	100	518 596	100

Information on key customers

The Group's sales revenue from the four largest municipal customers totalled approximately EUR 272.2 (257.1) million, representing 54% (50%) of the Group's eliminated revenue.

Estimate of unsatisfied performance obligations related to fixed-term service agreements on the provision of social and healthcare services, EUR million

EUR 1,000	31.12.2020	31.12.2019	EUR 1,000	31.12.2020	31.12.2019
2020		251	2029	195	185
2021	259	252	2030	158	149
2022	260	253	2031	6	
2023	262	254	2032	6	
2024	263	252	2033	6	
2025	240	253	2034	6	
2026	192	182	2035	6	
2027	193	183			
2028	194	184			
				2 246	2 398

Kristiinankaupunki selected Pihlajalinna as the service provider of the city's partially outsourced social and healthcare services. The service production began on 1 January 2021. The term of the contract is at least 15 years but not more than 20 years. According to the tendering, the annual value of the contract is approximately 6 million euros. Therefore, the value is approximately 90 million euros for 15 years without index increases. With the option period taken into account, the total value is approximately 120 million euros without index increases. The estimated value of the contract is based on the current cost level of production of services.

Summary of the Group's complete and partial outsourcing agreements and their agreement periods

Service provider – client	First year of service production under the current contract	Duration of contract (years)
Jämsän Terveys Oy – City of Jämsä	2015	10
Kuusiolinna Terveys Oy – KuusSote	2016	15
Mäntänvuoren Terveys Oy – City of Mänttä-Vilppula	2016	15
Kolmostien Terveys Oy – City of Parkano	2015	15
Bottenhavets Hälsa Ab (Selkämeren Terveys Oy) – Kristiinankaupunki	2021	15–20 years

2. Other operating income

Accounting policies

Government grants received as compensation for expenses already incurred are recognised in profit or loss for the period in which they become receivable. These grants are presented under other operating income.

Government grants related to capitalised development projects are recognised as deductions from the carrying amounts of intangible assets, when there is reasonable assurance that such grants will be received and that the Group will comply with the conditions for receiving them. The grants will be recognised as income over the useful life of an asset by way of reduced depreciation.

The Group has subleased certain premises that are not used for business operations. Income from these leases is presented under other operating income.

Sale and leaseback

With regard to sale and leaseback agreements completed prior to the adoption of IFRS 16, the Group will continue the allocation of capital gains as before in accordance with the transition provision of IFRS 16.

If a finance lease is created as a result of a sale and leaseback agreement, the difference between the carrying amount and the sales price will be recognised in the consolidated statement of financial position and recognised as income over the lease term under other operating income. The unrecognised portion of the difference between the carrying amount and the sales price is presented as Other liabilities in the statement of financial position.

EUR 1,000	2020	2019
Capital gains on property, plant and equipment	235	258
Rental income	550	368
Government grants	1 379	680
Other income items	215	323
Total	2 379	1 630

In June 2020, the Finnish Government decided on support for business costs for companies that had suffered a significant decrease in revenue due to the COVID-19 epidemic and that have had costs that are difficult to adjust. Pihlajalinna recognised financial support intended primarily to cover the fixed costs of the Group's fitness centres in other operating income under government grants. Pihlajalinna received EUR 800 thousand in cost support, which is the Group-specific maximum amount.

3. Materials and services

Accounting policies

Pihlajalinna Terveys Oy, a Group subsidiary, had a second series of shares (Series B) until 30 November 2020, which had contingency funds associated with them. Funds accumulated in the contingency funds based on the work contributions of the holders of Series B shares. This work contribution is included in profit or loss under the item External services. The liability indicated by the contingency fund was included in current liabilities under the item Other liabilities, presented in Note 19 *Trade and other payables* and Note 21 *Financial assets and liabilities by measurement category*. Work contribution-based dividends paid by the company was an income tax deductible item.

	2020	2019
Materials	-19 967	-19 343
Change in inventories	1 092	-217
External services, practitioners	-71 931	-76 508
External services, other	-107 171	-104 144
Total	-197 977	-200 212

4. Employee benefit expenses

Accounting policies

Pension plans are generally classified as defined benefit plans and defined contribution plans. The Group only has defined contribution plans. In defined contribution plans, the Group makes fixed payments to a separate unit. The Group has no legal or constructive obligation to make additional payments if the recipient of the payments is incapable of paying out said retirement benefits. Payments made into the defined contribution plans are recognised in profit or loss for the financial year for which they are charged.

	2020	2019
Wages and salaries	-179 381	-185 266
Share-based incentive schemes		
- implemented as shares	-1 517	-266
Pension costs - defined contribution plans	-27 009	-30 956
Other social security expenses	-6 327	-5 479
Total	-214 235	-221 967

The employer's TyEL pension contributions were reduced by 2.6 percentage points for the period 1 May–31 December 2020. The pension insurance company will not pay customer compensation for the period during which the reduced rate was in effect. The effect of the temporary reduction in the employer's TyEL pension contributions will be compensated in full during the period 2022–2025 through an increase in the employer's TyEL pension contributions.

	2020	2019
Personnel on average (FTE)	4 308	4 515
Personnel at the end of the period (NOE)	5 995	5 815

Information on the employee benefits and loans of members of management considered to be related parties is presented in Note 31 *Related party transactions*.

5. Share-based incentive scheme for key personnel

At its meeting on 14 February 2019, the Board of Directors approved the terms of a share-based long-term incentive programme for Pihlajalinna Group's senior management (LTI 2019). The incentive programme is effective from 1 January 2019 onwards and it is aimed at the CEO, the Management Team and other key employees selected for inclusion in the programme. LTI 2019 includes an overall five-year plan period and none of the share rewards received by the key employees thereunder may be sold or transferred prior to the year 2022 and, as a rule, they also include a restriction period of the same duration. In the event that a beneficiary's employment ends during the restriction period, shares that have already been received must be returned. The key employee is required to have made an investment in Pihlajalinna shares as a precondition for participation in the programme. At the end of the financial year, the incentive programme included 20 key employees.

The fixed matching share programme (commitment shares) consisted of a commitment period from the beginning of 2019 to the payment of the fixed share reward at the end of 2020. In this scheme, the company matched each key employee's share investments with additional shares at a fixed rate. A total of 97,000 matching shares were awarded. This figure is the gross reward, from which the applicable taxes were deducted, leaving a net amount of 45,105 shares that were transferred to the participants on 28 December 2020. The shares are subject to a transfer restriction but not a restriction period.

The performance- and quality-based matching share plan includes three one-year performance periods (the calendar years 2019–2021), during which the participants can earn performance-based additional shares, provided that the company reaches the performance objectives set by the Board of Directors. Based on each individual performance period, the participant can earn a maximum of two additional shares for three shares invested without consideration (gross before the deduction of the applicable payroll tax). The performance-based share rewards will be delivered after the respective performance periods in the spring of 2020, 2021 and 2022.

No performance- and quality-based share rewards materialised for the first performance period 2019 pursuant to the matching share plan, as the minimum objectives set for the programme were not achieved.

For the second performance period of 2020 under the performance- and quality-based matching share plan, the gross reward for the Group's management is 56,583 shares. The shares will be paid to the participants after the financial statements have

been completed. The shares are subject to the normal transfer restriction but not a restriction period.

6. Other operating expenses

EUR 1,000	2020	2019
Facility expenses	-9 600	-9 282
Equipment and information management expenses	-20 425	-20 595
Sales and marketing expenses	-6 065	-8 046
Other expenses	-10 307	-12 282
Total	-46 397	-50 205
Auditor's fees		
Auditing, BDO	-92	-100
Auditing, KPMG Oy Ab	-225	-231
Statements, KPMG Oy Ab	-7	-13
Non-audit services, KPMG Oy Ab	-16	-3
Total	-340	-347

7. Depreciation and impairment

Accounting policies

Property, plant and equipment will be depreciated using the straight-line method over their estimated economic useful lives. The estimated economic useful lives are as follows:

Buildings	10 – 25 years
Renovation expenses on real estate	5 – 10 years
Machinery and equipment	3 – 10 years
Other tangible assets	3 – 5 years

For the magnetic imaging equipment at new private clinics, the Group adopted a units-of-production based depreciation method effective from 1 January 2018. The amount of depreciation is based on the units of production derived from the equipment. For the Group's other machinery and equipment, the Group still uses straight-line depreciation. As the utilisation rate of imaging capacity is low during the first years of a new operating location, the units-of-production method provides a more accurate reflection of the actual economic use of the magnetic imaging equipment in question.

For intangible assets with finite economic useful lives, the amortisation periods are as

follows:

Trademarks	10 years
Development costs	3-10 years
Other intangible assets	
Customer agreements	4 years
Patient database	4 years
Non-competition agreements	2-5 years
Intellectual property rights	3-7 years

Property, plant and equipment is depreciated on a straight-line basis over the shorter of economic useful life or lease term.

The planned depreciation periods of property, plant and equipment are as follows:

Right-of-use plots	25 years
Right-of-use buildings and business premises	1-15 years
Right-of-use equipment	3-10 years

Impairment is recognised pursuant to IAS 36 for onerous right-of-use buildings and business premises.

Depreciation, amortisation and impairment by asset type	2020	2019
Intangible assets		
Trademarks	-776	-776
Capitalised development costs	-924	-790
Other intangible assets related to purchase price allocations	-2 321	-3 784
Other intangible assets	-2 504	-2 089
	-6 525	-7 438
Property, plant and equipment		
Buildings	-170	-120
Renovation expenses on real estate	-2 620	-2 119
Machinery and equipment	-6 012	-5 440
Other tangible assets	-1	-4
	-8 803	-7 682
Right-of-use assets		
Right-of-use plots	-120	-125
Right-of-use business premises and buildings	-17 578	-17 738
Right-of-use business premises and buildings, impairment	-26	-3 189
Right-of-use equipment	-1 202	-1 480
Poistot ja arvonalentumiset yhteensä	-34 255	-37 653

8. Adjusted EBITDA and adjusted operating profit

Accounting policies

IAS 1 Presentation of Financial Statements does not provide a definition for the concept of EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation). The Group has defined it as follows: EBITDA is the net sum consisting of revenue plus other operating income less materials and services (adjusted with change in inventories), employee benefit expenses and other operating expenses.

IAS 1 Presentation of Financial Statements does not provide a definition for the concept of operating profit. The Group has defined it as follows: operating profit is the net sum consisting of revenue plus other operating income less materials and services, employee benefit expenses, depreciation, amortisation and any impairment losses, as well as other operating expenses. All income statement items other than those stated above are presented below operating profit.

Significant transactions that are not part of the normal course of business or are infrequently occurring, and valuation items that do not affect cash flow, are treated as items affecting comparability between reporting periods. According to Pihlajalinna's definitions, such items include, for example:

- restructuring measures and Group refinancing
- impairment of assets and/or remeasurement to fair value of pre-existing interest in acquiree
- expenses arising from discontinuation of business activities and business locations, or gains and losses arising from divestments
- expenses from restructuring of operations and integration of acquired businesses
- dismissal-related expenses
- fines and corresponding compensation payments

Pihlajalinna does not recognise adjustments affecting comparability for the following items:

- transfer taxes and expert fees related to acquisitions, and
- purchase price allocation amortisation of intangible assets (PPA amortisation).

The reconciliation calculations for adjusted EBITDA and adjusted operating profit and the justifications for their presentation are as follows:

EBITDA indicates how much is left of the company's revenue after deducting operating expenses. Assessments of whether EBITDA is sufficiently high should take into account the company's financial expenses, depreciation requirements and intended profit distribution. Adjusted EBITDA provides significant additional information on profitability by eliminating items that do not necessarily reflect the profitability of the company's operative business. Adjusted EBITDA improves comparability between periods and is frequently used by analysts, investors and other parties.

Operating profit indicates how much is left of the proceeds of actual business operations before financial items and taxes. With operating profit, the company must cover, among other things, financial expenses, taxes and the distribution of dividends. Adjusted operating profit provides significant additional information on profitability by eliminating items that do not necessarily reflect the profitability of the company's operative business. Adjusted operating profit improves comparability between periods and is frequently used by analysts, investors and other parties.

The Group's CEO and Management Team monitor and forecast adjusted EBITDA and adjusted operating profit.

EUR 1,000	2020	2019
EBITDA	52 445	47 844
Adjustments to EBITDA		
Dismissal-related expenses	-60	3 019
Compensation under the share-based incentive scheme in relation to the expired tender offer	1 517	266
Change in fair value of contingent consideration		281
IAS 37, contingent assets		1 845
Onerous contracts		1 843
Other	747	30
Adjustments to EBITDA in total	2 204	7 284
Adjusted EBITDA	54 649	55 127
Depreciation, amortisation and impairment	34 255	37 653
Adjustments to depreciation, amortisation and impairment		
Double depreciation arising from a merger with no cash flow effect	354	
Closure of operating locations	26	3 337
Adjustments to depreciation, amortisation and impairment in total	381	3 337
Adjustments to operating profit in total	2 585	10 621
Adjusted operating profit (EBIT)	20 775	20 812
Operating profit (EBIT)	18 191	10 191
Financial income	232	120
Financial expenses	-4 637	-4 047
Income taxes	-4 845	-1 784
Profit for the period	8 941	4 480
The adjustment items are presented in the income statement items as follows:		
Revenue		1 845
Employee benefit expenses	1 457	3 566
Other operating expenses	747	1 873
EBITDA adjustment items total	2 204	7 284
Depreciation, amortisation and impairment	381	3 337
Operating profit adjustment items total	2 585	10 621

9. Financial income

EUR 1,000	2020	2019
Dividend income from financial assets measured at fair value through profit or loss	10	11
Interest income from loans and receivables	94	90
Interest income from subleases	94	2
Other financial income	34	17
Total	232	120

10. Financial expenses

EUR 1,000	2020	2019
Interest expenses from financial liabilities carried at amortised cost	-2 128	-1 772
Interest expenses on lease liabilities	-1 900	-1 864
Other financial expenses	-609	-411
Total	-4 637	-4 047

Due to the changes in the operating environment caused by the COVID-19 epidemic, Pihlajalinna and the creditor banks agreed on a temporary adjustment to the covenants of the financing arrangement at the end of March 2020. As part of the agreement, a permanent new margin ceiling was added to the financing arrangement. The margin ceiling will enter into effect if leverage exceeds 3.50. Net financial expenses were increased by a waiver expense associated with a financing arrangement and higher interest rate margins.

11. Income taxes

Accounting policies

The income taxes on the consolidated income statement consist of current tax, adjustments to taxes for previous periods, and deferred taxes. Taxes are recognised in profit or loss, except when they are directly attributable to items recognised under equity or other comprehensive income. In such cases, also the tax is recognised under the item in question. Current tax is calculated on taxable profit, based on the enacted tax rate. Tax is adjusted with any taxes associated with prior financial years. Any penal interests related to said taxes are recognised under financial expenses. The share of associates' profit is presented in the statement of comprehensive income as calculated from net profit and thus including the income tax charge.

EUR 1,000	2020	2019
Current taxes	-4 159	-4 110
Taxes for the previous financial years	-2	-11
Deferred taxes:		
Origination and reversal of temporary differences	-685	2 337
Total	-4 845	-1 784

Reconciliation of effective tax rate

EUR 1,000	2020	2019
Profit before taxes	13 786	6 264
Taxes calculated on the basis of the Finnish tax rate (20%)	-2 757	-1 253
Income not subject to tax	2	2
Non-deductible expenses	67	-64
Unrecorded deferred tax assets from tax losses	-318	-550
Utilised prior losses with unrecognised tax benefits	81	51
Share of associated company's profit	-1	0
Fair value measurement of contingent consideration	0	-56
Share-based remuneration	-59	
Payment of liability to B series shareholders (end of arrangement)	-1 938	-11
Other items	80	108
Taxes for prior financial years	-2	-11
Taxes in the income statement	-4 845	-1 784
Effective tax rate	-35,1 %	-28,5 %

12. Earnings per share

Accounting policies

Earnings per share is calculated by dividing the profit for the financial year attributable to owners of the parent by the weighted average number of shares outstanding during the financial year.

Earnings per share for the financial year attributable to owners of the parent are calculated by dividing the profit for the financial year attributable to owners of the parent by the weighted average number of shares outstanding during the financial year.

The dilution effect of the diluted earnings per share is attributable to a share-based incentive programme.

	2020	2019
Profit for the financial year attributable to owners of the parent, EUR	8 719 803,93	3 365 143,62
Number of shares outstanding, weighted average	22 586 212	22 620 135
Earnings per share (EPS), EUR/share	0,39	0,15
Diluted earnings per share, EUR/share	0,39	0,15

13. Property, plant and equipment

Accounting policies

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures incurred directly from the acquisition of an item of property, plant and equipment. Costs incurred subsequently are included in the carrying amount of an asset only if it is deemed probable that any future economic benefits related to the asset will flow to the Group and that the cost of the asset can be reliably determined. Other repair and maintenance costs will be expensed at the time they are incurred.

The residual value, the useful life of an asset and the depreciation method applied are reviewed at least at the end of each financial year and adjusted as necessary to reflect the changes in the expectations concerning the economic benefits attached to the asset. Capital gains generated from decommissioning and disposing of property, plant and equipment are included under other operating income, and capital losses are included under other operating expenses.

Assets are depreciated from the time when they are ready for use; i.e. when their location and condition allow them to be applied as intended by the management.

In 2018, the Group opened private clinics in Turku, Oulu and Seinäjoki. The Group acquired 3 Tesla high-field magnetic imaging equipment for the clinics in Oulu and Turku and a 1.5 Tesla high-field magnetic imaging device for the clinic in Seinäjoki. For the magnetic imaging equipment at these green field private clinics, the Group adopted a units-of-production based depreciation method effective from 1 January 2018. The amount of depreciation is based on the units of production derived from the magnetic imaging equipment. For the Group's other machinery and equipment, the Group still uses straight-line depreciation. As the utilisation rate of imaging capacity is very low during the first years of a new operating location, the units-of-production method provides a more accurate reflection of the actual economic use of the magnetic imaging equipment in question than straight-line depreciation.

Property, plant and equipment

EUR 1,000	Land areas	Buildings	Renovation expenses on real estate	Shares in real estate companies	Machinery and equipment	Other tangible assets	Construction in progress	Total
Cost at 1 January 2020	36	9 512	26 604	5 579	53 237	179	2 223	97 370
Additions		136	458	0	5 455	0	1 171	7 220
Transfers between items		-27	2 625	-7	391	-7	-1 835	1 140
Disposals		-6 683	-317		-3 499	0	-1 020	-11 519
Cost at 31 December 2020	36	2 937	29 370	5 572	55 584	172	539	94 209
Accumulated depreciation at 1 January 2020		-404	-13 678		-30 039	-12	0	-44 133
Depreciation and amortisation		-170	-2 620		-6 012	-1	0	-8 803
Transfers between items		22	-684		-364	5	0	-1 020
Disposals		141	317		3 284	0	0	3 742
Accumulated depreciation at 31 December 2020		-410	-16 665		-33 130	-7	0	-50 213
Carrying amount at 1 January 2020	36	9 108	12 925	5 579	23 199	167	2 223	53 237
Carrying amount at 31 December 2020	36	2 527	12 704	5 572	22 454	165	539	43 996

EUR 1,000	Land areas	Buildings	Renovation expenses on real estate	Shares in real estate companies	Machinery and equipment	Other tangible assets	Construction in progress	Total
Cost at 1 January 2019	105	1 714	24 656	5 572	46 051	172	1 446	79 716
Additions		2 235	645	7	7 691	9	7 793	18 381
Business combinations					13		0	13
Transfers between items		5 730	1 571		1 254	-1	-7 009	1 544
Disposals	-69	-168	-268		-1 773	0	-7	-2 285
Cost at 31 December 2019	36	9 512	26 604	5 579	53 237	179	2 223	97 369
Accumulated depreciation at 1 January 2019		-308	-11 504		-24 615	-9	0	-36 436
Depreciation and amortisation		-119	-2 119		-5 440	-4	0	-7 682
Transfers between items			-321		-1 209	1	0	-1 529
Disposals		23	266		1 225		0	1 514
Accumulated depreciation at 31 December 2019		-404	-13 678	0	-30 039	-12	0	-44 133
Carrying amount at 1 January 2019	105	1 406	13 151	5 572	21 437	163	1 446	43 280
Carrying amount at 31 December 2019	36	9 108	12 925	5 579	23 199	167	2 223	53 237

14. Intangible assets

Accounting policies

Goodwill

Goodwill generated through business combinations is measured at the amount by which the consideration transferred, non-controlling interests in the acquiree and previously owned holding combined exceed the fair value of the identifiable acquired net assets. Goodwill typically reflects the value of acquired market share, business expertise and synergies.

Goodwill is not amortised, but it is tested for impairment annually and whenever there is an indication that the asset may be impaired. Goodwill is allocated to cash-generating units (CGUs). Goodwill is measured at original cost less accumulated impairment.

Capitalised development costs

Assets are amortised from the time when they are ready for use. Assets that are not yet available for use are tested annually for impairment. Subsequent to their initial recognition, capitalised development costs are measured at cost less accumulated amortisation and impairment. The amortisation period for development costs is 3 to 10 years, during which capitalised development costs are amortised using the straight-line method.

The Group's capitalised development costs that have not been amortised are associated with the following projects:

- New operating model for fixed-price occupational healthcare agreements and a related occupational healthcare portal
- Renewal of primary care service models, involving remote service models for municipal residents and mobile solutions (social and healthcare service centre concept)
- Sports clinic concept
- Pihlajalinna mobile application and website development with the aim of making AI-assisted digital services available to all customers.
- Specialised care referral forwarding and coordination operating model developed for the Parkano social and healthcare partnership area
- Takeover of social and healthcare services in Mänttä-Vilppula and the development of operating models
- The three-year SYKKI project, funded with Tekes subsidies, aimed at creating an effective and cost-efficient model for public social and healthcare services

Intangible assets

EUR 1,000	Goodwill	Trademarks	Development costs	Other intangible assets related to purchase price allocations	Other intangible assets	Pre-payments	Total
Cost at 1 January 2020	173 607	7 762	5 968	21 582	15 401	443	224 763
Additions			380		3 150	354	3 884
Transfers between items					518	-708	-191
Disposals					-417		-417
Cost at 31 December 2020	173 607	7 762	6 348	21 582	18 652	89	228 040
Accumulated depreciation at 1 January 2020		-4 702	-2 133	-17 125	-8 111		-32 071
Depreciation and amortisation		-776	-924	-2 321	-2 504		-6 525
Transfers between items					85		85
Disposals					417		417
Accumulated depreciation at 31 December 2020		-5 479	-3 057	-19 446	-10 114		-38 095
Carrying amount at 1 January 2020	173 607	3 060	3 834	4 457	7 290	443	192 691
Carrying amount at 31 December 2020	173 607	2 284	3 289	2 136	8 539	89	189 944

EUR 1,000	Goodwill	Trademarks	Development costs	Other intangible assets related to purchase price allocations	Other intangible assets	Pre-payments	Total
Cost at 1 January 2019	169 927	7 762	5 206	21 513	12 707	245	217 362
Additions			549		2 006	1 010	3 565
Business combinations	3 680			69	7		3 756
Transfers between items			212		776	-808	180
Disposals					-95	-5	-99
Cost at 31 December 2019	173 607	7 762	5 968	21 582	15 401	443	224 763
Accumulated depreciation at 1 January 2019		-3 926	-1 343	-13 341	-5 910		-24 521
Depreciation and amortisation		-776	-790	-3 784	-2 089		-7 438
Transfers between items					-216		-216
Disposals					104		104
Accumulated depreciation at 31 December 2019		-4 702	-2 132	-17 125	-8 111		-32 071
Carrying amount at 1 January 2019	169 927	3 836	3 864	8 173	6 797	245	192 841
Carrying amount at 31 December 2019	173 607	3 060	3 835	4 457	7 290	443	192 692

Other intangible assets include licences and computer software. In business combinations, customer agreements and related customer relationships as well as non-competition agreements and certificates have been allocated.

Impairment testing of goodwill

Accounting policies

Goodwill generated in M&A transactions is allocated to cash-generating units (CGU). Under Pihlajalinna's operating structure, the Group's Chief Operating Officer (COO) is responsible for the entire Group's business operations and service offering to both the private and public sectors. The COO is responsible for preparing the Group businesses' budgets and managing the area's resources, investments and profitability. The COO is supported by joint support services.

The recoverable amount is determined by value-in-use calculations. Cash flow-based value-in-use is determined by calculating the discounted present value of expected cash flows. The discount rate used in the calculations is determined using the weighted average cost of capital (WACC), which describes the total cost of equity and liabilities, taking into account the time value of money and the specific risks associated with Pihlajalinna's business. The discount rate is a pre-tax rate. Potential impairment loss on goodwill is recognised immediately in the income statement. Previously recognised impairment losses on goodwill are not reversed.

The Group carried out its annual impairment testing of goodwill based on the situation on 31 November 2020 (30 October 2019). The result of the testing was that no impairment losses were recognised for the Group's cash-generating unit for the financial year that ended on 31 December 2020. The Group's recoverable amount exceeded the carrying amount. Due to the COVID-19 epidemic, the Group decided to also conduct impairment testing on goodwill during the financial year, based on the situation on 30 June 2020. No indications were observed of the carrying amount of goodwill being greater than its estimated recoverable amount.

EUR 1,000	2020	2019
Tested goodwill in total, Group	173 607	173 607
Goodwill as per the statement of financial position at the end of the financial year	173 607	173 607

Other key assumptions used in goodwill testing:

	2020	2019
Discount rate (pre tax WACC)	7,59 %	6,82 %
Discount rate (after tax WACC)	6,39 %	5,84 %
The terminal period's share of the amount of expected cash flows:	75 %	79 %

Sensitivity analyses in impairment testing

Based on the testing calculations, there is no need to recognise impairment. The CGU's recoverable amount exceeded the carrying amount.

The table below shows the required change in assumptions that would lead to the recoverable amount falling below the carrying amount.

	2020	2019
Decline in EBIT margin	more than 2 percentage points	more than 5 percentage points
Decline in volume	more than 19 percentage points	more than 34 percentage points
Increase in discount rate	more than 4 percentage points	more than 7 percentage points

Key accounting estimates and decisions based on management judgement

The cash flow forecasts used in calculating value-in-use in impairment testing are based on the budget for 2021 approved by the Board of Directors. Cash flow in subsequent years is estimated conservatively, at nearly zero growth, in connection with impairment testing. Cash flows arising beyond the forecast period 2022-2025 have been capitalised using a stable 2% growth rate.

The assumptions of business growth and the development of prices and costs used in the cash flow estimates are based on the management's estimates of the development of demand and the markets, which are compared with external information sources. The productivity and efficiency assumptions used in the calculations are based on internal targets, with previous actual development taken into account in their estimation. The risk-free interest rate, risk multiplier (beta) and risk premium parameters used in determining the discount rate are based on information obtained from the market. Cash flow estimates have been validated by comparing them to Pihlajalinna's market capitalisation.

The growth rate of 2% used in the calculation of the terminal value is in line with the sector's actual long-term growth. The testing period is five (5) years.

15. Right-of-use assets

Accounting policies

Most of the Pihlajalinna rental arrangements in line with the IFRS 16 are leases for business premises. The other lease arrangements in line with the standard concern land areas, machinery and equipment (exercise equipment, clinical equipment, cars and other equipment). Pihlajalinna applies the IFRS 16 exemption that allows lessees to elect not to recognise a right-of-use asset and corresponding lease liability for assets with a lease term of 12 months or less as well as assets of low value. Assets of low value include, for example, IT equipment and office furniture. Furthermore, to make the accounting of leases easier, Pihlajalinna elects not to separate service components from leases, instead treating the entire agreement as a lease in its consolidated financial statements. For lease arrangements valid until further notice, with a short notice period, Pihlajalinna will estimate the probable lease term.

Right-of-use assets are measured at cost, which includes the following items:

- original amount of the lease liability
- direct expenses of the initial phase and
- expenses due to restoring to original condition

EUR 1,000	Right-of-use plots	Right-of-use buildings and business premises	Right-of-use equipment	Total
Cost at 1 January 2020	561	166 200	5 903	172 664
Additions	239	13 558	792	14 589
Disposals	-44	-2 938	-1 345	-4 328
Cost at 31 December 2020	756	176 820	5 350	182 926
Accumulated depreciation at 1 January 2020	-287	-60 562	-3 706	-64 555
Depreciation and amortisation	-120	-17 604	-1 202	-18 927
Impairment				0
Disposals	15	2 328	1 045	3 388
Accumulated depreciation at 31 December 2020	-393	-75 838	-3 863	-80 094
Carrying amount at 1 January 2020	274	105 638	2 197	108 109
Carrying amount at 31 December 2020	363	100 981	1 487	102 832

EUR 1,000	Right-of-use plots	Right-of-use buildings and business premises	Right-of-use equipment	Total
Cost at 1 January 2019	383	157 488	4 587	162 458
Additions	179	12 678	1 649	14 505
Business combinations		3 326	476	3 802
Disposals		-7 292	-809	-8 101
Cost at 31 December 2019	561	166 200	5 903	172 664
Accumulated depreciation at 1 January 2019	-162	-43 774	-2 552	-46 487
Depreciation and amortisation	-125	-17 738	-1 480	-19 343
Impairment		-3 189		-3 189
Disposals		4 138	326	4 464
Accumulated depreciation at 31 December 2019	-287	-60 562	-3 706	-64 555
Carrying amount at 1 January 2019	221	113 714	2 035	115 970
Carrying amount at 31 December 2019	274	105 638	2 197	108 109

Short-term leases recognised in the income statement, totalling EUR 91 (520) thousand and minor leases recognised in the income statement, totalling EUR 723 (460) thousand, are practical exemptions provided by IFRS 16 applied by the Group.

Lease liabilities relating to right-of-use items are specified in Note 23 Financial liabilities.

16. Other non-current receivables

Accounting policies

Right-of-use assets that have been transferred to a lessee under a sublease and classified as financial leases have been derecognised from fixed assets and presented on the balance sheet as net investments in a sublease.

EUR 1,000	2020	2019
Lease deposits paid	635	1 764
Non-current subleases	4 868	211
Total	5 503	1 975

Pihlajalinna subleased two care homes that it sold and leased back in May.

The table below presents the contractual maturity analysis of subleases. The figures are undiscounted and they include both future interest payments and repayments of the net investment.

Maturity distribution of sublease receivables

		less than 1 year	1-2 years	2-3 years	3-4 years	over 4 years
Carrying amount at 31 Dec. 2020	5 386	585	573	510	433	3 939

17. Trade and other receivables

Accounting policies

At the end of each reporting period, the Group assesses whether or not there is objective evidence of impairment regarding any individual financial asset. Objective evidence of impairment of loans and other receivables includes significant financial distress of the debtor and payments being delinquent or substantially delayed. Impairment of loans is recognised in financial expenses in the income statement and impairment of other receivables is recognised in other operating expenses for the period in which the impairment was identified.

The expected credit loss model is based on the amount of historical credit losses. The lifetime expected credit losses are calculated by multiplying the gross carrying amount of unpaid trade receivables by the expected loss.

Key accounting estimates and decisions based on management judgement

Determining the annual profitability of the Group's fixed-term complete social and healthcare services outsourcing agreements may become accurate with a delay. The Group may not always be aware of the actual costs of the agreements at the time of preparing the financial statements, and the agreements may involve variable elements of compensation. The cost accumulation of public specialised care involves random fluctuation. In addition, individual cases falling within the scope of the hospital districts' pooling system for high-cost care may influence the cost liability of specialised care considerably during the financial year, and between financial periods, in Pihlajalinna's municipal companies.

The fixed-term service agreements for all of the Group's complete outsourcing arrangements are highly similar with regard to their principles and basic terms. Pihlajalinna has calculated and recognised the variable compensation components and cost compensation under the agreements using the same criteria and model for all clients. Demands for the compensation of cost increases due to changes in services corresponding to the actual costs and investment costs that serve operations after the end of the term of the contract being the client's responsibility constitute the majority of costs and variable compensation components that are specified with a delay. For 2020, the assessment of investment costs and COVID-19 related costs included in invoicing by hospital districts can only be carried out after the hospital districts have published their financial statements.

Pihlajalinna has recognised only part of these legally justified claims in its income statement. The parties to the agreements are bound by an obligation to negotiate and negotiation is the primary procedure. If the obligation to negotiate does not lead to payment, the receivables are sought through legal action, which may further delay the collection of items presented in current receivables in the financial statements.

Items that may, according to the management's estimate, influence the profitability of complete outsourcing agreements with a delay:

The City of Jämsä has taken legal action against Jämsän Terveys Oy regarding a matter concerning the price adjustment provision in the service agreement. The difference in views regarding whether the fixed annual price for social and healthcare services can decrease due to price adjustments amounted to approximately EUR 2.6 million at the end of the financial year. The District Court has postponed the hearing of the main case due to Jämsän Terveys possibly being in the process of bringing an additional counterclaim against the City of Jämsä. The additional counterclaim concerns the effect of changes

in the services under the service agreement on price and the service provider's liability for financing investments by the Pirkanmaa Hospital District insofar as such investments serve operations after the term of the service agreement. The service provider is entitled to price adjustments corresponding to increases in costs and the contractual parties are under an obligation to negotiate and try to reach an agreement. In its counterclaim, Jämsän Terveys claims a total of approximately EUR 15 million from the City of Jämsä. The total amount of variable compensation under the potential counterclaim that Jämsän Terveys has recognised as revenue and recorded in its receivables amounts to EUR 3.4 (3.2) million.

The total amount of contractually and legally justified variable compensation that Kuusiolinna Terveys Oy has recognised as revenue and recorded in its receivables amounts to EUR 6.3 (4.6) million. The protocol on interpretation signed with the municipalities of Alavus, Ähtäri and Soini in conjunction with the share transactions carried out in 2019 were also intended to agree on the principles of charging the variable elements of compensation in question. The company's receivables from variable compensation components are related to cost increases caused by service changes and compensating such increases in accordance with the costs as well as an assessment of the investment cost liability in specialised care. The costs of services for the elderly, the investment costs associated with specialised care, the costs of child welfare services and Kuusote's own administrative costs have increased significantly compared to the time the bid was made. A share transaction has not yet been completed with Kuortane, and no corresponding protocol on interpretation has been signed. The total claims from the clients amounted to approximately EUR 12 million based on the previously mentioned grounds at the time of drawing up the financial statements.

The total amount of contractually and legally justified variable compensation from the City of Mänttä-Vilppula that Mäntänvuoren Terveys Oy has recognised as revenue and recorded in its receivables amounts to EUR 3.2 (2.1) million. The variable compensation recognised as revenue in accordance with the agreement includes an estimate of compensation for specialised care costs to the service provider of the Pirkanmaa Hospital District's investment costs allocated to the client. The receivables from variable compensation components are also related to cost increases caused by service changes and compensating such increases in accordance with the actual costs. The total claims from the client amounted to approximately EUR 6 million based on the previously mentioned grounds at the time of drawing up the financial statements.

The total amount of contractually and legally justified variable compensation from the City of Parkano that Kolmostien Terveys Oy has recognised as revenue and recorded in its receivables amounts to EUR 0.6 (0.6) million. The variable compensation recognised as revenue in accordance with the agreement includes an estimate of compensation for specialised care costs to the service provider of the Pirkanmaa Hospital District's investment costs allocated to the client. During the financial year, the client approved cost increases arising from changes to services for the elderly as part of the annual fee under the service agreement. The total claims from the client amounted to approximately

EUR 1.5 million based on the previously mentioned grounds at the time of drawing up the financial statements.

EUR 1,000	2020	2019
Trade receivables	59 071	30 492
Prepayments and accrued income	15 734	13 260
Current subleases	518	112
Other receivables	448	2 198
Total	75 771	46 062

The carrying amount of trade receivables and other receivables corresponds to the maximum credit risk involved at the end of the reporting period.

Due to the COVID-19 epidemic, Pihlajalinna has reviewed the credit risk of receivables and the procedures used to estimate the credit risk. No significant changes have been observed in customers' payment behaviour. The collection of trade receivables has been enhanced. The amount of receivables more than 90 days past due is significantly increased by withheld payments concerning trade receivables and trade payables between Jämsän Terveys and the City of Jämsä.

As described under Risks and uncertainties in business operations, if the negotiation obligation does not lead to payment, the receivables will be collected through legal action. This may further delay the collection of items presented in current receivables in the financial statements.

The Group recognised EUR 316 thousand (EUR 228 thousand) in impairment losses on trade receivables during the financial year.

Age distribution of trade receivables

EUR 1,000	2020	Impairment losses	Net 2020	2019	Impairment losses	Net 2019
	23 646	-8	23 638	18 114	-17	18 096
Past due						
Less than 30 days	3 783	-12	3 771	3 105	-13	3 092
30-60 days	1 853	-66	1 787	1 784	-63	1 721
61-90 days	2 216	-131	2 085	644	-124	519
More than 90 days	28 263	-473	27 790	7 520	-457	7 063
Total	59 760	-689	59 071	31 166	-674	30 492

EUR 1,000	2020	2019
Credit loss provision at 1 January	674	633
Credit losses recorded	-316	228
Change in credit loss provision	330	-187
Credit loss provision at 31 December	689	674

Material items included in prepayments and accrued income

EUR 1,000	2020	2019
Sales and income accruals	4 006	5 886
Personnel expenses	1 575	1 452
Expenses paid in advance	6 782	3 734
Other	3 371	2 189
Total	15 734	13 260

The carrying amounts of the receivables correspond substantially to their fair values.

18. Provisions

Accounting policies

A provision is recognised when the Group has a legal or constructive obligation resulting from a past event, when it is probable that the payment obligation will materialise and when the amount of the obligation can be reliably estimated. The amount recognised as a provision equals the best estimate of the costs required to fulfil the present obligation on the date of the financial statements.

A restructuring provision is recognised when the Group has in place a detailed plan for such restructuring and its implementation has commenced or the interested parties have been informed of the main points of such a plan.

The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable expenses of meeting the obligations under the contract.

The Group has recognised restoration provisions relating to its premises and provisions for onerous contracts related to vacant business premises.

EUR 1,000	2020	2019
Current provisions	648	1 636
Non-current provisions	114	170
Total	762	1 806

EUR 1,000	Onerous contracts	Restructuring provision	Total
1.1.2019	302		302
Increases in provisions	1843	3 019	4 862
Provisions used	-786	-2 571	-3 357
Reversals of unused provisions			
31.12.2019	1 359	448	1 806
Increases in provisions	100		100
Provisions used	-597	-448	-1 045
Reversals of unused provisions	-100		-100
31.12.2020	762	0	762

19. Trade and other payables

EUR 1,000	2019	2018
Trade payables	45 262	18 573
Accrued liabilities	57 572	69 373
Pre-payments	1 158	1 069
Other liabilities	5 359	12 986
Total	109 352	102 002

Material items included under Accrued liabilities:

Wages and salaries and social security payments	32 675	35 531
Purchase price of Kuusilinna Terveys Oy and Mäntänvuoren Terveys Oy shares		18 598
Doctor's fee liability	7 269	7 658
Allocation of sales	82	65
Allocation of purchase invoices	15 943	7 306
Financial items	191	165
Other accrued liabilities	1 412	51
Total	57 572	69 373

The amount of trade payables is increased by withheld payments concerning trade receivables and trade payables between Jämsän Terveys and the City of Jämsä.

20. Deferred tax assets and liabilities

Accounting policies

Deferred taxes are calculated on temporary differences between the carrying amount and the tax base. However, a deferred tax liability shall not be recognised on the initial recognition of goodwill, or on the initial recognition of an asset or liability in a transaction which is a business combination and, at the time of transaction, affects neither accounting profit nor taxable profit.

In the Group, the most significant temporary differences result from depreciation and amortisation of property, plant and equipment and intangible assets, fair value-based adjustments made in connection with business combinations, and unused tax losses.

Deferred taxes are calculated by applying tax rates enacted or substantively enacted by the end of the reporting period.

A deferred tax asset is only recognised to the extent that it is probable that taxable profit will be available against which the temporary difference can be utilised. However, a deferred tax asset is not recognised if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit. Whether or not deferred tax assets can be recognised in this respect is always estimated at the end of each reporting period.

The Group shall offset deferred tax assets and liabilities where these relate to the same taxation authority and the same taxable entity.

Changes in deferred taxes during 2020:

Deferred tax assets	1.1.2020	Recognised in profit and loss	Subsidiaries acquired	31.12.2020
Tax losses carried forward confirmed by tax authorities	2 017	421		2 438
Liability to holders of Series B shares	1 557	-1 557		0
Sales proceeds from sale and leaseback arrangements	283	-30		253
Provisions	942	-352		590
Share-based incentive scheme	53	69		122
IAS 37, contingent assets	369	157		527
Effect of IFRS 16	452	263		715
Other items	333	376		710
Deferred tax assets on the statement of financial position	6 006	-651		5 355
Deferred tax liabilities				
Property, plant and equipment and intangible assets	3 969	529		4 498
Recognition of property, plant and equipment and intangible assets at fair value in business combinations	1 503	-619		884
Effect of IFRS 16	192	145		337
Other items	61	-19		42
Deferred tax liabilities on the statement of financial position	5 726	35		5 761

Changes in deferred taxes during 2019:

Deferred tax assets	1.1.2019	Recognised in profit and loss	Subsidiaries acquired	31.12.2019
Tax losses carried forward confirmed by tax authorities	1 793	224		2 017
Liability to holders of Series B shares	1 314	242		1 557
Sales proceeds from sale and leaseback arrangements	313	-30		283
Provisions		942		942
Share-based incentive scheme		53		53
IAS 37, contingent assets		369		369
Effect of IFRS 16	317	135		452
Other items	325	8		333
Deferred tax assets on the statement of financial position	4 063	1 943		6 006
Deferred tax liabilities				
Property, plant and equipment and intangible assets	3 496	474		3 969
Recognition of property, plant and equipment and intangible assets at fair value in business combinations	2 402	-912	13	1 503
Effect of IFRS 16	108	84		192
Other items	100	-39		61
Deferred tax liabilities on the statement of financial position	6 105	-394	13	5 726

Tax losses	Available tax losses		Tax values recorded		Tax values not recorded	
	2020	2019	2020	2019	2020	2019
Maturing within five years	3 681	2 296			736	459
Maturing later than within five years	18 752	15 771	2 438	2 017	1 312	1 137
Total	22 432	18 066	2 438	2 017	2 048	1 596
Taxes calculated on the basis of the Finnish tax rate (20%)	4 486	3 613				

The recognition of deferred tax assets on the statement of financial position is justified when the Group is likely to accrue taxable income against which the losses in question can be used before they expire in line with the prudence principle.

The Group will primarily apply for the right to deduct all confirmed losses of its acquired subsidiaries. The Tax Authority has granted the right to deduct confirmed losses in spite of changes in ownership.

21. Financial assets and liabilities by measurement category

Accounting policies

When a financial asset or liability is recognised on the transaction date, the Group measures it at its acquisition cost, which is equal to the fair value of the consideration given or received.

Financial assets

For the purpose of measurement after initial recognition, the Group's financial assets are classified as financial assets measured at amortised cost and financial assets measured at fair value through profit or loss. The Group has no financial instruments classified as derivatives nor financial assets measured at fair value through other comprehensive income. Financial assets are derecognised when the Group has lost its contractual right for the financial assets in question or has transferred substantially all risks and rewards outside the Group.

The Group's trade receivables, loan receivables, lease deposits and cash and cash equivalents have been classified at the time of IFRS 9 adoption as financial assets measured at amortised cost using the effective interest method, taking any impairment into account.

Financial assets measured at fair value through profit or loss consist of quoted and unquoted shares. The Group has no holdings of shares quoted in public markets.

Cash and cash equivalents

Cash and cash equivalents consist of cash at hand and demand deposits. The account with credit limit in use is included in current financial liabilities.

Financial liabilities

The Group classifies loans from financial institutions, accounts with credit limits, lease liabilities, trade payables and other liabilities as financial liabilities measured at amortised cost using the effective interest method. Transaction costs are included in the initial carrying amount. Arrangement fees for loan commitments are treated as transaction costs. The Group classifies contingent considerations arising from M&A transactions as financial liabilities measured at fair value through profit or loss. No interest is paid on liabilities arising from contingent considerations. Any contingent consideration is measured at fair value at the date of acquisition and classified as a liability. A contingent consideration classified as a liability is measured at fair value at the end of each reporting period, and any resulting gain or loss is recognised in profit or loss after the end of the measurement period. The Group has no financial instruments classified as derivatives.

Financial liabilities are classified as current liabilities, unless the Group has an unconditional right to postpone their repayment to a date that is at least 12 months subsequent to the end of the reporting period.

EUR 1,000 31.12.2020	Note	Fair value hierarchy	Fair value through profit or loss	Amortised cost	Total carrying amounts	Fair values total
Carrying amounts of financial assets						
Non-current financial assets						
Other shares and participations		level 3	126		126	126
Lease deposits	16	level 2		635	635	635
Current financial assets						
Trade receivables	17			59 071	59 071	59 071
Other receivables	17	level 2		448	448	448
Cash and cash equivalents				13 306	13 306	13 306
Total			126	73 461	73 587	73 587
Carrying amounts of financial liabilities						
Non-current financial liabilities						
Loans from financial institutions	23	level 2		91 879	91 879	91 879
Lease liabilities	23	level 2		95 475	95 475	95 475
Other liabilities	23	level 2		644	644	644
Current financial liabilities						
Loans from financial institutions	23	level 2		1 415	1 415	1415
Cheque account with credit limit	23			0		
Lease liabilities	23	level 2		18 705	18 705	18705
Trade and other payables	19			45 262	45 262	45262
Total				253 379	253 379	253 379

EUR 1,000 31.12.2019	Note	Fair value hierarchy	Fair value through profit or loss	Amortised cost	Total carrying amounts	Fair values total
Carrying amounts of financial assets						
Non-current financial assets						
Other shares and participations		level 3	146		146	146
Lease deposits	16	level 2		1 764	1 764	1 764
Current financial assets						
Trade receivables	17			30 492	30 492	30 492
Other receivables	17	level 2		2 198	2 198	2 198
Cash and cash equivalents				27 004	27 004	27 004
Total			146	61 458	61 604	61 604
Carrying amounts of financial liabilities						
Non-current financial liabilities						
Loans from financial institutions	23	level 2		103 182	103 182	103 182
Lease liabilities	23	level 2		96 404	96 404	96 404
Other liabilities	23	level 2		681	681	681
Current financial liabilities						
Loans from financial institutions	23	level 2		1 193	1 193	1 193
Cheque account with credit limit	23			501	501	501
Lease liabilities	23	level 2		17 747	17 747	17 747
Contingent consideration	27	level 3	1 397		1 397	1 397
Trade and other payables	19			26 357	26 357	26 357
Total			1 397	246 064	247 460	247 460

Fair value assessment

Financial assets and liabilities recognised at fair value on the consolidated statement of financial position are classified according to their valuation-based hierarchy levels and measurement methods as follows:

Fair value hierarchy levels

Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities. The Group has no financial assets or liabilities measured according to level 1 of the hierarchy.

Level 2: The fair value is determined using valuation methods. The financial assets and liabilities are not subject to trading in active and liquid markets. The fair values can be determined based on quoted market prices and deduced valuation.

The carrying amount of the trade receivables and financial assets essentially corresponds to their fair value, as the effect of discounting is not significant taking the maturity of the receivables into consideration.

The fair values of lease liabilities are based on discounted cash flows. The fair values of loans essentially correspond to their carrying amount since they have a floating interest rate and the Group's risk premium has not materially changed.

The carrying amount of other financial liabilities essentially corresponds to their fair value, as the effect of discounting is not significant taking the maturity of the receivables into consideration.

Level 3: The fair value is not based on verifiable market information, and information on other circumstances affecting the value of the financial asset or liability is not available or verifiable.

The Group's other shares and participations consist solely of shares in unlisted companies. Contingent considerations are measured at value at the time of acquisition. More information on contingent considerations is presented in Note 27 Business combinations.

22. Notes on equity

Accounting policies

The Group classifies all instruments it issues either as an equity instrument or a financial liability, depending on their nature. Equity instruments are any contracts evidencing a residual interest in the assets of the company after deducting all of its liabilities. Costs relating to the issue or purchase of equity instruments are presented as a deduction from equity.

Reconciliation of the number of shares

1 000 €	Number of shares	Share capital	Reserve for invested unrestricted equity	Total
31.12.2019	22 620 135	80	116 520	116 600
Treasury shares held by the parent company on 31 December 2020	2 294			
Outstanding shares on 31 December 2020	22 617 841	80	116 520	116 600

Pihlajalinna has one share series, with each share entitling its holder to one vote at a General Meeting of shareholders. The company's shares have no nominal value. All shares bestow their holders with equal rights to dividends and other distribution of the company's assets. The shares belong to the book-entry system.

Reserve for invested unrestricted equity

The reserve for invested unrestricted equity contains other equity-like investments and the share subscription price to the extent that this is not entered in share capital under a specific decision.

Distributable funds

The parent company's total distributable funds amount to EUR 213,689,101.67, of which the profit for the financial year accounts for EUR 7,698,486.16.

Dividends

The Board of Directors proposes that a dividend of EUR 0.20 per share be paid for the financial year that ended on 31 December 2020.

23. Financial liabilities

EUR 1,000	2020	2019
Non-current interest-bearing liabilities		
Bank loans	91 879	103 182
Other liabilities	644	681
Lease liabilities	95 475	96 404
	187 997	200 266
Current interest-bearing liabilities		
Bank loans	1 415	1 193
Cheque accounts with credit limit	0	501
Lease liabilities	18 705	17 747
	20 119	19 441
Interest-bearing financial liabilities total	208 117	219 707

At the end of the financial year, the Group had EUR 40.0 (29.5) million of unused committed short-term credit limits.

Drawdowns from the Group's revolving credit facility are actually long-term by nature, although their maturity is 1, 3 or 6 months.

Lease liabilities

Accounting policies

Right-of-use assets are presented under property, plant and equipment and lease liabilities are presented under financial liabilities. The right-of-use asset is initially measured at cost and depreciated over the economic life of the asset. The right-of-use asset is also subject to IAS 36 Impairment of Assets. The lease liability is initially measured at the present value of future lease payments. In later periods, the lease liability is measured using the effective interest rate method, according to which the lease liability is measured at amortised cost and the interest expense is amortised over the lease term. The standard allows the lessee to also include non-lease elements of an agreement (typically services) in the lease liability.

EUR 1,000	2020	2019
Non-current lease liabilities		
Right-of-use plots	286	206
Right-of-use business premises and buildings	94 605	95 112
Right-of-use equipment	583	1 087
Total	95 475	96 404
Current lease liabilities		
Right-of-use plots	88	61
Right-of-use business premises and buildings	17 723	16 568
Right-of-use equipment	894	1 118
Total	18 705	17 747

24. Changes in interest-bearing liabilities with no impact on cash flow

EUR 1,000	2019	Cash flow	New instalments and lease liabilities	Effective interest rate	2020
Non-current interest-bearing liabilities	103 862	-11 789	353	96	92 523
Current interest-bearing liabilities	1 693	-386	108		1 415
Lease liabilities	114 151	-20 604	20 632		114 179
Total liabilities from financing	219 707	-32 779	21 093	96	208 117

25. Capital management

The goal of the Group's capital management is to ensure that the normal requirements of business operations are met, enable investments in line with the Group's strategy and increase long-term shareholder value. The Group influences its capital structure mainly through the distribution of dividend and share issues. The key indicators concerning capital management are the equity ratio, the ratio of net debt to adjusted EBITDA and gearing.

EUR 1,000	Liite	2020	2019
Equity		114 990	106 083
Total statement of financial position - prepayments received		440 980	437 376
Equity ratio 1)		26,1 %	24,3 %
Interest-bearing financial liabilities	23	208 117	219 707
Cash and cash equivalents		-13 306	-27 004
Interest-bearing net debt		194 810	192 703
Gearing 2)		169,4 %	181,7 %
EBITDA		52 445	47 844
Adjustment items*		2 204	7 284
Adjusted EBITDA		54 649	55 127
Net debt/adjusted EBITDA		3,6	3,5

* Significant transactions that are not part of the normal course of business, infrequently occurring events or valuation items that do not affect cash flow are treated as adjustment items affecting comparability between review periods. According to Pihlajalinna's definition, such items include, for example, restructuring measures and Group refinancing, impairment of assets and the remeasurement of previous assets held by subsidiaries, the costs of closing down businesses and business locations, gains and losses on the sale of businesses, costs arising from operational restructuring and the integration of acquired businesses, costs related to the termination of employment relationships, as well as fines and corresponding compensation payments.

During the financial year, the Group acquired 47,399 of its own shares based on an authorisation granted by the Annual General Meeting on 4 April 2019. The shares were acquired in public trading on Nasdaq Helsinki Ltd at the market price prevailing at the time of purchase. The shares were used as part of the Group's incentive scheme. On the financial statements date, the Group held 2,294 treasury shares.

1) The formula for calculating the equity ratio is $100 \times \text{Equity} / (\text{Total statement of financial position} - \text{prepayments received})$

2) The formula for calculating gearing is $100 \times \text{Interest-bearing net debt} / \text{Equity}$

More information on adjusted EBITDA is provided in Note 8 Adjusted EBITDA and adjusted operating profit.

26. Financial risk management

The Group's main financial risks consist of credit and counterparty risk as well as interest rate and liquidity risks. The Group operates in Finland and is therefore not exposed to material foreign exchange risks in its operations. The Group's general risk management policies are approved by the Board of Directors. The Group's Chief Financial Officer, together with the operative management, is responsible for identifying financial risks and for practical risk management. The goal of the Group's risk management is to ensure sufficient liquidity, minimise financing costs and regularly inform the management about the Group's financial position and risks. Group's financial administration actively monitors compliance with the financial covenants and assesses financial leeway in relation to the covenant maximums as part of the Group's business planning.

Interest rate risk

The Group is exposed to interest rate risks mainly through its external loan portfolio. In accordance with the principles of risk management, the Board of Directors decides on the extent of interest rate hedging coverage for the Group's loan portfolio. At the end of

the financial year, the Group had no interest rate hedging arrangements in place. On the date of the financial statements, 56% (53%) of the interest-bearing liabilities were subject to fixed interest rates. During the financial year, the average annual interest rate on the Group's interest-bearing liabilities was approximately 1.87% (1.84%). The duration, i.e. the fixed interest rate period, of the financing portfolio was 3.6 (4.0) years.

The table below presents the Group's interest rate position at the end of the reporting period.

EUR 1,000	2020	2019
Fixed rate financial liabilities	115 790	116 624
Variable rate financial liabilities	92 535	103 387
Total variable rate position	92 535	103 387

The table below presents the effects on consolidated profit before tax should market interest rates rise or fall, all other things being equal. The sensitivity analysis is based on the interest rate position at the closing date of the reporting period.

	2020	2020	2019	2019
	0.5 percentage points higher	0.5 percentage points lower	0.5 percentage units higher	0.5 percentage units lower
Change				
Effect on profit before tax	-463	0	-517	0

Since the Group has no material interest-bearing assets, its income and operating cash flows are not materially exposed to changes in market interest rates.

Liquidity risk

The Group monitors the amount of financing required by business operations by analysing cash flow forecasts in order to make sure the Group has a sufficient amount of liquid assets for financing operations and repaying maturing loans.

The Group aims to ensure the availability and flexibility of financing with adequate credit limits, a balanced maturity profile and sufficiently long maturities for borrowings, as well as by obtaining financing through several financial instruments. On the financial statements date, the Group's financial assets stood at EUR 13.3 (27.0) million, in addition to which the Group had EUR 40.0 (29.5) million in unused committed credit limits available.

Pihlajalinna has a five-year EUR 120 million unsecured financing arrangement with Danske Bank and Nordea. The arrangement comprises a EUR 50 million revolving credit facility and a long-term bullet loan of EUR 70 million. It also includes an opportunity to increase the total amount by EUR 60 million (to EUR 180 million), subject to separate

decisions on a supplementary loan from the funding providers.

The Group's equity ratio at the end of the financial year was 26.1 (24.3) per cent. The Group has good financial standing and its business operations are profitable, and therefore the company has not identified any significant risks related to the availability of additional financing.

The table below presents the contractual maturity of financial liabilities. The figures are undiscounted and they include both future interest payments and repayments of principal.

Financial liabilities repayment schedule

EUR 1,000	Carrying amount at 31 Dec. 2020	less than 1 year	1-2 years	2-3 years	3-4 years	over 4 years
Loans from financial institutions	93 293	-3 526	-3 337	-90 960	-249	0
Lease liabilities	114 179	-20 387	-17 314	-13 626	-12 181	-59 060
Other interest-bearing liabilities	644	-20	-57	-57	-57	-794
Trade payables	45 262	-45 262				
Total	253 379	-69 196	-20 708	-104 642	-12 486	-59 854

EUR 1,000	Carrying amount at 31 Dec. 2019	less than 1 year	1-2 years	2-3 years	3-4 years	over 4 years
Loans from financial institutions	104 375	-3 435	-3 817	-3 319	-100 916	-239
Lease liabilities	114 151	-19 457	-17 371	-14 589	-12 125	-59 266
Other interest-bearing liabilities	681	-20	-57	-57	-57	-851
Contingent consideration	1 397	-1 397				
Cheque account with credit limit	501	-501				
Trade payables	18 573	-18 573				
Other liabilities, series B	7 784	-7 784				
Total	247 460	-51 166	-21 244	-17 964	-113 098	-60 357

Loan covenants

The Group's key loan covenants are reported to the financiers on a quarterly basis. If the Group breaches the loan covenant terms, the creditors may accelerate the repayment of the loans. The management monitors the fulfilment of loan covenant terms and reports on them to the Board of Directors on a regular basis.

The financing arrangement includes the customary financial covenants concerning leverage (ratio of net debt to pro forma EBITDA) and gearing. The calculation of cove-

nants will continue with the creditor banks in accordance with the accounting principles confirmed in the original financing arrangement (frozen GAAP, i.e. excluding the IFRS 16 impact). The Group met the set covenants on 31 December 2020.

Due to the changes in the operating environment caused by the COVID-19 epidemic, Pihlajalinna and the creditor banks agreed on a temporary adjustment to the covenants of the financing arrangement at the end of March. The temporary covenants for the first and second quarter of the year were as follows: leverage must not exceed 4.25 and gearing must not exceed 140 per cent. The original covenants of the financing arrangement – leverage of 3.75 and gearing of 115 per cent – took effect again when the covenants were reviewed in the third quarter.

As part of the agreement, a permanent new margin ceiling was added to the financing arrangement. The margin ceiling will enter into effect if leverage exceeds 3.50. On 31 December 2020, leverage in accordance with the financing arrangement stood at 2.78 (3.13) and gearing was 94% (97%).

At the end of January 2021, Pihlajalinna and the creditor banks agreed that the exceptional items referred to in the covenant calculations can include IAS 37 compliant items recognised in relation to receivables from the City of Jämsä that may be collected through legal action. At the end of the reporting period, 31 December 2020, the loan amount to which the covenants apply was EUR 90.0 (100.0) million.

Credit risk

The Group's credit risk mostly consists of credit risks involved in customer receivables related to business operations. The Group's largest customers are municipalities, joint municipal authorities or large and solvent listed companies.

The Group's key credit risks are presented in Note 17 Trade and other receivables. The payment information of corporate and personal customers is checked at every appointment. For the collection of payments, the Group uses an external collections agency. The Group offers private customers financing via SveaRahoitus. This arrangement includes a check of the customer's creditworthiness. The ageing analysis of trade receivables is presented in Note 17 Trade receivables and other receivables. The amount of credit losses recorded in profit or loss during the financial year was not significant. The maximum amount of the Group's credit risk equals to the carrying amount of financial assets at the end of the financial year (see Note 20 Financial assets and liabilities by measurement category).

Currency risk

The Group operates mainly in Finland and is not therefore exposed to material foreign exchange risks in its operations. The Group's annual procurements in foreign currencies are insignificant.

27. Acquired business operations

The Group did not carry out any business acquisitions during the financial year 2020.

Acquisitions during the financial year 2019

Acquired entity	Month of acquisition	Industry	Domicile
Klaari Oy (Fit1 gym chain) and its subsidiary Fitnessclub Länsi-Suomi Oy, 100% of the share capital	February 2019	Fitness centres	Espoo, Vaasa
Dalmed Oy, 100% of the share capital	April 2019	Occupational healthcare services	Kemiö
Kouvolan Työterveys ry (business operations)	June 2019	Occupational healthcare services	Kouvola
Aurinkoristeys, i.e. the occupational healthcare units of the town of Raisio (business operations)	September 2019	Occupational health services	Raisio, Naantali

Accounting policies

With respect to significant business combinations, the Group has relied on an external advisor on the estimates of the fair value of property, plant and equipment and intangible assets. With property, plant and equipment, comparisons are made with the market prices of corresponding assets, and it is estimated how much the value of the acquired assets has decreased due to age, wear and tear and other such factors. With intangible assets, fair value measurement is based on estimated cash flows related to the assets. Since the acquisitions are not material individually, the following information has been consolidated:

EUR 1,000	2019
Consideration	
Cash, basic transaction price	3 712
Total cost of the combination	3 712

On the date of acquisition, the values of assets acquired and liabilities assumed were as follows:

EUR 1,000	Note	2019
Property, plant and equipment	13	13
Intangible assets	14	76
Right-of-use assets	15	3 802
Deferred tax assets		0
Inventories		1
Other investments		5
Trade and other receivables		196
Cash and cash equivalents		334
Total assets		4 428
Deferred tax liabilities		-14
Financial liabilities	23	-197
Lease liabilities	23	-3 802
Other liabilities		-344
Total liabilities		-4 356
Acquired net assets		72

Goodwill generated in the acquisition:

EUR 1,000	Note	2019
Consideration transferred		3 712
Affordable transaction		3
Share of the acquisition allocated to non-controlling interests		38
Net identifiable assets of acquirees		-72
Goodwill	14	3 680
Transaction price paid in cash		3 712
Cash and cash equivalents of acquiree		-334
Effect on cash flow*		3 378

Customer contracts, non-compete agreements and patient databases were recognised in the acquisition as intangible assets separate from goodwill. The fair value of intangible assets has been determined on the basis of the standardised price level in business combinations and the discounted values of future cash flows. The remaining goodwill consists of expectations about returns, the skilled workforce of the acquired companies and synergy benefits.

The acquisition-related expenses, a total of EUR 53 thousand, have been recorded under other operating expenses. The revenue and results for the acquired business op-

erations beginning from the date of acquisition (total revenue EUR 2,909 thousand and total operating profit EUR 102 thousand) are included in the consolidated statement of comprehensive income. Had the business operations acquired in the financial year been consolidated as of the beginning of 2019, consolidated revenue would have amounted to EUR 520,093 thousand and operating profit for the financial year would have been EUR 10,291 thousand.

Acquisition of non-controlling interests during the financial year 2019

At the beginning of February 2019, Pihlajalinna increased its ownership in Kolmostien Terveys Oy by acquiring 15 per cent of the company's share capital from the City of Parkano. After the transaction, the Group owns 96 per cent of the company.

Pihlajalinna increased its holding in Mäntänvuoren Terveys Oy by purchasing 10 per cent of the shares in the company from the City of Mänttä-Vilppula in December 2019. After the transaction, the Group owns 91 per cent of the company.

At the end of the financial year 2019, Pihlajalinna increased its holding in Kuusiolonna Terveys, a joint venture with the municipalities of Alavus, Ähtäri, Kuortane and Soini. The transactions were made with the municipalities of Alavus, Ähtäri and Soini. After the transaction, the Group owns 90 per cent of the company.

Contingent consideration

The fair value of contingent consideration is determined on the basis of the budget for the 2019 financial year approved by the Board of Directors and on estimates for 2019–2020 prepared by the management. The estimates are based on a discount rate of 3%. Any changes in the fair value of contingent consideration are recorded under other operating expenses. The valuation difference resulting from the discount rate has been recognised in profit or loss under financial items.

EUR 1,000	2020	2019
Contingent consideration, 1 January	1 397	2 812
Effect of the unwinding of discount	3	63
Contingent consideration paid during the financial year*	-1 400	-1 479
Contingent consideration, 31 December	0	1 397

*The line item "Acquisition of subsidiaries less cash and cash equivalents on date of acquisition" in the consolidated statement of cash flows presents the following items as a net amount:

EUR 1,000	2020	2019
Acquisitions in the financial year, effect on cash flow		3 378
Contingent consideration paid during the financial year	1 400	1 479
Total	1 400	4 857

28. Subsidiaries and material non-controlling interests

The Group's structure

The Group had 30 (44) subsidiaries in 2020. Of these subsidiaries, 16 (20) are wholly-owned and 14 (24) are partially owned. A list of all of the Group's subsidiaries is presented in Note 31 Related party transactions.

In 2020, the Group had 1 (1) associated company and 1 (1) joint operation.

Breakdown of material non-controlling interests in the Group

EUR 1,000 Subsidiary	Main business location	Non-controlling interests' share of the votes		Non-controlling interests' share of profit or loss		Non-controlling interests' share of equity	
		2020	2019	2020	2019	2020	2019
Jämsän Terveys Oy	Jämsä	49 %	49 %	-289	-48	231	520
Pihlajalinna Erityisasumispalvelut Oy	Hämeenlinna	30 %	30 %	10	6	-137	-148
Dextra Lapsettomuusklinikka Oy	Helsinki	49 %	49 %	436	420	653	339
Pihlajalinna Liikuntakeskukset Group	useita	30 %	30 %	-597	57	2 106	2 792
Suomen Yksityiset Hammaslääkärit Group	useita	45 %	45 %	-23	-92	477	499
				-462	343	3 329	4 003

Summary of financial information on subsidiaries with a material non-controlling interest

EUR 1,000	Jämsän Terveys Oy		Pihlajalinna Erityisasumis- palvelut Oy		Dextra Lapsettomuus- klinikka Oy		Pihlajalinna Liikuntakeskukset Group		Suomen Yksityiset Hammaslääkärit Group	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Current assets	30 919	12 388	415	219	1 166	397	1 272	8 891	700	669
Non-current assets	1 810	1 870	2 582	655	1 712	2 229	40 747	27 421	2 070	1 867
Current liabilities	31 517	12 297	1 026	714	797	852	14 510	19 236	1 504	1 528
Non-current liabilities	647	822	2 421	651	168	501	21 246	23 800	84	195
Revenue	73 997	72 563	3 650	2 410	5 425	5 073	11 797	18 467	4 478	4 898
Operating profit	-698	-123	82	43	1 149	1 145	-1 893	799	-80	-204
Profit/loss	-591	-98	35	19	889	857	-2 006	191	-51	-193
Share of profit/loss attributable to owners of the parent	-301	-50	24	13	453	437	-1 409	134	-28	-102
Non-controlling interests' share of profit/loss	-289	-48	10	6	436	420	-597	57	-23	-92
Net cash flow from operating activities	-2 537	-703	283	787	1 401	1 619	3 765	5 397	360	394
Net cash flow from investing activities	-125	-191	-126	-47	-772	-135	-314	1 241	-176	-397
Net cash flow from financing activities	-209	-206	-157	-740	-623	-1 176	-6 958	-4 542	-214	-228
of which dividends paid to non-controlling interests					-123		-89			

29. Interests in associates and joint arrangements

Accounting policies

Associates are companies over which the Group has significant influence. As a rule, significant influence is established when the Group holds more than 20% of a company's voting power or otherwise has significant influence but no control. A joint arrangement is an arrangement of which two or more parties have joint control. Joint control involves contractually agreed sharing of control of an arrangement, which exists only when decisions about relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture. A joint venture is an arrangement whereby the Group has rights to the net assets of the arrangement, whereas in a joint operation the Group has rights to the assets, and obligations for the liabilities, relating to the arrangement.

Associates and joint ventures are consolidated using the equity method. If the Group's share of the loss of an associate or a joint venture exceeds the carrying amount of the investment, then the investment is carried at zero value, and the losses exceeding the carrying amount are not consolidated, unless the Group is committed to fulfilling the obligations of the associate or joint venture. An investment in an associate or a joint venture includes the goodwill generated through the acquisition. Unrealised profits between the Group and an associate or a joint venture are eliminated in proportion to the Group's ownership interest. The Group's pro rata share of an associate's or a joint venture's profit for the financial year is included in operating profit.

EUR 1,000		2020	2019
Interests in associates	Ullanlinnan Silmälääkärit Oy	17	24
Interests in joint operations		40	40
Total carrying amount		57	64

Interests in associates

Name	Main business location	Industry	Holding, %	
			2020	2019
Ullanlinnan Silmälääkärit Oy	Helsinki	Healthcare services	37 %	37 %

The Group's pro rata share of an associate's or a joint venture's profit for the financial year up to the is presented separately in operating profit up to the carrying amount of the Group's investment in their shares.

Interests in joint operations

The Group owns 31% in Kiinteistö Oy Levin Pihlaja, which is consolidated as a joint operation according to the pro rata share.

30. Contingent assets and liabilities and commitments

Collateral given on own behalf	2020	2019
Sureties	4 401	3 682
Properties' VAT refund liability	85	1 728
Lease commitments for off-balance sheet leases	794	980
Lease deposits	635	1 764

Lawsuits and official proceedings

The City of Jämsä has taken legal action against Jämsän Terveys Oy regarding a matter concerning the price adjustment provision in the service agreement. The difference in views regarding whether the fixed annual price for social and healthcare services can decrease due to price adjustments amounted to approximately EUR 2.6 million at the end of the financial year. The District Court has postponed the hearing of the main case due to Jämsän Terveys possibly being in the process of bringing an additional counterclaim against the City of Jämsä. The additional counterclaim concerns the effect of changes in the services under the service agreement on price and the service provider's liability for financing investments by the Pirkanmaa Hospital District insofar as such investments serve operations after the term of the service agreement. The service provider is entitled to price adjustments corresponding to increases in costs and the contractual parties are under an obligation to negotiate and try to reach an agreement. In its counterclaim, Jämsän Terveys claims a total of approximately EUR 15 million from the City of Jämsä.

The municipality of Hattula filed an application for a summons with the District Court regarding confirmation, contractual penalty and claim for damages based on a breach of contract. The claim filed by the municipality of Hattula in the dispute is for the total amount of EUR 2.9 million plus penalty interest and the claimant's legal fees. Pihlajalinna has disputed the presented claims and alleged breach of contract and filed a counterclaim of approximately EUR 1.7 million for the groundless termination of the agreement, amongst other things. Pihlajalinna's service production in Hattula ended on 31 March 2020.

A claim based on breach of contract has been filed against a subsidiary of the Group in arbitration proceedings. The claim is estimated to be entirely unfounded.

31. Related party transactions

The Group's related parties consist of the subsidiaries, associates and joint ventures. Key management personnel considered related parties consist of the members of the Board of Directors and the Management Team, including the CEO.

The Group's parent company and subsidiary relationships

The Group's parent company is Pihlajalinna Plc, which owns all of Pihlajalinna Terveys Oy's Series A shares.

Company	Domicile	Holding	% of votes
Parent company Pihlajalinna Plc	Tampere		
Pihlajalinna Terveys Oy	Parkano	100 %	100 %
Ikipihlaja Johanna Oy	Jämsä	100 %	100 %
Jokilaakson Terveys Oy	Jämsä	90 %	90 %
Pihlajalinna Lääkärikeskukset Oy	Helsinki	100 %	100 %
Mäntänvuoren Terveys Oy	Mänttä-Vilppula	91 %	91 %
Ikipihlaja Kuusama Oy	Kokemäki	100 %	100 %
Ikipihlaja Sofianhovi Oy	Mänttä-Vilppula	100 %	100 %
Wiisuri Oy	Jyväskylä	100 %	100 %
Ikipihlaja Matinkartano Oy	Lieto	100 %	100 %
Ikipihlaja Setälänpiha Oy	Lieto	100 %	100 %
Ikipihlaja Oiva Oy	Raisio	100 %	100 %
Kolmostien Terveys Oy	Parkano	96 %	96 %
Jämsän Terveys Oy	Jämsä	51 %	51 %
Kuusiolinnat Terveys Oy	Alavus	90 %	90 %
Lääkäriasema Doktori Oy	Lappeenranta	100 %	100 %
Kompassi Lääkärikeskus Oy	Seinäjoki	100 %	100 %
Mediapu Oy	Oulu	100 %	100 %
Pihlajalinna Seinäjoki Oy	Seinäjoki	100 %	100 %
Pihlajalinna Turku Oy	Turku	92 %	92 %
Pihlajalinna Erityisasumispalvelut Oy	Hämeenlinna	70 %	70 %
Pihlajalinna Oulu Oy	Oulu	100 %	100 %
Dextra Lapsettomuuskeskus Oy	Helsinki	51 %	51 %
Bottenhavets Hälsa Ab-Selkämeren Terveys Oy	Kristiinankaupunki	83 %	83 %
Linnan Klinikka Oy	Hämeenlinna	100 %	100 %
Pihlajalinna Liikuntakeskukset Oy	Tampere	70 %	70 %
Forever Helsinki Oy	Helsinki	70 %	70 %
Suomen Yksityiset Hammaslääkärit Oy	Tampere	55 %	55 %
Pihlajalinna Hammasklinikat Oy	Tampere	55 %	55 %
Laihia Hyvinvointi Oy	Laihia	81 %	81 %
Terveyspalvelu Verso Oy	Iisalmi	100 %	100 %

Information on the associates is presented in Note 29 Interests in associates and joint arrangements.

Changes in Group structure

The following changes in group structure were implemented during the financial year:

Merged company	Target company	Date of time
Forever Matinkylä Oy	Forever Helsinki Oy	1.1.2020
Etelä-Karjalan Liikuntakeskus Oy	Forever Helsinki Oy	1.1.2020
Forever Hiekkaharju Oy	Forever Helsinki Oy	1.1.2020
Forever Varisto Oy	Forever Helsinki Oy	1.1.2020
Keravan Forever Oy	Forever Helsinki Oy	1.1.2020
Klaari Oy	Forever Helsinki Oy	1.1.2020
Kompassi Hammaslääkärikeskus Oy	Pihlajalinna Seinäjoki Oy	1.2.2020
Pihlajalinna Solutions Oy	Pihlajalinna Lääkärikeskukset Oy	1.9.2020
Forever Herttoniemi Oy	Forever Helsinki Oy	1.9.2020
Forever Hämeenlinna Oy	Forever Helsinki Oy	1.9.2020
Impact Care Oy	Pihlajalinna Lääkärikeskukset Oy	1.9.2020
Forever Järvenpää Oy	Pihlajalinna Liikuntakeskukset Oy	31.12.2020
Forever Lahti Oy	Pihlajalinna Liikuntakeskukset Oy	31.12.2020
Leaf Areena Oy	Pihlajalinna Liikuntakeskukset Oy	31.12.2020

Employee benefits of management

1000 €	2020	2019
Salaries and other short-term employee benefits, Management Team	1 526	1 328
Post-employment benefits, Management Team		131
Total	1 526	1 459

Wages and salaries

EUR 1,000	2020	2019
CEO		
Joni Aaltonen	433	285
Members of the Board of Directors		
Leena Niemistö	45	43
Jari Sundström (until 5 April 2019)		8
Mikko Wirén	259	260
Seija Turunen	35	35
Timo Everi (5 April 2019)		9
Matti Bergendahl (5 April 2018–5 April 2019)		14
Gunvor Kronman (5 April 2018–5 April 2019)		9
Kati Sulin	31	32
Matti Jaakola (since 5 April 2019)	34	27
Hannu Juvonen (since 5 April 2019)	35	27
Mika Manninen (since 5 April 2019)	35	27
Total	906	771

According to the CEO's contract, the notice period for dismissal is 3 months. The company is liable to pay the CEO one-time compensation for termination amounting to six months' total salary. The CEO's pension benefits are according to the statutory pension scheme. The CEO is not a member of the Board of Directors.

Related party transactions and related party receivables and liabilities:

	2020	2019
Key management personnel		
Rents paid	892	942
Services procured	945	987
Trade payables	-3	9

The Group has leased several of its business premises from a member of the key management personnel: the premises in Nokia, Karkku, Tampere and Kangasala.

A Group company has an agreement with a member of the key management personnel, under which the Group buys healthcare professionals' services.

32. Events after the balance sheet date

Acquisition of Työterveys Virta Oy

The city government of Oulu and municipal government of Liminka decided in their meetings on Monday, 11 January 2021, to sell the shares of Työterveys Virta Oy to Pihlajalinna. The governments also chose Pihlajalinna to be their contracting party for occupational healthcare services. The other owners of Työterveys Virta will also make their decisions about selling the shares and procuring occupational healthcare services during January–February.

On 9 October 2020, Pihlajalinna announced it had won a public bidding competition for the sale of Työterveys Virta Oy's share capital and occupational healthcare services. In order to complete the transaction, the appropriate due diligence procedures were carried out, and the acquisition has proceeded to the contract stage and the approval of the contracts of sale. The total price of the shares with cash reserve is EUR 17.6 million.

Repurchase of own shares

Pihlajalinna completed the repurchase of own shares that began on 15 January 2021 and ended on 21 January 2021. During that time, Pihlajalinna acquired a total of 60,000 of its own shares for an average price of EUR 9.70 per share. The repurchased shares were acquired on the basis of the authorisation given by the Annual General Meeting on 15 April 2020 and shall be used as a part of the company's incentive programme. Following the repurchase, Pihlajalinna holds a total of 62,294 of its own shares, corresponding to approximately 0.28 per cent of the total number of shares.

The Shareholders' Nomination Board's proposals to the Annual General Meeting 2021

The number of members and composition of the Board of Directors:

The Nomination Board proposes to the Annual General Meeting of Pihlajalinna Plc to be held on 15 April 2021 that the number of the members of the Board be confirmed to be six instead of the current seven.

The Nomination Board proposes that Hannu Juvonen, Mika Manninen, Leena Niemistö, Kati Sulin, Seija Turunen and Mikko Wirén, currently members of the Board of Directors, be re-elected as members of the Board of Directors. Of the current members, Matti Jaakola will not continue as a member of the Board of Directors.

The personal details of the current members of the Board and the details of their positions of trust are available at investors.pihlajalinna.fi/corporate-governance/board-of-directors.

The Nomination Board further proposes that the Annual General Meeting elect Mikko Wirén as the Chairman of the Board and Leena Niemistö as the Vice-Chairman.

Remuneration of the members of the Board of Directors

The Shareholders' Nomination Board proposes that the remuneration of the Board of Directors be kept unchanged, except for the remuneration of the Chairman of the Audit Committee, and that the following annual remuneration be paid to the members of the Board of Directors to be elected at the Annual General Meeting for the term of office ending at the close of the Annual General Meeting 2022: to the full-time Chairman of the Board of Directors EUR 250,000 per year; to the Vice-Chairman and the Chairman of the Audit Committee EUR 36,000 per year, and to the other members of the Board of Directors EUR 24,000 per year.

The proposal is that the annual remuneration to be paid in company shares and cash so that about 40 per cent of the remuneration is used to purchase the company's shares on behalf of the members and the remaining share of the remuneration is paid in cash. The remuneration can be paid either entirely or partially in cash if the member of the Board of Directors has, on the day of the General Meeting, 15 April 2021, been in possession of over EUR 1,000,000 worth of company shares. The company is responsible for the expenses and transfer tax arising from the acquisition of the shares. The remuneration to be paid in shares can be paid by transferring company shares in possession of the company to the members of the Board of Directors or by purchasing shares directly on behalf of the Board members within three weeks after the interim report for the period of 1 January–31 March 2021 has been published. If this is not, due to legal or other regulatory reasons, such as insider regulations, possible at the first available time after this, the alternative is to pay the remuneration in cash. If the term of a Board member ends before the Annual General Meeting of 2022, the Board is entitled to decide on the possible recovery of the remuneration in a manner it deems appropriate.

In addition, the Nomination Board proposes that each Board member be paid meeting remuneration in the amount of EUR 500 for each Board and Committee meeting. In addition, reasonable travel expenses would be reimbursed in accordance with the company's travel policy.

Parent company income statement, FAS

EUR 1,000	Note	1.1. - 31.12.2020	1.1. - 31.12.2019
Revenue	1.1.	4 224	3 276
Other operating income	1.2.	464	347
Personnel expenses	1.3.	-1 625	-1 258
Depreciation, amortisation and impairment	1.4.	-1 825	-1 515
Other operating expenses	1.5.	-4 303	-3 534
Operating profit (loss)		-3 065	-2 683
Financial income and expenses	1.6.	-1 216	-110
Profit (loss) before appropriations and taxes		-4 281	-2 793
Appropriations	1.7.		
Change in depreciation difference		-199	-274
Group contribution		14 000	6 000
Income taxes	1.8.	-1 821	-604
Profit (loss) for the financial year		7 698	2 329

Parent company balance sheet, FAS

EUR 1,000	Note	31.12.2020	31.12.2019
Assets			
Non-current assets			
Intangible assets	2.1.	4 739	5 448
Property, plant and equipment	2.2.	2 454	2 695
Investments	2.3.	284 485	284 485
		291 677	292 628
Current assets			
Non-current receivables	2.4.	39	37
Current receivables	2.5.	58 056	43 072
Cash and cash equivalents		7 840	16
		65 936	43 124
Total assets		357 613	335 752
Equity and liabilities			
Equity	2.6.		
Share capital		80	80
Reserve for invested unrestricted equity		183 190	183 190
Retained earnings		23 553	21 915
Profit/loss for the financial year		7 698	2 329
		214 522	207 515
Accumulated appropriations	2.7	986	787
Mandatory provisions	2.8	48	74
Liabilities	2.9		
Non-current liabilities		91 066	101 709
Current liabilities		50 992	25 666
		142 058	127 375
Total equity and liabilities		357 613	335 752

Parent company cash flow statement, FAS

EUR 1,000	1.1. - 31.12.2020	1.1. - 31.12.2019
Cash flow from operating activities		
Profit for the period	7 698	2 329
Depreciation, amortisation and impairment	1 825	1 515
Financial income and expenses	1 216	110
Other adjustments (appropriations and taxes)	-11 999	-5 122
Cash flow before change in working capital	-1 259	-1 169
Change in net working capital	641	1 150
Cash flows from operating activities before financial items and taxes	-618	-18
Interest received	1 154	1 673
Direct taxes paid	-70	306
Cash flow from operating activities	466	1 960
Cash flows from investing activities		
Investments in tangible and intangible assets	-769	-1 584
Cash flows from investing activities	-769	-1 584
Cash flows from financing activities		
Proceeds from short-term borrowings from group companies	22 929	-5 045
Loans granted to Group companies	-6 532	-5 264
Proceeds from short-term liabilities		501
Repayment of short-term liabilities	-501	
Proceeds from long-term liabilities		9 000
Repayment of long-term liabilities	-10 734	-732
Group contributions received	6 000	2 900
Interest paid	-2 344	-1 730
Dividends paid		-2 262
Acquisition of own shares	-692	
Cash flows from financing activities	8 127	-2 633
Change in cash and cash equivalents	7 824	-2 257
Cash at the beginning of the financial year	16	2 272
Cash at the end of the financial year	7 840	16

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2020

Accounting policies

Pihlajalinna Plc (2617455-1), domiciled in Tampere, is the parent company of Pihlajalinna Group. The company was established on 15 April 2014.

Mehiläinen did not complete its public cash tender offer for Pihlajalinna, the merger process has ended

On 5 November 2019, Mehiläinen Yhtiöt Oy and Pihlajalinna Plc entered into a combination agreement, pursuant to which Mehiläinen made a voluntary recommended public cash tender offer for all issued and outstanding shares in Pihlajalinna. The offer period commenced on 9 January 2020 at 9:30 a.m. (Finnish time) and it expired on 20 November 2020 at 4:00 p.m. (Finnish time).

The completion of the tender offer was subject to, among other conditions, obtaining merger control clearance and that the tender offer was accepted with respect to shares representing, together with shares otherwise acquired by Mehiläinen, more than ninety per cent (90%) of the issued and outstanding shares and votes in Pihlajalinna.

According to the final result of the tender offer, the shares validly tendered and not properly withdrawn in the tender offer represent approximately 85.76 per cent of all issued and outstanding shares and votes in Pihlajalinna. Mehiläinen does not, directly or indirectly, own any shares in Pihlajalinna.

Merger control clearance was not obtained for the tender offer and the minimum acceptance condition of the tender offer was not fulfilled. Mehiläinen will not complete the tender offer and the merger process between the companies has ended. Pihlajalinna has not made a commitment to new negotiations with Mehiläinen.

Valuation of non-current assets

Intangible assets and tangible assets have been recognised in the balance sheet at cost. Depreciation and amortisation according to plan is calculated using the straight-line method over the economic useful lives of the assets.

The planned depreciation periods are as follows:

Development costs	5 - 7 years
Other intellectual property rights	5 - 7 years
Other long-term expenditures	5 - 7 years
Machinery and equipment	3 - 10 years

Acquisition costs of assets included in non-current assets with a probable economic useful life of less than 3 years, and small-scale acquisitions (value under EUR 850) have been expensed in the financial year during which they were acquired in full. Financial assets are measured at the lower of cost or fair market, if the impairment is considered to be permanent.

Recognition of deferred taxes

Deferred tax liabilities or assets have been calculated on the temporary differences between taxation and the financial statements, using the prevailing tax base at balance sheet date. The balance sheet includes deferred tax liabilities in their entirety and deferred tax assets in the amount of the estimated probable receivables.

Revenue recognition

The sale of products and services is recognised in connection with their delivery. Capitalised development costs (Accounting Ordinance 2:4, 3-4). The company's capitalised product development expenditure relating to the Pihlajalinna mobile application and the company website will be amortised over their economic useful lives. Unamortised development expenditure included in intangible assets, which restricts profit distribution, amounted to EUR 753 (1,017) thousand at the end of the financial year.

Recognition of pension schemes

The personnel's statutory pension security is handled by an external pension insurance company. Pension costs are recognised as expenses during the year of their accrual.

1.1. Revenue

EUR 1,000	2020	2019
Revenues by sector		
Sale of services	4 224	3 276
	4 224	3 276

1.2. Other operating income

EUR 1,000	2020	2019
Rental income	116	19
Lease income from equipment	328	328
Insurance indemnities received	1	
Capital gains on property, plant and equipment	19	
	464	347

1.3. Personnel expenses

EUR 1,000	2020	2019
Wages and salaries	-1 514	-1 136
Pension costs	-96	-110
Other social security expenses	-16	-12
Total	-1 625	-1 258
Average number of employees during the financial year	3	5

The remuneration of the Board of Directors of Pihlajalinna Plc is included in the company's personnel expenses. The Annual General Meeting of 15 April 2020 decided that remuneration shall be paid to the members of the Board of Directors as follows: to the full-time Chairman of the Board of Directors EUR 250,000 per year; to the Vice-Chairman EUR 36,000 per year, and to members EUR 24,000 per year. In addition, the AGM decided that each Board member shall be paid a meeting fee of EUR 500 for each Board and Committee meeting.

A summary of the remuneration of the Board of Directors is included in Note 31 "Related party transactions" to the consolidated financial statements. In addition, the Corporate Governance Statement includes a summary of remuneration paid to members of the Board of Directors in 2020.

1.4. Depreciation and impairment

EUR 1,000	2020	2019
Depreciation according to plan		
Intangible assets	-1 458	-1 153
Property, plant and equipment	-367	-362
	-1 825	-1 515

1.5. Other operating expenses

EUR 1,000	2020	2019
Voluntary social security expenses	-49	-20

Facility expenses	-105	-237
Vehicle expenses	-24	-5
ICT expenses	-2 757	-2 175
Machinery and equipment expenses	0	-1
Sales, marketing and travel expenses	-36	-66
Administrative expenses	-1 331	-1 029
Other operating expenses, total	-4 303	-3 534
Auditor's fees		
audit fees	92	116
auxiliary services	5	1
	97	117

1.6. Financial income and expenses

EUR 1,000	2020	2019
Interest income from non-current investments		
From Group companies	1 154	1 671
From others	0	2
Interest income from non-current investments, total	1 154	1 673
Interest expenses and other financial expenses		
To others	-2 370	-1 783
Interest expenses and other financial expenses, total	-2 370	-1 783
Financial income and expenses, total	-1 216	-110

1.7. Appropriations

EUR 1,000	2020	2019
Difference between depreciation according to plan and depreciation in taxation	-199	-274
Group contributions received	14 000	6 000
	13 801	5 726

1.8. Income taxes

EUR 1,000	2020	2019
Income taxes on actual operations during the financial year	-1 821	-604
Income taxes total	-1 821	-604

NOTES TO THE BALANCE SHEET 2.1.-2.5.

EUR 1,000	31.12.2020	31.12.2019
2.1. Intangible assets		
Development costs		
Acquisition cost at the start of the financial year	1 607	1 607
Acquisition cost at the end of the period	1 607	1 607
Accumulated amortisation according to plan during the financial year	-590	-325
Accumulated amortisation according to plan during the financial year	-264	-264
Carrying amount at the end of the period	753	1 017
Other intellectual property rights		
Acquisition cost at the start of the financial year	1 615	1 494
Additions		121
Acquisition cost at the end of the period	1 615	1 615
Accumulated amortisation according to plan during the financial year	-789	-544
Accumulated amortisation according to plan during the financial year	-240	-245
Carrying amount at the end of the period	587	827
Other long-term expenditures		
Acquisition cost at the start of the financial year	4 082	2 827
Additions	645	1 037
Disposals		
Transfers between items	536	217
Acquisition cost at the end of the period	5 264	4 082
Accumulated amortisation according to plan during the financial year	-917	-273
Accumulated amortisation according to plan during the financial year	-954	-644
Carrying amount at the end of the period	3 393	3 165
Prepayments for intangible assets		
Acquisition cost at the beginning	440	217
Additions	103	440
Transfers between items	-536	-217
Carrying amount at the end of the period	6	440
Intangible assets, total		
Acquisition cost at the start of the financial year	7 743	6 146
Additions	749	1 597
Transfers between items		
Acquisition cost at the end of the period	8 492	7 743
Accumulated amortisation according to plan during the financial year	-2 295	-1 143
Accumulated amortisation according to plan during the financial year	-1 458	-1 153
Carrying amount at the end of the period	4 739	5 448

EUR 1,000	31.12.2020	31.12.2019
2.2. Property, plant and equipment		
Machinery and equipment		
Acquisition cost at the start of the financial year	3 411	3 369
Additions	172	41
Disposals	-111	
Acquisition cost at the end of the period	3 472	3 411
Accumulated amortisation according to plan during the financial year	-716	-354
Accumulated depreciation on disposals and transfers	65	
Accumulated amortisation according to plan during the financial year	-367	-362
Carrying amount at the end of the period	2 454	2 695
Property, plant and equipment, total		
Acquisition cost at the start of the financial year	3 411	3 369
Additions	172	41
Disposals	-111	0
Acquisition cost at the end of the period	3 472	3 411
Accumulated amortisation according to plan during the financial year	-716	-354
Accumulated depreciation on disposals and transfers	65	
Accumulated amortisation according to plan during the financial year	-367	-362
Carrying amount at the end of the period	2 454	2 695
2.3. Investments		
Shares in subsidiaries		
Acquisition cost at the start of the financial year	284 485	204 485
Additions		80 000
Acquisition cost at the end of the period	284 485	284 485
Total investments	284 485	284 485

A full list of the Group's subsidiaries is presented in Note 31 "Related party transactions" to the consolidated financial statements.

EUR 1,000	31.12.2020	31.12.2019
2.4. Non-current receivables		
Receivables from others		
Lease deposits given	39	37
Total non-current receivables	39	37
2.5. Current receivables		
Receivables from others		
Other receivables	303	263
Prepayments and accrued income	1 483	1 422
	1 786	1 685
Receivables from Group companies		
Trade receivables	30	57
Loan receivables	41 815	35 283
Prepayments and accrued income	14 426	6 047
	56 271	41 387
Material items included under Prepayments and accrued income		
Group contribution	14 000	6 000
Allocation of sales	426	
Accrued social security expenses		1
Other	1 483	1 469
	15 909	7 470
Total current receivables	58 056	43 072
2.6. Equity		
Restricted equity		
Share capital at the beginning	80	80
Share capital at the end	80	80
Total restricted equity	80	80
Unrestricted equity		
Reserve for invested unrestricted equity at the beginning	183 190	183 190
Reserve for invested unrestricted equity at the end	183 190	183 190
Retained earnings at the beginning	24 244	24 178
Dividends paid		-2 262
Acquisition of own shares	-691	
Retained earnings	23 553	21 915
Profit for the period	7 698	2 329
Total unrestricted equity	214 442	207 435
Total equity	214 522	207 515

EUR 1,000	31.12.2020	31.12.2019
Distributable unrestricted equity		
Retained earnings	23 553	21 915
Profit for the period	7 698	2 329
Reserve for invested unrestricted equity	183 190	183 190
Capitalised development costs	-753	-1 017
	213 689	206 418
Number of shares	22 620 135	22 620 135
of which treasury shares	2 294	
Number of outstanding shares	22 617 841	
2.7. Accumulated appropriations		
Accumulated depreciation difference	986	787
2.8. Mandatory provisions		
Onerous contracts	48	74
2.9. Liabilities		
2.9.1 Non-current liabilities		
Liabilities to others		
Loans from financial institutions	90 000	100 000
Other non-current liabilities	1 030	1 673
Lease deposits received	36	36
	91 066	101 709
Non-current liabilities, total	91 066	101 709
2.9.2 Current liabilities		
Liabilities to others		
Loans from financial institutions	0	501
Trade payables	2 056	1 559
Other liabilities	1 256	743
Accrued liabilities	2 297	395
	5 609	3 199
Liabilities to Group companies		
Trade payables	72	85
Other liabilities	45 311	22 382
	45 383	22 468
Material items included under Accrued liabilities		
Personnel expense allocations	134	137
Interest allocations	191	164
Taxes	1 812	60
Other items	160	35
	2 297	395
Current liabilities, total	50 992	25 666

OTHER NOTES

EUR 1,000	31.12.2020	31.12.2019
Collaterals and contingent liabilities		
<i>Collaterals given on behalf of Group companies</i>		
Other sureties	121	19

Pihlajalinna's financing arrangements

Pihlajalinna has a five-year EUR 120 million unsecured financing arrangement with Danske Bank and Nordea. The arrangement comprises a EUR 50 million revolving credit facility and a long-term bullet loan of EUR 70 million. It also includes an opportunity to increase the total amount by EUR 60 million (to EUR 180 million), subject to separate decisions on a supplementary loan from the funding providers.

The financing arrangement includes the customary leverage (ratio of net debt to pro forma EBITDA) and gearing covenants. IFRS 16 does not affect the calculation of financial covenants. The calculation of covenants will continue with the creditor banks in accordance with the accounting principles confirmed in the original financing arrangement (frozen GAAP). The Group met the set covenants on 31 December 2020.

At the end of the reporting period, 31 December 2020, the withdrawn loan amount to which the covenants apply was EUR 90.0 million (EUR 100.0 million). Due to the changes in the operating environment caused by the COVID-19 epidemic, Pihlajalinna and the creditor banks agreed on a temporary adjustment to the covenants of the financing arrangement at the end of March. The temporary covenants for the first and second quarter of the year were as follows: leverage must not exceed 4.25 and gearing must not exceed 140 per cent. The original covenants of the financing arrangement – leverage of 3.75 and gearing of 115 per cent – took effect again when the covenants were reviewed in the third quarter.

As part of the agreement, a permanent new margin ceiling was added to the financing arrangement. The margin ceiling will enter into effect if leverage exceeds 3.50. On 31 December 2020, leverage in accordance with the financing arrangement stood at 2.78. The Group has credit limit agreements valid until further notice, totalling EUR 10 million. The notice period of the credit limit agreements is one month. At the end of the review period, Pihlajalinna had a total of EUR 40.0 million in unused committed credit limits.

EUR 1,000	31.12.2020	31.12.2019
Lease commitments		
Within one year		
Between one and five years	451	305
Over five years later	214	342

Dates of and signatures to the report by the Board of Directors and the financial statements

Tampere, 18 February 2021

Mikko Wirén
Chairman

Leena Niemistö

Kati Sulin

Seija Turunen

Matti Jaakola

Hannu Juvonen

Mika Manninen

Joni Aaltonen
CEO

Auditor's Note

A report on the performed audit has been issued today.

Tampere, electronic signature dated 22 February 2021
KPMG Oy Ab

Lotta Nurminen
Authorised Public Accountant

Auditor's Report To the Annual General Meeting of Pihlajalinna Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Pihlajalinna Plc (business identity code 2617455-1) for the year ended 31 December 2020. The financial statements comprise the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, cash flow statement and notes.

In our opinion

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

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

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have pro-

vided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 6 to the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

Judgmental items relating to municipality outsourcing contracts (refer to notes 1, 17 and 30 in the consolidated financial statements) and emphasis of matter

We would like to draw attention to note 17 where the key accounting estimates and decisions based on management judgements related to the receivables totaling EUR 13.5 million are presented. The receivables may contain uncertainty due to agreements open to interpretations, length of negotiations and receivables being past due, among other things. Our opinion has not been qualified by this matter.

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| <ul style="list-style-type: none"> • A notable proportion of the Group's revenue is based on long-term outsourcing contracts with municipalities. These include both complete outsourcing contracts for social and healthcare services as well as other outsourcing contracts. • The Group's profitability of complete outsourcing contracts for social and healthcare services may become more accurate with a delay. The Group may not always be aware of the actual costs of the agreements during the financial year and there may be variable considerations included. • High level of management judgement, which can have a significant impact on the consolidated result and statement of financial position, is involved in the accounting for outsourcing contracts due to the extent of the contracts, definitions of contractual obligations and amendment clauses for changed situations. • In note 17 section Key accounting estimates and decisions based on management judgement the following items relating to outsourcing contracts with municipalities totalling EUR 13.5 million are presented: <ul style="list-style-type: none"> • The city of Jämsä has taken legal action against Jämsän Terveys Oy over the service agreement. The dispute concerns the provision on price adjustments pursuant to the service agreement. The difference of opinion regarding the determination of the annual price totalled approximately EUR 2.6 million at the time of the financial statements. Jämsän Terveys is possibly in a process of bringing an additional counterclaim against the city of Jämsä. Jämsän Terveys Oy has included in its receivables a total of EUR 3.4 million from the city of Jämsä, associated with the effect of changes in the services under the service agreement on price and the service provider's liability for financing investments by the hospital district insofar as such investments serve operations after the term of the service agreement. • Kuusiolinna Terveys Oy has trade and other receivables totaling EUR 6.3 million from a client. The outstanding receivables are associated with cost increases caused by service changes, an estimate of the investment cost liability in specialised care and the calculation of net expenditure. • Mäntänvuoren Terveys Oy has trade and other receivables totaling EUR 3.2 million from a client. The receivables are associated with an estimate of the investment cost liability in specialised care and cost increases caused by service changes. • Kolmostien Terveys Oy has trade and other receivables of EUR 0.6 million from a client relating to an estimate of the investment cost liability in specialised care. • In addition to the legal process against the city of Jämsä, the Group has a legal process against the municipality of Hatula regarding a terminated service agreement as described in note 30 in the consolidated financial statements. • Due to the significant amount of accounting estimates in relation to the result for the period and equity and the receivables being past due, recognized judgmental items relating to the municipality outsourcing contracts are considered a key audit matter. | <ul style="list-style-type: none"> • The subsidiaries administering the significant municipality outsourcing contracts are audited by another audit firm. We participated in that audit firm's risk assessment in order to also identify the risk of a material misstatement in the consolidated financial statements. We instructed the other audit firm to report to us on their audit of these subsidiaries, discussed their significant findings with their lead partner, received reporting on their audit and assessed the appropriateness of the audit firm's work from the perspective of the audit of the consolidated financial statements. • We observed the judgmental items recorded in the consolidated financial statements through discussions with management, analytically and by performing substantive testing where applicable. We obtained related agreements, calculations and administrative documents. • We obtained a legal opinion on the service agreement and juridical basis for recognizing these items as well as their amounts from a law firm used by the Group. In addition, we inquired a representative from the law firm on these matters in more detail. • On some items we received a confirmation of the juridical basis for recognizing the items from the Group's general counsel. • We obtained legal representation letters about the legal disputes in district court. • We assessed the recognition principles applied to judgmental income and expense items against IFRS principles and considered the appropriateness of the Group's disclosures in respect of judgmental items. • We assessed how the Group has received payments relating to previously recognized judgmental items and obtained a representation letter from the management about the collectability of these receivables. • We reported in more detail about the contents of these judgmental items to the Audit Committee and the Board of Directors. |
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Goodwill impairment assessment (refer to note 14 to the consolidated financial statements)

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| <ul style="list-style-type: none"> • The Group has expanded its activities through acquisition of companies. As a result, the consolidated statement of financial position includes goodwill totaling EUR 173.6 million. • Goodwill is not amortized but is tested at least annually for impairment. Determining the cash flow forecasts underlying the impairment tests requires management make judgments over certain key inputs, for example revenue growth rate, discount rate, long-term growth rate and inflation rates. • Due to the high level of judgement related to the forecasts used, and the significant carrying amounts involved, goodwill impairment assessment is considered a key audit matter. | <ul style="list-style-type: none"> • Our audit procedures included, among others, assessing key inputs in the calculations such as revenue growth rate, profitability and discount rate, by reference to the parent company's Board approved budgets, data external to the Group and our own views. • We assessed the historical accuracy of forecasts prepared by management by comparing the actual results for the year with the original forecasts. • We involved KPMG valuation specialists that assessed the technical accuracy of the calculations and compared the assumptions used to market and industry information. • Furthermore, we considered the appropriateness of the Group's disclosures in respect of goodwill and impairment testing. |
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Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting when Pihlajalinna Plc was established on 15 April 2014 and our appointment represents a total period of uninterrupted engagement of seven years. In Pihlajalinna Terveys Oy we were first appointed as auditors for the financial year ended 31 December 2010. Pihlajalinna Plc became a public interest entity on 8 June 2015. We have been the company's auditors since it became a public interest entity.

Other Information

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

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

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

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

Tampere 22 February 2021
KPMG OY AB

Lotta Nurminen

Authorised Public Accountant, KHT

Information for shareholders

General Meeting

Pihlajalinna Plc's Annual General Meeting will be held on Thursday 15 April 2021 at 10.30 a.m. The meeting will be held exceptionally without the presence of shareholders or their proxy representatives at Pihlajalinna's head office at Kehräsaari B, 33200 Tampere.

Right to participate

The right to participate in the Annual General Meeting will rest with shareholders who, on the Annual General Meeting record date of 1 April 2021, are registered in the company's shareholders' register maintained by Euroclear Finland Oy.

Registration

A shareholder who is registered in the company's shareholders' register and who wants to participate in the meeting by voting in advance must register and vote in advance by 9 April 2021 at 10 a.m. at the latest, by which time the registration will be completed and votes must have been received. Registration and voting in advance is possible from 22 March 2021 at 12 noon at Pihlajalinna's website investors.pihlajalinna.fi/?sc_lang=en or a shareholder may submit the advance voting form available on Pihlajalinna's Annual General Meeting webpages as of 22 March 2021, or equivalent information, to Innovatics Oy by email to the address agm@innovatics.fi or by post to the address Innovatics Oy, Annual General Meeting/Pihlajalinna Plc, Ratamestarinkatu 13 A, 00520 Helsinki. If a shareholder participates in the meeting by submitting his/her advance votes to Innovatics Oy by post or email prior to the deadline for registration and advance voting, this will be deemed to constitute due registration for the Annual General Meeting, provided that it includes all information required for the registration and advance voting as set out above.

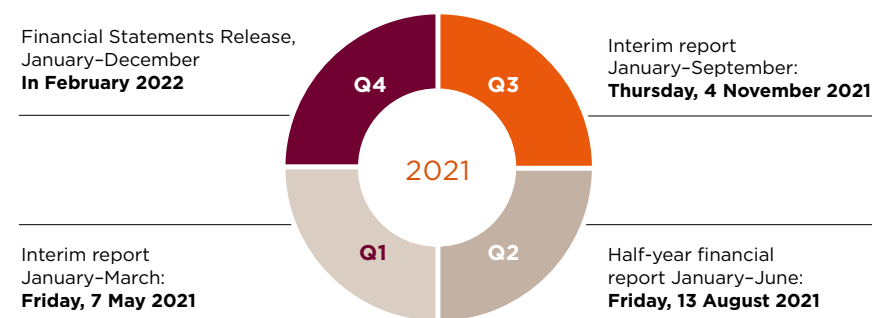
The instructions concerning advanced voting are also available on Pihlajalinna's Annual General Meeting webpages. Additional information about registration and advance voting is also available during the registration period by calling the number +358 10 2818 909 on weekdays from 9.00 a.m. to 12.00 noon and 1.00 p.m. to 4.00 p.m.

Possible powers of attorney must be submitted either at the time of online registration and advance voting or by email to the address agm@pihlajalinna.fi, or by post to the address Pihlajalinna Plc/AGM, PL Kehräsaari B, 33200 Tampere before the end of the registration period and voting period, by which time the above-mentioned powers of attorney must have been received.

Payment of dividend

The Board of Directors proposes to the Annual General Meeting that, based on the balance sheet confirmed for the financial period ending 31 December 2020, EUR 0.20 per share will be distributed as a dividend. The dividend will be paid to shareholders who, on the dividend payment record date of 19 April 2021, are registered in the company's shareholders' register maintained by Euroclear Finland Oy. The Board of Directors proposes that the dividend be paid on 26 April 2021.

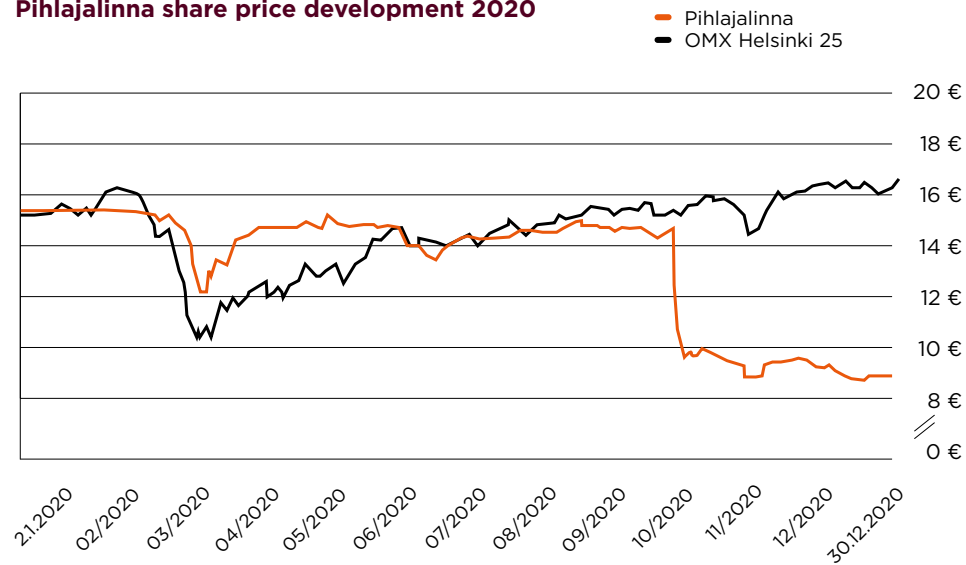
Pihlajalinna's financial reporting in 2021



The interim reports will be published at approximately 8:00 a.m. in Finnish and English, and they will be available on Pihlajalinna's website at investors.pihlajalinna.fi.

Pihlajalinna's management organises information events for analysts and the media on a regular basis. Pihlajalinna complies with a silent period of 30 days and a closed window before the publication of results.

Pihlajalinna share price development 2020



Investment survey

As far as Pihlajalinna is aware, the following investment banks and stockbrokers monitor Pihlajalinna and publish reports on the company: Pihlajalinna is not liable for the estimates presented in the analyses.

- Danske Bank
- Carnegie
- Inderes
- OP
- SEB
- Evli

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Additional information is available in the investor section at investors.pihlajalinna.fi

