

KAUAN ELÄKÖÖN ELÄMÄ!



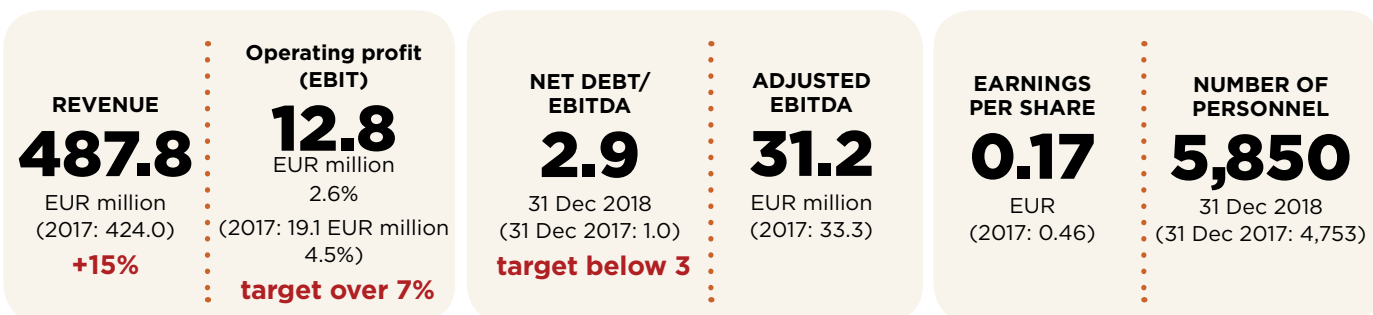
ANNUAL REPORT 2018



Pihlajalinna

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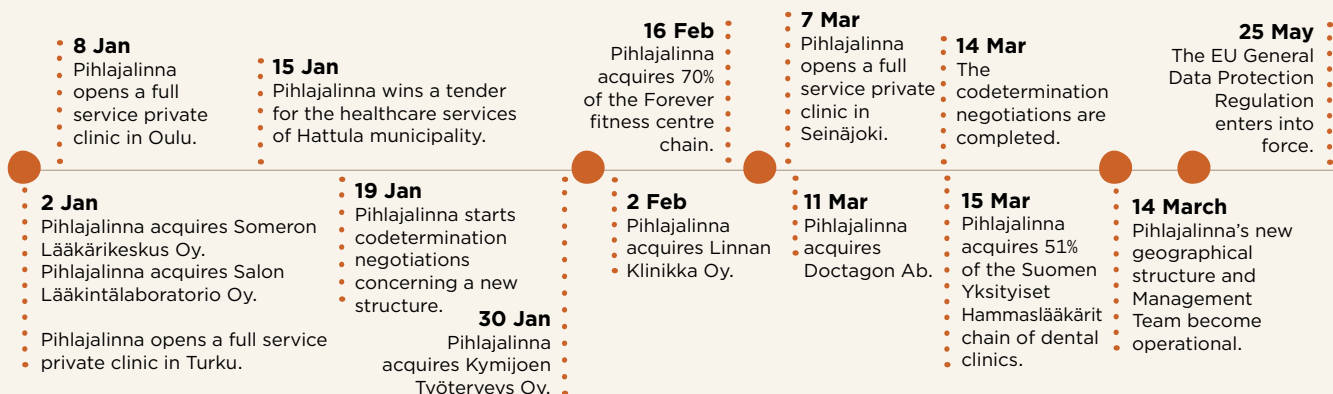
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Organizational structure



Timeline 2018



Pihlajalinna in brief

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.

PIHLAJALINNA

- Market leader in social and healthcare outsourcing in Finland
- The Group pays all of its taxes to Finland

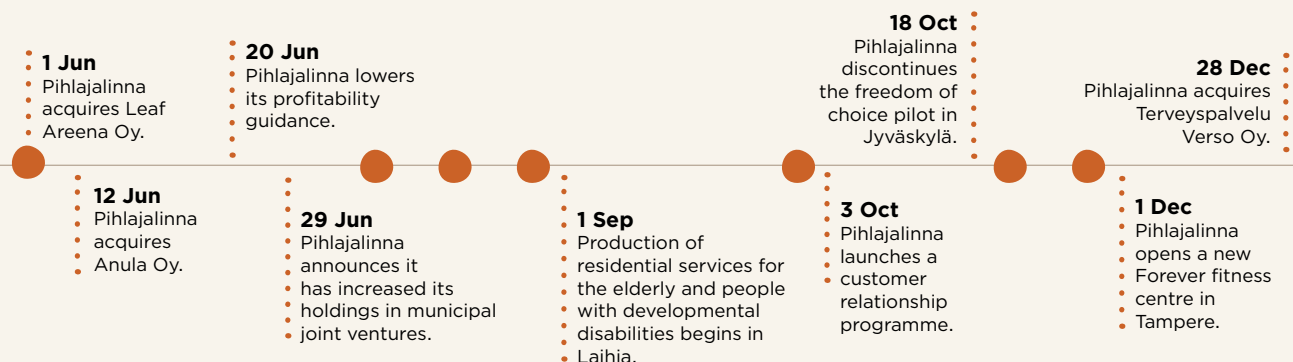
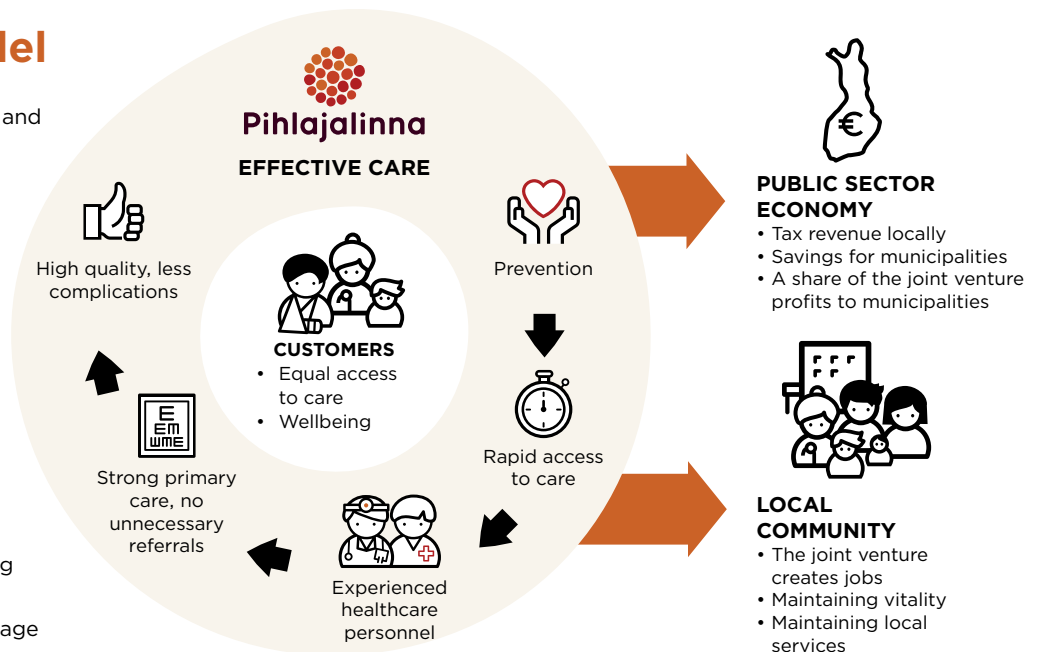
- Headquartered in Kehräsaari, Tampere
- Extensive range of services offered to both private and public sector customers
- Strong geographical presence in Pirkanmaa, South Ostrobothnia, Central Finland, Pohjois-Savo and the Helsinki Metropolitan Area
- Aims to be the most valued healthcare and social services company in Finland in 2020
- Listed on the main list of Nasdaq Helsinki in 2015

PIHLAJALINNA BUSINESS LOCATIONS 2018

- Private clinic, Surgical operation, Dental clinic, Occupational healthcare
- Social and healthcare outsourcings
- Residential services
- Fitness centres
- Responsible doctor and remote services

Pihlajalinna model

The Pihlajalinna operating model and its social effects culminate in our way of working in cooperation with municipalities. When a joint venture of Pihlajalinna and a municipality is responsible for providing the municipality's social and healthcare services on a long-term agreement, the company has a strong incentive to promote health and to adopt effective operating models. Over 50 per cent of Pihlajalinna's revenue comes from complete outsourcing agreements for municipal social and healthcare services. The average agreement period is 10+5 years.





From the Chairman of the Board of Directors

The schedule of the planned structural reform of healthcare and social services was delayed, and the resignation of the government as well as the decision to not move forward with the reform at the moment came just as our Annual Review was about to be published. We had hoped for the reform to go through, as our society needs it and the period of uncertainty has lasted too long, stopping both development actions and necessary investments in municipalities. At the same time future county organisations and healthcare districts have made significant investments in the future model that will not be implemented now.

It is good that there was plenty of discussion about the topic. What has slightly bothered me about the debate is how some participants seem to lack a full understanding of the need for reform. The question is not how we can maintain the current service level with less money. The question is how we can prepare for the coming sustainability gap, the ageing of the population and urbanisation. Furthermore, in the

public discussion, there has been a strong confrontation between private and public healthcare and the new structures instead of concentrating on how the patients would get the best possible care which our society could afford in the future.

In 2010, there were 940,000 people in Finland over the age of 65. Current estimates indicate that this number will increase to about 1.5 million by 2030. At their current levels, employment-based immigration and the birth rate will not alleviate the situation. These problems will be exacerbated in municipalities with negative migration rates.

I am optimistic and confident that our welfare society will be preserved in spite of these challenges, but not without significant changes. We must look for ways to build genuine cooperation and partnership between public and private healthcare. There are already good examples of outsourcing and service vouchers. In outsourcing, according to studies conducted by independent third parties, there have been good results in service availability,

quality and cost management. As the reform was cancelled, the juridical foundation for the restriction law disappeared. And that is good for both communities and for the whole society.

We are the leading company in municipal outsourcings and fixed-priced service production. We have a good foundation from which to meet the requirements of the communities and operate in the environment where the reform will not take place. Due to the fact that the reform was withdrawn, there is an opportunity for bigger and faster organic growth than earlier expected.

Pihlajalinna is the domestic reformer of healthcare and is willing to maintain this responsibility going forward. I think society needs to create opportunities for the innovative development of services. The aim is to ensure that all Finns receive the high-quality and ethically produced care they need without unnecessary delay.

MIKKO WIRÉN

The Chairman of the Board of Directors



From the CEO

2018 was a year of building. We changed our organisational structure, expanded geographically, built new services and invested in creating a stronger brand and digital services. While all this building eroded our profitability, we now enter the new year in a good position.

During the year, we opened new full-service private clinics in Oulu, Turku and Seinäjoki. We also made acquisitions that saw us expand our operations to new regional capitals. The Doctagon acquisition strengthened our presence in bilingual regions. We can now call ourselves a genuinely national operator and we are even better prepared to offer our services to all Finns, provided that the planned structural reform of healthcare and social services is implemented. In locations where we do not yet have a physical presence, we can provide remote services.

We have achieved a concrete expansion of our range of services. The responsible doctor model launched by Doctagon, for example, improves our competitiveness in public sector services and tendering. We are piloting shared

services with Forever fitness centres in the areas of occupational healthcare and rehabilitation. We are also working together with an increasingly extensive network of partners. In cooperation with the psychotherapy centre Vastaamo, we are piloting low-threshold therapy services in municipal joint ventures that have already produced significant savings in specialised care and improved health outcomes for our customers.

The previously implemented changes in organisational structure and efficiency improvement measures began to produce results towards the end of the year, and we were able to rectify our profit performance, which was weaker than in the comparison period during the first half of the year. Nevertheless, our expansion and the changes we implemented eroded our profitability for the year, and our result declined year-on-year. We have now completed all of our major changes for the time being, and we are not planning to open any new surgical units in 2019, for example.

Following the changes made, we are very well positioned to pursue major occupational healthcare tendering

opportunities, and we have been able to improve the profitability of occupational healthcare. Our experience tells us that strong sales of occupational healthcare services usually lead to an increase in self-paying customers in private clinics and hospitals.

In our strongest area, the capitation-based municipal business, 2018 was a year of waiting for new moves. As the health and social services reform will not be implemented now, we expect that municipalities will again become active in working with us to develop service models that make it possible to maintain services for their residents while keeping costs under control.

I am particularly pleased by the change in the atmosphere of the public debate in 2018. We can already see that the boundaries between public and private healthcare are fading and that we all share a desire to build genuine cooperation to help Finns to live a better life.

JONI AALTONEN
CEO



OPERATING ENVIRONMENT

Public and private social and healthcare services are converging

The demand for social and healthcare services is growing in Finland due to factors such as the ageing of the population. Faced with economic pressures, the public sector is centralising service production, and the range of services funded by tax revenue is likely to decrease. This presents private service providers with the opportunity to increase their share of primary care as well as specialised care, where the private sector's share is relatively small at present.

In dental care, private operators have a longer tradition and larger market share because the public dental

care services have been limited and their availability has been poor.

PIHLAJALINNA IN A GOOD POSITION

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

As a clear market leader in municipal outsourcing, Pihlajalinna also has the strongest experience and expertise in operating under fixed pricing. As the healthcare and social welfare

reform will not be implemented now, Pihlajalinna will continue as a partner to the public sector under its existing models, such as complete outsourcing produced through joint ventures.

GROWTH IN THE MARKET

The overall market for social and healthcare services has grown at a conservative rate in recent years. The growth in the market for private operators has mainly stemmed from the changing division of tasks between public and private producers.

Today, private operators produce healthcare services for approximately

EUR 4.2 billion per year. Of this total, EUR 2.4 billion is privately funded private production. This includes, for example, surgical procedures covered by insurance, occupational healthcare and dental care. The rest of the amount is publicly funded private production, such as social and healthcare services outsourced by municipalities.

Regulators have tried to slow down the outsourcing of social and healthcare services by implementing interim legislation that restricts complete outsourcing measures. In spite of these restrictions, municipalities have looked to ensure

the provision of local services to residents by entering into various partnerships with private producers.

Pihlajalinna's view is that there will be opportunities for the private sector to complement the public sector's services, particularly in basic-level specialised care and non-urgent specialised care, as the population ages and the public sector cuts and centralises specialised care in fewer units.

While waiting for the final decision on the social and healthcare reform, the financial situation of the communities has not got any better and we believe

they will start looking for new solutions as there will be no reform for now. In complete outsourcing models positive results have been achieved in both service availability as well as cost management.

The situation in the private market remains unchanged. The occupational healthcare market is expected to grow if municipalities and other public sector entities decide to divest the occupational healthcare providers they currently own.

Effective care, comprehensive services

Pihlajalinna's business starts from its mission: we help Finns to live a better life. In order to realise this mission, Pihlajalinna is expanding to new operating locations and building a broader range of services. This allows Pihlajalinna to respond to people's needs by providing easily accessible local services.

In 2018, Pihlajalinna opened full service private clinics in Turku, Oulu and Seinäjoki. The Group also expanded its operations through acquisitions in new locations in regions such as Varsinais-Suomi, Pohjois-Savo and Kanta-Häme, as well as entirely new regions, including Kymenlaakso and Päijät-Häme.

Pihlajalinna will continue its expansion in 2019–2020, particularly into regional capitals. Expansion can be pursued both organically and through acquisitions. Pihlajalinna's hospital network was completed in spring 2018, and no new surgical units will be opened this year. The surgical units are located in Helsinki (2), Tampere, Turku, Oulu, Kuopio, Joensuu, Seinäjoki, Jämsä, Hämeenlinna and Ähtäri.

In addition to expanding the private clinic network, Pihlajalinna expanded its network of imaging units and dental clinics in 2018. The company also opened its first special needs residential service unit for people with developmental disabilities and autism spectrum disorders in Hämeenlinna. In Laihia, Pihlajalinna began producing residential services for the elderly and people with developmental disabilities under a joint venture model.

PREVENTIVE AND TIMELY CARE

Pihlajalinna has expanded its range of services and competencies from the treatment of illnesses to wellbeing services and prevention. The company acquired the Forever fitness centre chain in February 2018. The main beneficiary of this development is the customer, but it also helps Pihlajalinna produce its services in even more efficient and effective packages.

The acquisition of Doctagon saw Pihlajalinna expand its range of services to include responsible doctor

and remote consultation services for municipalities. The availability and accessibility of physicians is a challenge in many municipalities, particularly in rural areas. Responsible doctor and remote consultation services provide municipal customers with timely access to medical expertise.

A broad range of services enables the company to grow in different operating environments and to diversify risks. Pihlajalinna aims to take on a significant role in all types of services: insurance-based services, services paid for by customers and publicly funded services.

A PROGRAMME FOR LOYAL CUSTOMERS

Pihlajalinna is focusing heavily on developing its digital services. Digital service development is particularly effective in supporting the fixed-price business that constitutes the majority of Pihlajalinna's operations. Under the fixed-price model, the service provider, municipality and customer all share the same objective: keeping people healthy and maintaining their functional capacity.

Pihlajalinna launched a customer loyalty programme in 2018. The programme is aimed at increasing the awareness of Pihlajalinna's entire service offering, cross-selling services and creating added value by promoting good health. A new portal was launched for occupational health customers in October. The portal is a cooperation channel between the

customer organisations and Pihlajalinna's occupational health professionals.

Following the revamp of its brand, in 2018 Pihlajalinna focused on marketing services such as those of sports clinics. Pihlajalinna engages in marketing that differs from other operators in the industry to increase its spontaneous brand awareness. This work will continue in 2019.

NEW OPERATING STRUCTURE

From 14th of March 2018, Pihlajalinna restructured its operations, which were previously based on two segments. The new operating structure is based on four geographical business areas: Southern Finland, Mid-Finland, Ostrobothnia and Northern Finland. Each business area is managed by a business director who is in charge of their area's business operations and service offering both for the private and the public sector.

Pihlajalinna has two long-term financial targets. The ratio of net debt to EBITDA is currently in line with the target. The target for the operating profit (EBIT) margin is over seven per cent of revenue. In 2018, operating profit (EBIT) was 2.6 per cent of revenue.

Investments in new business locations, the restructuring of operations as well as transfer taxes and advisory fees related to acquisitions had a negative effect on profitability in 2018. The company is confident that the results of its investments will be reflected favourably in its operating profit in the near future.

Vision

WE WILL BE THE MOST VALUED COMPANY IN THE HEALTHCARE AND SOCIAL SERVICES SECTOR IN FINLAND IN 2020

Mission

WE HELP FINNS TO LIVE A BETTER LIFE

Values

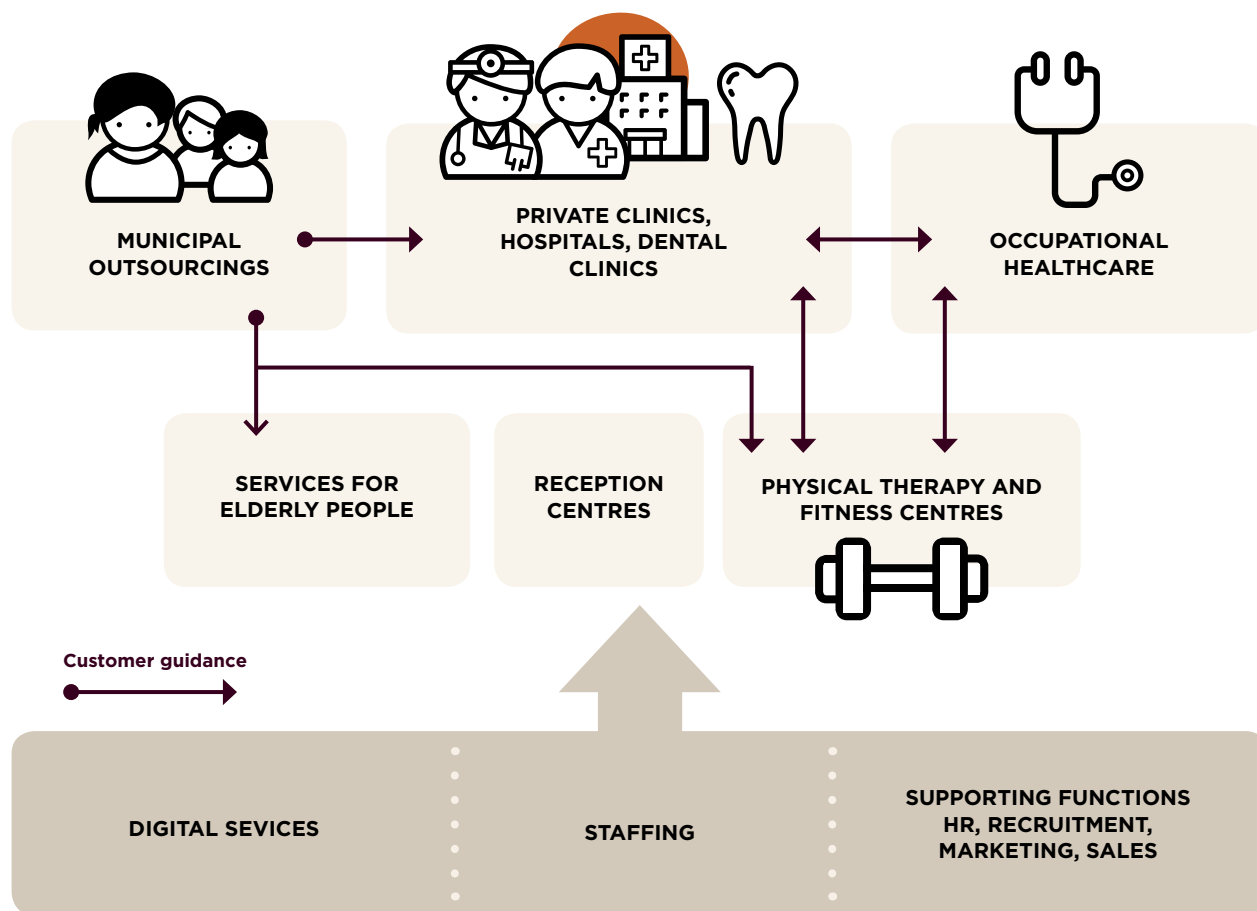
ETHICS, ENERGY AND OPEN-MINDEDNESS

PIHLAJALINNA'S LONG-TERM TARGETS

NET DEBT
below
3x
EBITDA

OPERATING PROFIT (EBIT)
exceeding
7%
of revenue

Pihlajalinnan services 2018



Trends and megatrends that boost business growth



The weak growth of the national economy and the size of the public sector

Finland's economic situation has been weak for years and the public sector has become indebted. Especially municipalities have run into difficulties as the costs of care have increased and, at the same time, tax revenue has decreased. Economic difficulties have led to the public sector's willingness to outsource services and seek more efficient ways to produce effective services.



Lifestyle diseases and the distribution of wellbeing

Previously, people fell ill with viral and infectious diseases, for instance, while nowadays 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 use of alcohol. In Finland, health inequalities are relatively large and depend on the level of education, among other factors. In order to curb costs, there needs to be emphasis on prevention and rapid access to care.



The increase in the number of voluntary insurance policies

The number of voluntary medical expenses insurance policies has clearly increased in recent years. The reasons behind this include concern about the availability of public services and the need to ensure rapid access to care. At the beginning of 2018, nearly 1.2 million Finns had a voluntary medical expenses insurance policy. We assume that the demand for voluntary insurance policies will continue to grow at least until 2020.



The ageing of the population

In Finland, the population is ageing faster than in any other European country. According to the forecast of Statistics Finland, the number of citizens over 65 will total almost 1.3 million by 2020 and reach 1.5 million by 2030. As those over 65 use the majority of social and healthcare services, the demand for and the costs of the services are expected to increase.



People's interest in their own health and wellbeing

On average, Finns smoke less, eat more healthily and exercise more in leisure time. Wellness trends also drive consumer habits, such as nutrition-related choices and the use of health and sports services. The development of lifestyle choices has been fastest among those with higher education.



Individuality, freedom of choice and expression of will

People expect healthcare services to be more effective and of higher quality. The need for individual solutions has increased and technology has strengthened this trend. The majority of Finns want to increase freedom of choice in social and healthcare services. An increasing number of people have sought to ensure their freedom of choice with a medical expenses insurance policy, for instance.

Presentation of business areas

Southern Finland

Southern Finland is a densely populated and growing area with a lot of potential. The area includes Pihlajalinna's business operations in the regions of Uusimaa, Southwest Finland, Kymenlaakso, Päijät-Häme and South Karelia. The goal for the Southern Finland business area is to achieve strong growth through the expansion of the service network. There is a strong network of private clinics, hospitals, dental clinics, a fertility clinic, Forever fitness centres and Ikkipihlaja homes in Southern Finland.

REVENUE
107.6
EUR million
(60.7 EUR million 2017)
+77%

**WITHHOLDING TAXES
PAID IN THE AREA**
11.8
EUR million
(4.4 EUR million 2017)
+170%

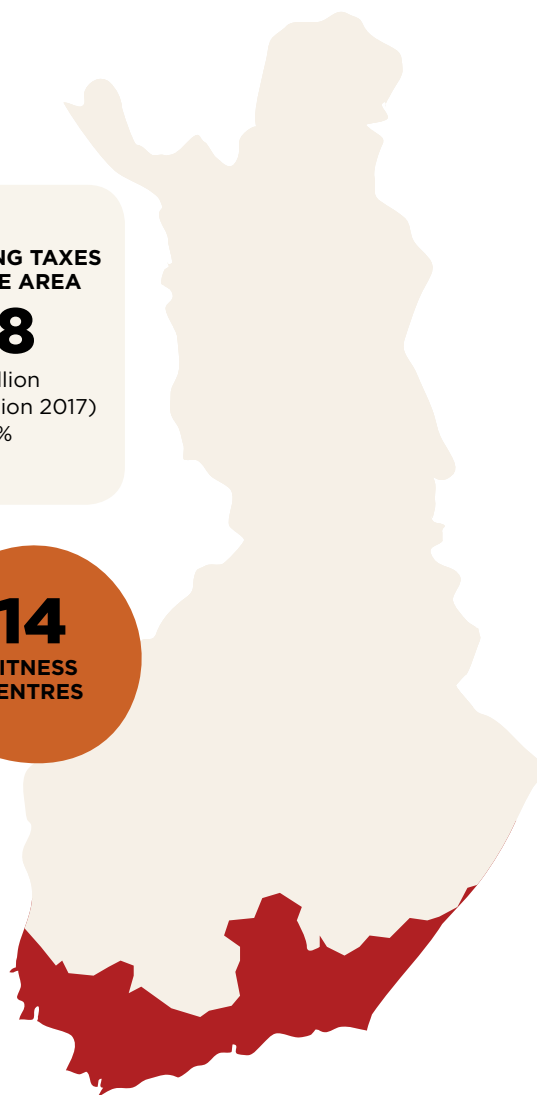
737
PERSONNEL

17
PRIVATE
CLINICS

7
DENTAL
CLINICS

3
HOSPITALS

14
FITNESS
CENTRES



Prevention and the promotion of wellbeing are the future of healthcare

In the coming years, Pihlajalinna wants to serve as an example of the development of occupational healthcare and wellbeing services. The Forever chain of fitness centres was acquired by Pihlajalinna in 2018. They offer diverse wellbeing services for adults who exercise.

The Forever chain expanded to Turku with the company's acquisition of Leaf Areena. The first Forever LITE fitness centre opened in Tampere in late 2018. The affordably priced Forever LITE gyms offer fitness centre services that also support prevention and rehabilitation. The number of Forever LITE fitness

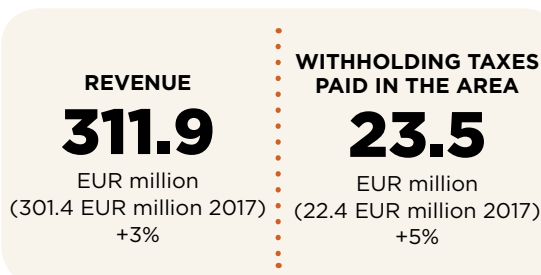
centres rose to six in early 2019 when the company announced the acquisition of the five fitness centres that make up the FIT1 chain.

Fitness centre services complement Pihlajalinna's preventive occupational healthcare services and rehabilitation services carried out after specialised care procedures. Pihlajalinna combines various services in locations where the Group has both fitness centres and private clinics. Combined services help create more efficient care chains and allow the Group to offer prevention-based service packages to employers.

Mid-Finland

The Mid-Finland area includes Pihlajalinna's operations in the regions of Pirkanmaa, North Karelia, Pohjois-Savo, Kanta-Häme, Satakunta, Central Finland and Etelä-Savo. In the Mid-Finland business area, Pihlajalinna seeks growth through synergies between joint ventures and private clinics. There are private clinics, hospitals, dental clinics, Ikkipihlaja homes, two fitness centres and a special needs residential service unit in the area. The Hattula partial outsourcing arrangement and three joint ventures established between Pihlajalinna and municipalities operate in Mid-Finland. The three joint ventures are responsible for the complete social and healthcare outsourcings of Mänttä-

Vilppula, Parkano and Kihniö, and Jämsä. The outsourcing arrangements are responsible for a combined population of 54,000 people. Jokilaakso Hospital, which provides public specialised care services in Jämsä, and three reception centres are also located in this area.



Wellbeing programme promotes coping with work

Pihlajalinna implemented a goal-driven wellbeing programme for personnel in its municipal companies in 2018. The objectives of the programme include increasing the personnel's energy levels and alertness, reducing sickness-related absences and creating a positive impact on the company's business. During the course of the programme, activities such as alertness theme days, expert lectures and targeted coaching services were arranged for the personnel.

Targeted services offer direct support for members of personnel who belong to a risk group. For example, health coaching aims to influence

lifestyle factors and thereby promote a person's ability to cope with the demands of life and work.

A total of 205 employees of Jämsän Terveys and Jokilaakson Terveys participated in the services provided under the wellbeing project. The services aimed at people in risk groups were used by 80 employees.

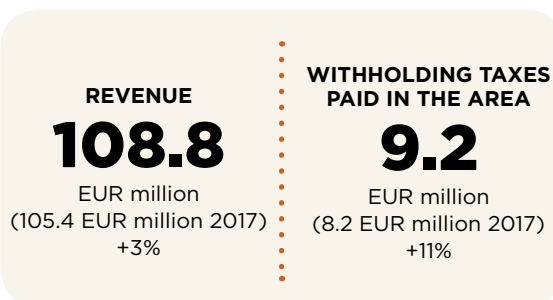
The personnel who participated in the coaching groups reported positive changes, such as reduced stress, decreased chronic pain and increased motivation to exercise. The participants also felt the coaching sessions helped them shape their own dreams and goals as well as improve their time management, which allowed them to dedicate more time to their families.

Presentation of business areas

Ostrobothnia

Ostrobothnia includes Pihlajalinna's business operations in the regions of Southern Ostrobothnia, Ostrobothnia and Central Ostrobothnia. The area includes private clinics, a hospital, a dental clinic and a complete social and healthcare outsourcing arrangement that is the largest of its kind in Finland, with Pihlajalinna working together on service production with the municipal joint venture Kuusiolinna Terveys. The company is responsible for providing social and healthcare services to 24,000 residents. Laihia Hyvinvointi, a producer of residential services for

the elderly and the disabled, began operating in the area in 2018. In the Ostrobothnia business area, Pihlajalinna seeks strong growth through the private clinic business.



Responsible doctor model for the elderly frees up resources for primary care appointments

The responsible doctor model developed by Doctagon was introduced at 10 care homes operated by Kuusiolinna Terveys in 2018. The responsible doctor model is aimed at providing high-quality and safe care for the customers of care homes in their own residential environment. At the same time, the model delivers a reduction in visits to healthcare facilities, transport and periods spent in inpatient care, all of which are taxing for the elderly.

In the responsible doctor model, each unit has a designated responsible doctor who is familiar with caring for the elderly and takes responsibility for the medical care of the entire unit. The responsible doctor model consists of remote consultation and in-person rounds by the doctor in three-month intervals.

The responsible doctor can be reached around the clock, every day of the year. Improved examination solutions make it possible to initiate treatment rapidly without relocating the customer, provided that moving to the emergency and on-call services department of a health centre or hospital is not required by the customer's condition.

The around-the-clock responsible doctor model can avoid as many as three in four in-person visits to acute care, which are taxing on the elderly. The use of the responsible doctor model frees up an estimated 90-100 hours of the doctor's time each month, which can be allocated to receiving primary care patients who belong to the population covered by the Kuusiokunnat area's social and healthcare outsourcing arrangement.

Northern Finland

The Northern Finland area includes business operations in the regions of North Ostrobothnia, Kainuu and Lapland. There are private clinics, a hospital and dental clinics in the area. The focus of business in the Northern Finland area is on new customer acquisition and building the service network. The goal is strong growth in all customer segments. Pihlajalinna opened a full service private clinic and hospital in Oulu in 2018.

REVENUE
12.3
EUR million
(7.6 EUR million 2017)
+62%

**WITHHOLDING TAXES
PAID IN THE AREA**
0.3
EUR million
(0.3 EUR million 2017)

79

PERSONNEL

4

PRIVATE
CLINICS

3

DENTAL
CLINICS

1

HOSPITAL



Private clinic opened in Oulu under a new concept

At the beginning of 2018, Pihlajalinna opened a full service private clinic and hospital in Oulu's central business district. The new facility was developed in accordance with Pihlajalinna's new private clinic concept.

Pihlajalinna Oulu offers general practitioner and medical specialist services as well as physiotherapists, comprehensive occupational health services and two operating rooms. The clinic also has a wide range of

examination services: in addition to a laboratory and basic imaging, there is an MRI machine. Dental clinic services are also available in Oulu.

Designed according to a new concept, the private clinic is a peaceful environment where the customer experience is a high priority. The concept is also a step towards the private clinic of the future, one that offers both social and healthcare services.



Customer groups

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

The Group's corporate customer group consists of Pihlajalinna's occupational healthcare customers, insurance company customers and other corporate contract customers with the exception of public sector occupational healthcare 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 healthcare services and staffing services.

Private customers

REVENUE

92

EUR million
(68 EUR million 2017)

⬆️ +35%

% OF
CONSOLIDATED
REVENUE

17%

(14%)

Public sector

REVENUE

347.7

EUR million
(330.5 EUR million 2017)

⬆️ +5%

% OF
CONSOLIDATED
REVENUE

64%

(69%)

Corporate customers

REVENUE

105.6

EUR million
(82.6 EUR million 2017)

⬆️ +26%

% OF
CONSOLIDATED
REVENUE

19%

(17%)

Insurance customers (included in corporate customers)

REVENUE

25.2

EUR million
(26.6 EUR million 2017)

⬇️ -5%

% OF
CONSOLIDATED
REVENUE

5%

(6%)



Health and wellbeing from the customer relationship programme

One of Pihlajalinna's most significant initiatives in 2018 was the national customer relationship programme launched in October. The programme is free of charge and open to all Pihlajalinna customers and other Finnish adults who are interested in company's services.

At the core of the programme is the idea of individual health and solving the related needs. The aim is to provide support for all Pihlajalinna customers to help them enhance their health and wellbeing as well as serve them in their daily life, even when they are not visiting a clinic.

The programme supports new customer acquisition and cross-selling. It also helps increase customer awareness of Pihlajalinna's comprehensive service offering. Loyal customers already receive national special offers and health-related information. Our vision is to serve customers at a more individual level in the future.

"For a layperson, it can be difficult to know what you should do to promote your health. By joining the programme, people can receive health tips and lifestyle recommendations. In the future, we will also deliver personalised content to the programme members," says Head of Customer Experience, Insight and Design **Jutta Tikkanen**.

In practice, marketing communications and promotional offers can be targeted in the future based on customers' personal interests as well as data on their prior service use, health and demographics. The programme also makes it possible to build individual service paths based on the customer's language choices, for example. The programme is managed on the Salesforce Service Cloud Lightning platform, which was deployed in connection with the EU data protection reforms in spring 2018.

During autumn, three newsletters were sent to programme members. The newsletters contained promotional offers and health-related information. National promotional offers will be launched four times

per year. Pihlajalinna's business areas can also use the programme to introduce local customer benefits of their own. In the future, the programme will also be used to present new services and communicate information about new research in various areas of health.

The launch of the programme was extensively communicated to customers at Pihlajalinna's operating locations and in digital marketing channels. By the end of December 2018, close to 8,000 people had joined the programme. The goal for 2019 is to increase customers' perceived added value delivered by the programme and achieve significant growth in the number of members. The target is to have 100,000 Finns join the programme by the end of 2019.

The number of programme members is not, however, the only priority. The programme allows us to execute our mission of helping Finns to live a better life. Pihlajalinna develops health and wellbeing services focused on keeping people healthy and helping customers enjoy a higher level of wellbeing in every stage of life.

"We rarely get excited by things that are not directly related to ourselves or our loved ones. At Pihlajalinna, our aim is to profile ourselves as a genuinely attractive and beneficial health partner through targeted services," Jutta Tikkanen explains.





RESPONSIBILITY

Responsibility for the health and wellbeing of Finns

Pihlajalinna has a responsible mission: helping Finns to live a better life. It is easier, more inexpensive and more lighter for the body to keep a person healthy rather than cure someone who is already ill. This is why we build services that focus on keeping people healthy.

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

our 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.

Thousands of Pihlajalinna professionals look after the health and wellbeing of hundreds of thousands of Finns every day. Without the trust

of customers and society, the company cannot realise its mission.

LISTENING TO STAKEHOLDERS

Pihlajalinna maintains close contact with its stakeholders and continuously receives and collects feedback from customers, personnel and partners in various ways. Feedback helps Pihlajalinna to evaluate performance and determine which aspects of Pihlajalinna's operations are most important from its stakeholders' perspectives.

Stakeholder expectations regarding Pihlajalinna's responsibility have been surveyed by theme-focused interviews. The stakeholders defined the following as Pihlajalinna's key responsibility themes:

Pihlajalinna's stakeholders



1. Quality and safety of care
2. Customer satisfaction
3. Effectiveness of operations (treatment and prevention)
4. Employees
5. Health and wellbeing among Finns
6. Good governance
7. How we store and process customer information
8. Transparency
9. The use of society's funds and paying taxes to Finland
10. Human rights

RESPONSIBILITY

Quality and safety of care

To make it possible for Pihlajalinna to realise its mission of helping Finns to live a better life, we constantly improve our operations, develop more effective social and healthcare services and monitor the quality of care and service. We want to be a responsible industry pioneer that provides rapid and easy care where and when our customers need it.

Pihlajalinna's goal is to meet the relevant regulatory requirements every day, in every unit. All of the Group's healthcare services are scientifically proven and medically effective. The Group aims to improve the effectiveness of its services by ensuring quick access to care. The Group's operations are based on laws and decrees, regulations issued by the authorities, the Current Care Guidelines and Pihlajalinna's own operating guidelines. Pihlajalinna ensures quality and safety through self-monitoring and guidelines, personnel training and the recruitment of highly competent professionals.

Responsibility for the quality of Pihlajalinna's social and healthcare

services is borne by the Medical Director, the Medical Management Team, the directors in charge of healthcare, the chief medical officers and the individuals in charge of units. The management continuously monitors quality indicators and targets, develops operations and takes action in response to any non-compliance. Results, targets and the progress of implemented measures are regularly monitored in management reviews, in management teams and in unit meetings.

Pihlajalinna's private clinics, hospitals and dental clinics use the ISO 9001 quality management system. The objective of certification is to further develop and improve the units' daily operations. They also help improve risk management and ensure that statutory requirements and self-monitoring objectives are met.

SATISFIED CUSTOMER

Patients are becoming empowered customers due to increased freedom of choice through both insurance and the intended healthcare and social welfare reform. Pihlajalinna continuously

develops its services to make them even more customer-oriented and builds increasingly smooth and effective service paths. The goal is to make the customer experience a competitive advantage for Pihlajalinna. In 2018, the Group's focus areas in the development of the customer experience included a new private clinic concept and a new customer relationship programme.

Notifications, feedback and non-compliance incidents are mainly handled locally but, when necessary, they are dealt with at the Group management level and together with the authorities. Data protection officers are responsible for handling reports pertaining to information security.

Pihlajalinna's Head of Customer Experience is responsible for processing feedback. Feedback is received directly from customers during the provision of care and services, through websites and social media as well as from employees in accordance with Pihlajalinna's feedback process. Patient ombudsmen provide assistance and advice on matters concerning the application of the Patient Act.

MEDICAL KEY FIGURES 2018

0.86

COMPLAINTS*

0.1

OFFICIAL COMPLAINTS*

0.86

 PATIENT INJURY
NOTIFICATIONS FILED
IN 2018*

According to the Patient Insurance Centre's decisions, the patient was entitled to compensation in **27%** of the notification cases resolved in 2018

* 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 private clinics, the Group's hospitals, occupational health centres dental clinics and the Hattula health centre.

1,049,081

 TOTAL NUMBER
OF VISITS

0.19%

 SURGICAL INFECTIONS**
deep infections

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

 NPS INDEX
PRIVATE CLINICS

+69

 NPS INDEX
HOSPITALS

+87

 NPS INDEX
DENTAL CLINICS

+84

Measuring covers all Pihlajalinna private clinics, hospitals and dental clinics. The number of feedback is 10,068.*

OPEN COMMENTS OF FEEDBACK RELATED TO	of all feedback		development ideas	
	negative	positive	negative	positive
Technology issues	9%	81%	0%	19%
Quality of care	22%	58%	39%	3%
Invoicing	7%	85%	0%	15%
Meeting	15%	47%	50%	3%
Waiting time	13%	96%	2%	2%
Content of service	22%	58%	15%	27%
Other	12%	23%	4%	73%
Total	100%			

* Pihlajalinna Group implemented unified method of measuring customer feedback in all services in May 2018 and we report all feedback collected. In municipal companies we follow a model agreed upon with the customer.

Responsibility for the use of society's funds

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.

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 and the joint venture's local community in many different ways. The municipality receives its share of the joint venture's profits, which it can then use for any purpose it chooses. Furthermore, when the joint venture produces a profit, part of that profit goes back to the local community in the form of tax revenue, as the companies are domiciled in the municipalities they operate in.

Local companies are important for the local business sector. The largest of the joint ventures is Kuusiolinna Terveyst, which is responsible for providing social and healthcare services to a total of 24,000 people in Alavus, Kuortane, Ähtäri and Soini. Kuusiolinna paid dividends of EUR 735,000 to its partner municipalities in 2018 and the value of its cooperation with local businesses exceeded EUR 2,6

million. In 2018, Pihlajalinna distributed total dividends of EUR 1,3 million to the partner municipalities of its joint ventures. For more information on Pihlajalinna's local impact and responsibility, please refer to pages 26–29.

WE FOCUS ON KEEPING PEOPLE HEALTHY

The significance of prevention and effective, fast care is continuously increasing in social care and healthcare. It is easier, more inexpensive and lighter for the body to keep a person healthy rather than cure an ill person. One of the underlying reasons is the change of the funding model from service-specific pricing more and more towards fixed pricing. This benefits everyone, as service providers have a strong incentive to develop more effective operating methods, such as digital services, and focus their operations on prevention.

The majority of Pihlajalinna's business, just under 60 per cent, is fixed-price business. In fixed pricing, Pihlajalinna is not paid for a single MRI image, for instance, but for assuming responsibility for an individual's healthcare services. This is why

Pihlajalinna builds services that focus on keeping people healthy. Pihlajalinna made a significant investment in prevention and its development in care chains by acquiring the Forever fitness centre chain in 2018.

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.

WE PAY OUR TAXES IN FINLAND

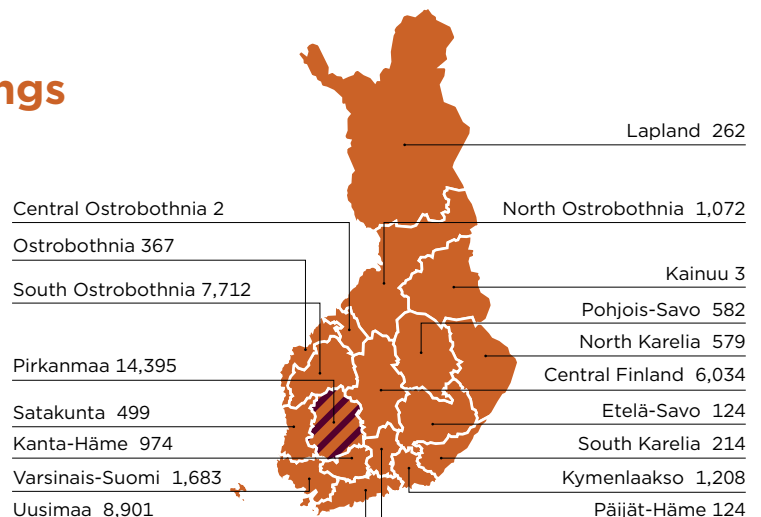
Pihlajalinna is a Finnish listed company that is approximately 95 per cent in Finnish ownership. Pihlajalinna is headquartered in Tampere and all of its subsidiaries are registered in Finland. Pihlajalinna's tax footprint is presented on the next page.

PIHLAJALINNA'S OWNERSHIP STRUCTURE

31 Dec 2018	HOLDING
Foreign shareholders	0.1%
Nominee-registered	5.5%
Finnish shareholders	94.4%

Pihlajalinna's tax withholdings by county 2018

EUR 1,000



TAX FOOTPRINT

All taxes paid to Finland

PAID TAXES 2018
TOTAL€42.4
million

(36.8)

TAXES COLLECTED
2018€60.3
million

(48.9)

PIHLAJALINNA GROUP'S TAX FOOTPRINT

EUR million	2018	2017
Paid taxes		
Income taxes	5.1	4.3
Employer part of pension insurance contributions	29.4	25.7
Social security contributions	1.5	1.6
Employer part of unemployment insurance contributions	4.3	4.0
Accident and group life insurance contributions	0.9	0.9
Employer contributions, total	36.1	32.1
Real estate taxes	0.1	0.1
Transfer taxes	1.2	0.4
Paid taxes, total	42.4	36.8

Cost of value added taxes

Value added taxes, estimate	12.4	9.0
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Taxes collected

Tax withholdings	44.7	35.3
Employee part of pension insurance contributions, calculatory	11.7	9.5
Employee part of unemployment insurance contributions, calculatory	3.3	2.3
Salary taxes	59.7	47.1
Net value added tax	0.6	1.8
Taxes collected, total	60.3	48.9

Revenue, EUR million	487.8	424.0
Result before taxes, EUR million	10.0	17.4
Average number of personnel (FTE)	4,868	3,879
Public subsidies, EUR million	1.3	0.8

Competent and committed personnel

Having professional, highly competent and committed personnel is essential for Pihlajalinna's business operations. Social and healthcare services are based on trust, and the personnel plays a key role in producing high-quality and ethical services. The significance of wellbeing at work, work ability, recruitment and the workplace atmosphere is also reflected in the company's result, as Pihlajalinna professionals play a very big role in creating customer value.

As an employer, Pihlajalinna aims to develop the work ability and wellbeing of its personnel in order to strengthen the company's competitiveness both as an employer and in its business operations. Investing in employee competence and ensuring high-quality supervisory work help Pihlajalinna achieve its strategic goals.

Pihlajalinna respects internationally recognised human rights and complies with Finnish labour law and collective agreements as well as the legislation governing human rights and equality in all of its business locations. Pihlajalinna respects its employees' right of organisation and collective bargaining. Pihlajalinna does not condone discrimination based on employees' and practitioners' origin, nationality, religious beliefs, ethnicity, gender, age or any other such factor.

HIGH-QUALITY SUPERVISORY WORK PLAYS A KEY ROLE

At Pihlajalinna, supervisory work and management are aimed at giving employees the opportunity to perform well at their jobs. Management involves inspiring employees and engaging in concrete communication on goals and feedback. High-quality supervisory work plays an important role in the development of day-to-day operations and quality. Supervisory work is evaluated in various ways, including the Pihlis Pulse survey conducted every two months. The supervisor index illustrates employees' views of the supervisors' fairness and ability to set targets and provide motivating feedback to support strong work performance.

Supervisory work and its development were one of the focus areas of Pihlajalinna's HR function in 2018. For the first time, Pihlajalinna organised its own supervisor training, which took place on a monthly basis. The themes were being a supervisor at Pihlajalinna, employment relationship competencies and appreciative interaction. The training days focused on supervisors' duties and responsibilities during the employment lifecycle, using coaching style leadership, active caring and how to address observed problems with subordinates. All Pihlajalinna

supervisors have an obligation to participate in the training and their training record is monitored. Supervisors were also provided with training related to HR systems and, in cooperation with education institutions, training for a degree-based Specialist Qualification in Management and a degree-based Qualification in First-Line Management.

ACTIVE MONITORING OF WELLBEING AT WORK

Pihlajalinna aims to improve wellbeing at work among its personnel by, among other things, high-quality supervisory work, occupational healthcare and wellbeing projects. The implementation of the active caring model established in 2017 continued as part of supervisor training. The model involves agreeing on responsibilities and operating methods aimed at resolving challenges related to work ability and performance in a proactive and systematic manner.

In 2018, Pihlajalinna introduced Pihlis Pulse, a survey conducted every two months to actively monitor the perceptions and wellbeing of the company's personnel.

The wellbeing projects in municipal outsourcing were expanded to include all municipal joint ventures. Among

PERSONNEL INDICATORS

Indicator	2018	2017
Average number of personnel (FTE)	4,868	3,879
Practitioners	1,400	992
Wages and salaries incl. social security expenses, EUR million	208.9	172.5
Ratio of average annual pay to highest annual pay	5.0%	8.0%
Full-time / part-time / on call personnel, %	62/17/21	61/18/21
Care personnel / other personnel / doctors / administration, %	64/16/15/5	67/17/11/5
Equality and non-discrimination plan	valid	valid
Action plan against inappropriate treatment at work	valid	valid
Occupational accidents* / work-related fatalities	327/0	284/0
Infringements against labour law	1**	1**

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

** On 28 June 2018, Kuusiolinna Terveys Oy, a partially (51%) owned subsidiary of Pihlajalinna, was ordered to pay one plaintiff compensation pursuant to the Non-discrimination Act for recruitment-related discrimination.

HR focus areas in 2018

- The Group's organisational renewal
- Regular managerial training
- Development of managerial communication
- Pihlis Pulse survey
- Starting regular reporting at the business and Group levels
- Wellbeing projects in municipal joint ventures
- Renewal of the Together organisation and the occupational safety and health organisation
- Starting negotiations with the occupational safety and health committee regarding the renewal of the employee representative organisation

other things, the projects include events and information bulletins for all personnel. They also include exercise and life management coaching for individuals with an elevated work ability risk.

EMPOWERING EMPLOYEES

Pihlajalinna aims to empower its employees to exercise influence on their jobs and working environments through Together activities. Together is a cooperative organisation that spans the entire Group. The people involved in the activities include Together representatives selected by employees as well as the employee delegate and occupational safety and health organisation. The aim of the activities is to create a coherent company culture, develop dialogue and respond to the statutory requirements concerning employer-employee cooperation. Pihlajalinna's Together organisation and occupational safety and health organisation were restructured at the beginning of 2019 to correspond to the Group's new regional organisation structure.

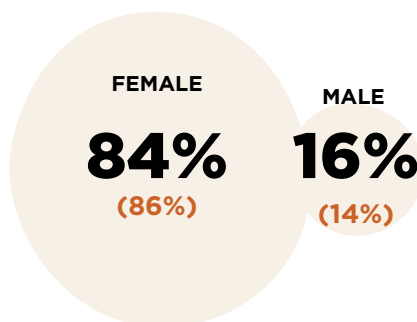
PROACTIVE HR PLANNING AND RESOURCE ALLOCATION

At Pihlajalinna, unit supervisors are responsible for HR and shift planning. Shift planning complies with the applicable legislation and collective agreements as well as the permits issued by the supervisory authorities. The planning is based on customer needs as well as fairness towards personnel. Shifts are planned proactively, taking into account known absences and part-time periods. Substitutes are generally hired in the case of absences. If the customer volume is lower than usual and the number of personnel is sufficient, a substitute is not hired. If the attempts to hire a necessary substitute for a short absence are unsuccessful, the supervisor concerned will see whether a substitute can be arranged from another unit through internal arrangements. Overtime is subject to the provisions of the collective agreements and records of hours worked are based on actual shifts worked.

UNIFORM EMPLOYEE BENEFITS

Pihlajalinna's new uniform employee benefits entered into effect on

GENDER DISTRIBUTION



1 January 2018. For most Pihlajalinna professionals, the uniform benefits represent a significant improvement on their previous benefits. In reforming the employee benefits, the primary principle was to provide equal benefits to all personnel. The primary objective of the benefits is to ensure employee wellbeing. With the introduction of the new benefits, Pihlajalinna significantly increased its investment in employee benefits. Previously, benefits were inherited from acquisitions and municipal outsourcing arrangements, for example, and they were very varied. Pihlajalinna's employee benefits include comprehensive occupational healthcare, leisure-time accident insurance, sports benefits and culture benefits, among others.

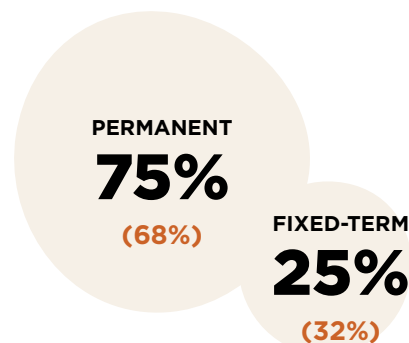
CONTINUOUS DEVELOPMENT OF COMPETENCE

At Pihlajalinna, competence development primarily involves training and the sharing of internal 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 is an important element of internal training.

The Group has a uniform introductory training plan. The aim is that all new employees, internally reassigned employees, employees taking up supervisory positions and those returning from extended leave receive introductory training related to the organisation and their specific job in accordance with the introductory training plan. In addition to permanent employees, fixed-term employees, trainees, agency workers and practitioners will also receive introductory training.

Professional training is provided by both Pihlajalinna's own experts and

EMPLOYMENT TYPE



external training providers. In annual target-setting and development discussions, the manager and employee together prepare an individual competence development for each employee.

NEW HR ORGANISATION AND PERSONNEL RESTRUCTURING

Pihlajalinna's HR administration was restructured in connection with the Group's organisational renewal. The number of HR Managers rose to three. The HR Managers report to the Head of Business Operations in charge of their respective area as well as the Group's Head of HR. The HR Managers are paired with four local HR experts. The HR administration also includes the centralised payroll services team, the centralised HRD team and the recruitment team.

The recruitment organisations of Pihlajalinna and MediApu, which has been part of the Group since 2016, were combined into a single unit in connection with the organisational renewal. The operations of the new recruitment team were organised to correspond to the Group's geographical structure. The recruitment team is responsible for the entire Group's recruitment and it supports Pihlajalinna's business operations locally and at the Group level. It also provides recruitment services to external customers.

In 2018, Pihlajalinna Group held 12 employer-employee cooperation negotiations on production-related and financial grounds. These negotiations concerned 372 employees and they resulted in 31 redundancies and the discontinuation of positions. Of these, 57 employees found new jobs within the Group.

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 is monitored actively and deviations are processed quickly. Information security is established and maintained with state-of-the-art, up-to-date solutions.

CHANGES DUE TO THE GDPR

In 2018, Pihlajalinna prepared for the EU's General Data Protection Regulation (GDPR), which entered into effect in May. The aim of the GDPR is to harmonise the regulations governing the processing of personal data in the EU.

Pihlajalinna's GDPR project included, among other things, ISO 27001 certification, updating agreements, updating the data protection and information security policy, drawing up a data balance sheet, documenting the information system portfolio, training the company's personnel, drafting data

protection materials, implementing changes to processes related to data subjects and documenting the processes. In addition, new information systems were created to enable data subjects to exercise their rights and to facilitate the processing of information requests. The process concerning information security deviations was also revised. One major part of the project was the classification of Pihlajalinna's data files and updating the data file descriptions.

The project also included the development of data protection

related to the Pihlajalinna website, the Oma.pihlajalinna.fi service and the Pihlajalinna mobile application, such as updating the terms of use and drawing up new forms to enable data subjects to exercise their rights.

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. This ensures that our personnel have the necessary practical knowledge of issues related to data protection.

DATA PROTECTION AND INFORMATION SECURITY INDICATORS

	Target	2018	2017	2016
Number of successful attempts to gain unauthorised access	0	6*	2*	0
Number of detected viruses and malware	Computers are free of viruses and malware	89 automatically removed viruses 2,884 automatically removed malware programs**	0	0
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	90% of updates installed within one week of being released	Target not achieved, part of ongoing activity	Target achieved

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

** Updates to the system have enabled more accurate statistics and monitoring.

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 RIGHT MANAGEMENT

In all systems, user right and access management is 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.



Partnership produces results

At Pihlajalinna, we believe that the well-functioning cooperation between the private service providers and public sector secures versatile and effective social and healthcare services for all Finns. Pihlajalinna is responsible for the full range of social and healthcare services for the residents of several municipalities. The Group is a trusted partner for many municipalities in primary care, specialised care, social and care services as well as physician recruitment. Pihlajalinna cooperates with approximately 100 municipalities in total.

As the only major private provider of social and healthcare services, Pihlajalinna has gained extensive experience in taking on overall responsibility for a large population. At the beginning of 2018, Pihlajalinna was responsible for the social and healthcare services of approximately 100,000 residents in its partner municipalities. Thousands of Pihlajalinna professionals look after the health and wellbeing of Finns every day.

An efficient care chain between primary and specialised care ensures that Pihlajalinna's primary care customers receive effective care quickly. Customers can rest assured that their wellbeing is comprehensively looked after throughout the care chain.

Pihlajalinna's municipal partners have brought their social and healthcare service expenditure under control,

diversified their local services and improved satisfaction among personnel and customers. In Pihlajalinna's operating model, the municipality is a genuine partner rather than a mere client. The partner municipalities have increased their vitality and been able to pursue the digital transformation of their social and healthcare services faster than other municipalities.

SERVICE PRODUCTION BEGAN IN LAIHIA

In 2018, Pihlajalinna increased its holdings in Pihlajalinna group companies that are jointly owned with municipalities. Pihlajalinna now owns 81 per cent of the shares of Mäntänvuoren Terveys Oy and Kolmostien Terveys Oy as well as 90 per cent of the shares of Jokilaakson Terveys Oy. The company also signed a conditional agreement with the Kuusiokunnat municipalities according to which it will increase its holding in Kuusioliina Terveys Oy to 97 per cent.

Pihlajalinna and the municipality of Laihia signed a shareholders' agreement regarding a joint venture and the production of residential services in Laihia for senior citizens and people with developmental disabilities. The services will be produced by Laihian Hyvinvointi Oy. Under the agreement, Pihlajalinna Terveys Oy owns 81% of the company and the municipality of Laihia owns 19%.

On 1 January 2019, Pihlajalinna began service production related to the partial outsourcing of social and healthcare services for the municipality of Hattula under a new agreement. Hattula has roughly 9,700 inhabitants and the value of the agreement is approximately EUR 7 million per year. According to the tendering process, the duration of the agreement is 15 years at the minimum and 20 years at the maximum.

Pihlajalinna's services for the public sector

- Primary and specialised care services
- Complete social and healthcare outsourcing
- Partial outsourcing, such as health centre outsourcing
- Hospital outsourcing
- Emergency and on-call services
- Responsible doctor services and remote consultation services
- Occupational health services
- Residential services for the elderly and the disabled
- Reception centres
- Services produced under freedom of choice pilots
- Staffing services
- Solution services



Ensuring the provision of social and healthcare services in a town located on the fringes of its region

Pihlajalinna is a long-term social and healthcare service partner for the City of Parkano. Having begun with general practitioner and medical specialist services, the cooperation has since been expanded to represent the complete outsourcing of social and healthcare services. Kolmostien Terveys, a joint venture between the City of Parkano and Pihlajalinna, is responsible for providing social and healthcare services to 9,000 local residents. Complete outsourcing offers security to the city: the provision of basic services to local residents has been secured far into the future, and social and healthcare costs are clear and predictable.

Like many small towns, Parkano suffered from a shortage of physicians at the turn of the century. **Mikko Wirén**, a newly graduated physician working at the Parkano health centre, decided to find a solution to this challenge. Wirén acquired more physicians to work at the health centre and had the idea of building a business around the leasing of general practitioner and medical specialist services, which led to the creation of Pihlajalinna in 2001.

Ever since then, Parkano has acquired general practitioner and medical specialist services from Pihlajalinna. The resources of a large company in the field of social and healthcare services make it easier, for example, to find medical specialists to offer appointments with customers in a small town on one day each week.

“Without our cooperation with Pihlajalinna, we wouldn’t have around-the-clock emergency services in Parkano, for example. It creates a sense of security, especially for families with children and the elderly, because the closest major hospital, Tays, is nearly a hundred kilometres away,” says Mayor Jari Heiniluoma.

MAKING THE COSTS OF SOCIAL SERVICES AND HEALTHCARE PREDICTABLE

The City of Parkano decided to outsource social and healthcare services in 2014. The development of costs had been too quick and unpredictable for a long time, and the City had been forced to make annual budget cuts in other administrative sectors to cover the costs of social and healthcare services.

“Our costs were increasing by 2.5–10 per cent each year. We found out the costs of specialised care at the end of each January. For a small town, having your costs suddenly go up by 1.5 million is a big deal,” Heiniluoma explains.

In addition to bringing costs under control and making them more predictable, the decision to outsource social and healthcare services was aimed at ensuring the continued provision of services in a town located on the fringes of its administrative region. The City of Parkano wanted to have influence on the quality and quantity of social and healthcare services. According to Heiniluoma, the

City's priority was to ensure sufficient services for its entire population, especially the elderly and families with children.

"We wanted to create a sense of security and the feeling that Parkano is a good place to live. Effective social and healthcare services help us ensure that we will continue to have labour and families with children in Parkano in the future," Heiniluoma adds.

A JOINT VENTURE WITH PIHLAJALINNA RESPONSIBLE FOR LOCAL MANAGEMENT

The City of Parkano wanted to bring all social and healthcare services under the same umbrella. The City wanted to invest in effective primary care and prevention, which would help keep the costs of specialised care predictable.

Pihlajalinna was chosen as the partner following a tendering process. Kolmostien Terveys, a joint venture

between the City of Parkano and Pihlajalinna, was established in 2016. The joint venture provides all social and healthcare services for the residents of Parkano and Kihniö, with the exception of tasks designated to be performed by the authorities. The agreement period is 10 years and it includes a five-year option.

The decision was made to bring strong local expertise into the management of the joint venture and the social and healthcare outsourcing arrangement. The City is closely involved in the joint venture's decision-making. Its operations are overseen by a steering group that regularly reviews matters with Pihlajalinna and the City's basic welfare committee.

"Understanding the municipality's needs and circumstances is essential in managing this kind of operation. The guiding principles have been to ensure the provision of services for local residents and keeping social and healthcare service jobs in the area," Heiniluoma concludes.

Pihlajalinna's municipal outsourcing

Municipality	Population
Jämsä	22,000
Mänttä-Vilppula and Juupajoki	13,000
Parkano and Kihniö	9,000
Kuusikunnat and Soini	24,000
Hattula (partial outsourcing)	10,000
Laihia (partial outsourcing)	8,000

The operational and financial results of the municipal joint ventures are reported in more detail on pages 26–29.



For more information on the local impact of Kolmostien Terveys, please refer to page 27 (impact map).



Improving the availability of psychotherapy

Kolmostien Terveys and the psychotherapy centre Vastaamo launched a cooperation at the beginning of 2018 to improve the availability of psychotherapy services for the people of Parkano and Kihniö. The goals of the cooperation are to lower the threshold of customers seeking psychotherapy services and to provide quick, convenient and preventive assistance to people.

The low-threshold psychotherapy services are open to all local residents. Customers are directed to the low-threshold psychotherapy services via two routes: referred by a professional in primary care services or through an online Quality of Life survey that is open to the public.

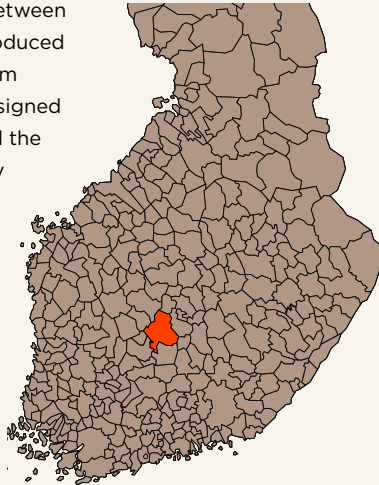
Once customers have completed the Quality of Life Survey, they have the option of applying for short-term psychotherapy or submitting a service referral request. The customer can choose whether to have the appointment with a psychotherapist at the health centre, via an encrypted video connection online, or at the Vastaamo psychotherapy centre's offices.

Early referral to treatment for depression and anxiety is beneficial for both the individual and society. During the first six months of the pilot project, the costs of specialised psychiatric care were reduced by 71% and health centre visits due to mental health problems decreased by 27%. At the same time, the resources of specialised psychiatric care could be allocated to the treatment of more severe issues.

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 and the agreement includes a five-year option. The company is responsible for providing primary and specialised care to 22,000 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. Jokilaakson Terveys Oy's shareholders are Pihlajalinna (90%) and the Central Finland Hospital District (10%).



€735,499^(JT)
Corporate taxes to the municipality

€3,317,262^(JT)
€1,668,641^(JLT)
Withholding taxes to the municipality

€6,033,526
Pihlajalinna Group's withholding taxes to the regional government: Central Finland

€390,000^(JLT)
Dividends to the municipality

€1,790,000
Pihlajalinna's joint venture dividends to partner municipalities (municipalities, total)

NUMBER OF EMPLOYEES

492^(JT)
227^(JLT)



LOCAL SUBCONTRACTORS

73^(JT) & 43^(JLT)

VALUE OF COOPERATION

€519,269^(JT) & €119,267^(JLT)

OWNERSHIP, JÄMSÄN TERVEYS

• Pihlajalinna 51% • Jämsä municipality 49%

OWNERSHIP, JOKILAAKSON TERVEYS

• Pihlajalinna 90% • Central Finland Hospital District 10%

JÄMSÄN TERVEYS BOARD OF DIRECTORS

50% PIHLAJALINNA REPRESENTATIVES (3)

50% JÄMSÄ MUNICIPALITY REPRESENTATIVES (3)

7.7 WELLBEING AT WORK, AVERAGE TOTAL SCORE (scale 1-10, year 2018)

Employment type

PERMANENT

84%^(JT)
82%^(JLT)

FIXED-TERM

16%^(JT)
18%^(JLT)



AVERAGE AGE OF PERSONNEL 46^(JT) 44^(JLT)

LARGEST AGE GROUP 51-55 (JT) 55-60 (JLT)

SPECIALISED CARE AND SERVICES

- 22 specialities
- Most significant specialities: orthopaedics and surgery, internal medicine, neurology, cardiology
- Nearly 2,000 surgical operations annually

75,037 DAYS OF CARE

APPOINTMENTS WITH PHYSICIANS

- Primary care (Jämsä, Koskenpää, Länkipohja, Kuorevesi): 20,043
- Emergency and on-call services: 11,392
- Specialised care: 19,620
- Dental care: 17,981
- Mental health centre: 2,373
- Substance abuse clinic: 201
- Family service centre: 2,868

CUSTOMER FEEDBACK

JÄMSÄN TERVEYS

JOKILAAKSON TERVEYS



80%



12%



3%



5%

85%

9%

2%

4%

Kolmostien terveys

ESTABLISHED IN 2015

Kolmostien Terveys 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 9,000 inhabitants in Parkano and Kihniö.



€142,358

Corporate taxes to the municipality

€2,484,138 €

Withholding taxes to the municipality

€14,394,735 €

Pihlajalinna Group's withholding taxes to the regional government: Pirkanmaa

€190,000 €

Dividends to the municipality

€1,790,000 €

Pihlajalinna's joint venture dividends to partner municipalities (municipalities, total)

NUMBER OF EMPLOYEES

426



82

LOCAL SUBCONTRACTORS

VALUE OF COOPERATION
€ 425,911

OWNERSHIP

- Pihlajalinna 81%
- Parkano municipality 19%

BOARD OF DIRECTORS

50% PIHLAJALINNA
REPRESENTATIVES (3)

50% PARKANO
MUNICIPALITY
REPRESENTATIVES (3)

7.9

WELLBEING AT WORK, AVERAGE TOTAL SCORE
(scale 1–10, year 2018)

Employment type

PERMANENT

80 %

FIXED-TERM

20 %



AVERAGE AGE
OF PERSONNEL 43

LARGEST AGE GROUP
55–60

SPECIALISED CARE AND SERVICES

- Geriatrics, gynecology, psychiatry, neurology, internal medicine, radiology and general medicine

26,646 APPOINTMENTS
WITH PHYSICIANS

75,037 DAYS OF CARE

CUSTOMER FEEDBACK

KOLMOSTIEN TERVEYS



87%



6%



2%

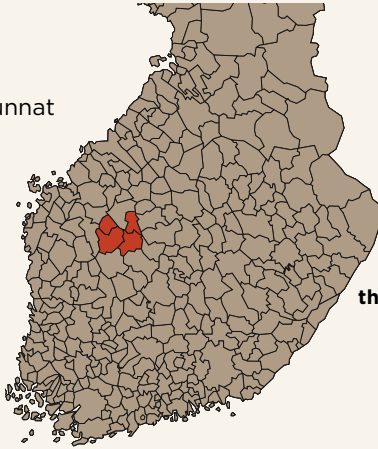


5%

Kuusiolinna Terveys

ESTABLISHED IN 2016

Kuusiolinna Terveys Oy is a joint venture established by Pihlajalinna and the Kuusiokunnat sub-region. It has produced social and healthcare services for the sub-region since 1 January 2016. The agreement period is 10 years and the agreement includes a five-year option. The municipalities own 49% of the joint venture, while Pihlajalinna owns the remaining 51%. Service production began in Alavus, Kuortane and Ähtäri on 1 January 2016 and in Soini on 1 January 2017. The company is responsible for providing primary care to 24,000 inhabitants in total.



€ 1,052,384

Corporate taxes to the municipality

€ 7,269,198

Withholding taxes to the municipality

€ 7,712,396

Pihlajalinna Group's withholding taxes to the regional government: South Ostrobothnia

€ 735,000

Dividends to the municipality

€ 1,790,000

Pihlajalinna's joint venture dividends to partner municipalities (municipalities, total)

NUMBER OF EMPLOYEES

1,063



214 LOCAL SUBCONTRACTORS

VALUE OF COOPERATION
€ 2,643,767

OWNERSHIP

- Pihlajalinna 51%
- Alavus, Kuortane, Ähtäri and Soini total 49%

BOARD OF DIRECTORS

50% PIHLAJALINNA REPRESENTATIVES (4)

50% KUUSIOKUNNAT REPRESENTATIVES (4)

7.9 WELLBEING AT WORK, AVERAGE TOTAL SCORE
(scale 1-10, year 2018)

Employment type

PERMANENT

82%

FIXED-TERM

18%



AVERAGE AGE OF PERSONNEL **44**

LARGEST AGE GROUP

51-55

SPECIALISED CARE AND SERVICES

- 14 specialised services
- Most significant special services: internal medicine, geriatrics, cardiology, orthopaedics and surgery, urology, ENT

180,418 DAYS OF CARE

APPOINTMENTS WITH PHYSICIANS

- Appointments with physicians and emergency and on-call services: 39,648
- Specialised care: 2,208
- Dental care: 20,310
- Outpatient psychiatric clinic: 1,159
- Family services: 4,209

CUSTOMER FEEDBACK

EMERGENCY AND ON-CALL SERVICES IN ALAVUS



75%



11%



4%



10%

PHYSICIAN'S APPOINTMENTS IN ÄHTÄRI

80%

11%

3%

6%

Mäntänvuoren Terveys

ESTABLISHED IN 2013

Mäntänvuoren Terveys Oy is a joint venture established in 2013 between the municipality and Pihlajalinna. The municipality owns 19% of the joint venture, while Pihlajalinna owns 81%. 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 13,000 customers in Mänttä-Vilppula and Juupajoki.



€ 1,297,095

Corporate taxes to the municipality

€ 2,654,677

Withholding taxes to the municipality

€ 14,394,735

Pihlajalinna Group's withholding taxes to the regional government: Pirkanmaa

€ 475,000

Dividends to the municipality

€ 1,790,000

Pihlajalinna's joint venture dividends to partner municipalities (municipalities, total)

NUMBER OF EMPLOYEES

488



82

LOCAL SUBCONTRACTORS

VALUE OF COOPERATION
€ 1,607,422

OWNERSHIP

- Pihlajalinna 81%
- Mänttä-Vilppula municipality 19%

BOARD OF DIRECTORS

50% PIHLAJALINNA
REPRESENTATIVES (3)

50% MÄNTTÄ-VILPPULA
MUNICIPALITY
REPRESENTATIVES (3)

7.9

WELLBEING AT WORK, AVERAGE TOTAL SCORE
(scale 1-10, year 2018)

Employment type

PERMANENT

82%

FIXED-TERM

18%



AVERAGE AGE
OF PERSONNEL 45

LARGEST AGE GROUP
55-60

SPECIALISED CARE AND SERVICES

- Geriatrics, surgery, plastic surgery, psychiatry, internal medicine cardiology and dialysis unit

80,687 DAYS OF CARE

9,161

APPOINTMENTS WITH
DENTISTS

22,533

APPOINTMENTS
WITH PHYSICIANS

CUSTOMER FEEDBACK

KOLMOSTIEN TERVEYS



80%



10%



3%



7%

Board of Directors



1. Mikko Wirén b. 1972
Chairman of Pihlajalinna Plc's Board of Directors, Lic.Med., Member of the Board of Directors since 2016

2. Matti Bergendahl b. 1966,
Vice Chairman, PhD, Doc., Specialist, MBA, Member of the Board of Directors since 2018, CEO of Realia Group. Independent of the Company

3. Timo Everi b. 1963,
BBA and eMBA, Member of the Board of Directors since 2016, Executive Partner at Hasan & Partners. Independent of the Company and its major shareholders

4. Gunvor Kronman b. 1963,
Master of Arts, Member of the Board of Directors since 2018, CEO of Hanaholmen Swedish-Finnish Cultural Centre and Director of Cultural Foundation for Sweden and Finland. Independent of the Company and major shareholders

5. Leena Niemistö b. 1963,
b. 1963, D.Med.Sc., Specialist in Physiatics, Member of the Board of Directors since 2014, Board Professional. Independent of major shareholders

6. Kati Sulin b. 1974,
Master of Arts, Member of the Board of Directors since 2018, Chief Digital Officer (CDO) at DNA Plc. Independent of the Company

7. Jari Sundström b. 1960,
LL.M., trained on the bench, Member of the Board of Directors since 2015, Managing Director of LocalTapiola General Mutual Insurance Company. Independent of the Company

8. 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

1. Joni Aaltonen b. 1970,
CEO, BBA. Employed by the company
since 2008

2. Minna Elomaa b. 1969,
Head of Business Operations, Southern
Finland, MSc (Econ.). Employed by the
company since 2017

3. Tero Järvinen b. 1972,
Head of Business Operations,
Ostrobothnia, CEO, Kuusiolinna
Terveys Oy, Master of Health Science.
Employed by the company since 2016

4. Teija Kulmala b. 1969,
Head of Business Operations, Central
Finland, CEO, Jämsän Terveys Oy and
Jokilaakson Terveys Oy, MD, eMBA,
Specialist. Employed by the company
since 2016

5. Ville Lehtonen b. 1981,
CFO, M.Sc. (Econ.). Employed by the
company since 2017

6. Sanna Määttänen b. 1967,
Head of Service and Product
Development, Specialist in Geriatrics,
eMBA. Employed by the company since
2012

7. Marko Savolainen b. 1967,
General Counsel, Master of Laws
with court training. Employed by the
company since 2017

8. Pauli Waroma b. 1978,
Head of Marketing and
Communications, BBA. Employed by
the company since 2017

9. Stefan Wentjärvi b. 1967,
Head of Sales, Head of Business
Operations, Northern Finland, M.Soc.
Sci. Employed by the company since
2018



Further information on the members of The Board and Group Management Team can be found in:
investors.pihlajalinna.fi/corporate-governance

PIHLAJALINNA PLC

REPORT BY THE BOARD OF DIRECTORS
AND THE FINANCIAL STATEMENTS

2018

Report by the Board of Directors

1 Jan–31 Dec 2018

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Report by the Board of Directors for the financial year 1 January–31 December 2018

JONI AALTONEN, CEO OF PIHLAJALINNA:

The Group's revenue growth remained strong in the fourth quarter. Profitability improved, particularly due to complete outsourcing arrangements, while the start-up of new units weighed down the result. We launched a customer relationship programme at the beginning of October. The programme is aimed at increasing awareness of Pihlajalinna's entire service offering, cross-selling services and creating added value by promoting good health.

The changes in organisational structure and efficiency improvement measures implemented during the early part of the year are clearly beginning to produce results. While we want to improve the efficiency of our operations, we do not want to compromise our future development or the direction that we believe is right for Finnish healthcare. The open-minded development of our business and profitable growth are our key goals at the present time.

2018 was a year of business development for Pihlajalinna. We changed our organisational structure, expanded geographically, built new services and invested in creating a stronger brand and digital services. While all this building for the future eroded our profitability, we now enter the new year in a good position. The major changes have now been done—for the time being—and we can focus on the continued improvement of our profitability.

We are now a genuinely national operator. In line with our strategy, we have expanded our operations to new regional capitals through acquisitions. We opened new full-service private clinics in Oulu, Seinäjoki and Turku. In addition, the acquisition of Doctagon during the financial year strengthens our presence in Swedish-speaking regions. In areas where we don't have medical specialists comprehensively available, for example, we can provide medical specialist services from another location using digital channels. The use of remote services enables us to balance regional differences in demand and supply. In the fourth quarter, we acquired the entire share capital of Terveyspalvelu Verso Oy. This transaction saw Verso's 17 clinics in Pohjois-Savo become part of the chain of Pihlajalinna's private clinics.

We have also achieved a concrete expansion of our range of services: the responsible doctor model is being expanded geographically and we are increasing the service offering of our fitness centres in occupational healthcare and rehabilitation. We have expanded our partner network. For example, in cooperation with the psychotherapy centre Vastaamo, we are providing low-threshold therapy services in municipal joint ventures that generate significant savings in specialised care and improved health outcomes for our customers.

The growth of the municipal business was weakened in 2018 by the effect of uncertainty around health and social services reform on municipal decision-making. In spite of the prevailing

uncertainty, our joint venture in Laihia began its operations on 1 September 2018, while in Hattula, a partial outsourcing arrangement for social and healthcare services started at the beginning of 2019.

In our view, the proposed health and social services reform and bringing services close to people would provide faster access to basic-level care while also improving service quality. In order for the economic objectives of healthcare and social welfare reform to be achieved, the counties must have the capacity and willingness to take advantage of the national service networks of private service providers and implement economic pricing models, such as fixed compensation, a performance-based share and incentives. Bringing services close to people would provide significantly faster access to care and ensure high-quality care for all Finns, including those who live outside growth centres.

In our view, freedom of choice should be developed in such a way as to give the service providers of health and social services centres the obligation and the opportunity to take more extensive responsibility for customers, excluding demanding specialised care services. This could be achieved by introducing services from various specialised branches of medicine to the health and social service centres. This would allow customers to obtain care from a single location and avoid the fragmentation of the care path, unnecessary chains of referrals and needless bureaucracy.

Pihlajalinna is interested in broader service solutions that are more effective in creating value for society. The recent public discussion surrounding the poor quality of care for the elderly is a sign of how serious the situation is. Addressing these problems calls for close cooperation between the public sector and private enterprises. The issue is not the price at which a day of care can be produced. The challenge is much broader. The service chain must be examined as a whole to ensure that every customer receives the care that their condition requires. Complete outsourcing enables this by providing a more comprehensive service offering, which makes it possible to choose the appropriate location of treatment.

If the health and social services reform is not implemented, we expect that municipalities will again become active in working with us to develop service models that make it possible to maintain services for their residents while keeping costs under control and producing the services in an ethically sustainable manner. In 2019, we expect our consolidated revenue to increase and our adjusted EBIT to improve clearly compared to 2018.

REVENUE BY BUSINESS AREA

Pihlajalinna's geographical business areas are 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 2018

EUR million	10-12/2018	%	10-12/2017	%
Southern Finland	29.5	21	15.0	12
Mid-Finland	79.3	56	76.8	62
Ostrobothnia	28.6	20	26.7	22
Northern Finland	3.2	2	2.6	2
Other operations	2.0	1	1.7	1
Intra-Group sales	-15.7		-14.9	
Total consolidated revenue	127.0	100	107.9	100

The quarterly revenue of the Southern Finland business area amounted to EUR 29.5 (15.0) million, an increase of EUR 14.5 million, or 96 per cent. The business area's revenue increased significantly following the acquisitions of Doctagon, the Forever fitness centre chain and Kymijoen Työterveys.

The revenue of the Mid-Finland business area amounted to EUR 79.3 (76.8) million, an increase of EUR 2.5 million, or 3 per cent. The acquisitions of Linnan Klinikka and Röntgentutka increased the business area's revenue. The most significant negative factors affecting revenue were the termination of Omapihlaja health centre operations and Pappilanpuisto service housing with 24-hour assistance as well as the closure of the home care unit in Tampere.

The revenue of the Ostrobothnia business area amounted to EUR 28.6 (26.7) million, an increase of EUR 1.9 million, or 7 per cent. The business area's revenue was increased by the provision of residential services for senior citizens in Laihia and the cost-based price adjustment of the Kuusiokunnat social and healthcare outsourcing.

The revenue of the Northern Finland business area amounted to EUR 3.2 (2.6) million, an increase of EUR 0.6 million, or 21 per cent. The business area's revenue was increased by the start of operations at Pihlajalinna Oulu.

JANUARY-DECEMBER 2018

EUR million	2018	%	2017	%
Southern Finland	107.6	20	60.7	13
Mid-Finland	311.9	57	301.4	63
Ostrobothnia	108.8	20	105.4	22
Northern Finland	12.3	2	7.6	2
Other operations	4.8	1	6.0	1
Intra-Group sales	-57.6		-57.1	
Total consolidated revenue	487.8	100	424.0	100

The full-year revenue of the Southern Finland business area amounted to EUR 107.6 (60.7) million, an increase of EUR 46.9 million, or 77 per cent. Acquisitions (Doctagon, Forever fitness centre chain, Kymijoen Työterveys, Dextra Lapsettomuuslinnikka and the Suomen Yksityiset Hammaslääkärit chain of dental clinics) had a significant

impact on the business area's revenue growth. The start-up of Pihlajalinna Turku also increased the revenue of the Southern Finland business area. The centralisation of insurance company partnerships has led to tighter competition to some extent, which is also reflected in lower volumes, particularly in surgical operations, in the Southern Finland business area.

The revenue of the Mid-Finland business area amounted to EUR 311.9 (301.4) million, an increase of EUR 10.5 million, or 3 per cent. The majority of the growth was attributable to the acquisitions of Linnan Klinikka and Röntgentutka. The cost-based price adjustments of social and healthcare outsourcing contributed to the higher revenue of the Mid-Finland business area. The most significant negative factors affecting revenue were the contraction of reception centre operations, the termination of Omapihlaja health centre operations and Pappilanpuisto service housing with 24-hour assistance as well as the closure of the home care unit in Tampere. The centralisation of insurance company partnerships has led to tighter competition, which is also reflected in lower volumes, particularly in surgical operations, in the Mid-Finland business area.

The revenue of the Ostrobothnia business area amounted to EUR 108.8 (105.4) million, an increase of EUR 3.4 million, or 3 per cent. The business area's revenue was increased by the cost-based price adjustment of the Kuusiokunnat social and healthcare outsourcing, the provision of residential services for senior citizens and people with disabilities in Laihia starting from 1 September 2018 and the start-up of a new clinic in Seinäjoki.

The revenue of the Northern Finland business area amounted to EUR 12.3 (7.6) million, an increase of EUR 4.7 million, or 62 per cent. The business area's revenue was particularly increased by the August 2017 acquisition of Caritas Lääkärit Oy and the start of operations at Pihlajalinna Oulu.

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 healthcare customers, insurance company customers and other corporate contract customers with the exception of public sector occupational healthcare 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 healthcare services and staffing services.

OCTOBER-DECEMBER 2018

EUR million	10-12/2018	%	10-12/2017	%
Corporate customers	29.4	21	21.2	17
of which insurance company customers	6.7	5	6.5	5
Private customers	24.6	17	17.3	14
Public sector	88.6	62	84.5	69
Intra-Group sales	-15.7		-14.9	
Total consolidated revenue	127.0	100	107.9	100

Revenue from corporate customers amounted to EUR 29.4 (21.2) million, an increase of EUR 8.4 million, or 40 per cent. Sales to insurance company customers increased by EUR 0.2 million, or 3 per cent. The revenue for the quarter was increased by the start-up of new clinics, Doctagon's staffing services, imaging services in Pirkanmaa and the acquisition of Linnan Klinikka. The use of digital services, and the Pihlajalinna occupational health nurse telephone service in particular, has increased in corporate customer relationships.

Revenue from private customers amounted to EUR 24.6 (17.3) million, an increase of EUR 7.2 million, or 42 per cent. The acquisition of the Forever fitness centre chain contributed significantly to the increase in revenue from private customers. Revenue was also increased by the expansion of the dental care network, fertility treatments, the acquisition of Linnan Klinikka and imaging services in Pirkanmaa.

Revenue from public sector customers totalled EUR 88.6 (84.5) million, an increase of EUR 4.1 million, or 5 per cent. The majority of the growth was attributable to the acquisitions of Doctagon and Kymijoen Työterveys. The start of the production of residential services in Laihia on 1 September 2018 also increased revenue. The main factors that had a negative effect on revenue in this customer group were the termination of Omapihlaja health centres and the unprofitable Pappilanpuisto service housing with 24-hour assistance and home care unit in Tampere.

JANUARY-DECEMBER 2018

EUR million	2018	%	2017	%
Corporate customers	105.6	19	82.6	17
of which insurance company customers	25.2	5	26.6	6
Private customers	92.0	17	68.0	14
Public sector	347.7	64	330.5	69
Intra-Group sales	-57.6		-57.1	
Total consolidated revenue	487.8	100	424.0	100

Revenue from corporate customers during the financial year amounted to EUR 105.6 (82.6) million, an increase of EUR 23.0 million, or 28 per cent. Sales to insurance company customers declined by EUR 1.4 million, or 5 per cent. Revenue was increased by the start-up of new clinics, Doctagon's staffing services, imaging services in Pirkanmaa and the acquisition of clinics in Hämeenlinna and Oulu. Revenue from corporate customers was reduced by the termination of a telephone service arrangement with an insurance company. The use of

digital services, and the Pihlajalinna occupational health nurse telephone service in particular, became well established in corporate customer relationships during the financial year.

Revenue from private customers amounted to EUR 92.0 (68.0) million, an increase of EUR 24.0 million, or 35 per cent. The acquisition of the Forever fitness centre chain contributed significantly to the increase in revenue from private customers. Revenue was also increased by the expansion of the dental care network, fertility treatments, the acquisition of Linnan Klinikka in Hämeenlinna, the start-up of new clinics and the imaging services in Pirkanmaa. The centralisation of insurance company partnerships has led to tighter competition to some extent, which is also reflected in lower volumes of surgical operations among customers who pay for their services themselves.

Revenue from public sector customers totalled EUR 347.7 (330.5) million, an increase of EUR 17.2 million, or 5 per cent. The majority of the growth was attributable to the acquisitions of Doctagon and Kymijoen Työterveys. The cost-based price adjustments of social and healthcare outsourcings and the start of the production of residential services in Laihia on 1 September 2018 also increased revenue. The main factors that had a negative effect on revenue in this customer group were the contraction of reception centre operations, the termination of Omapihlaja health centres and the unprofitable Pappilanpuisto service housing with 24-hour assistance as well as the closure of the home care unit in Tampere.

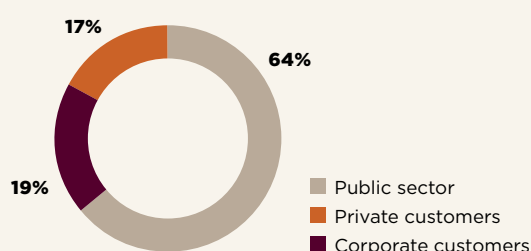
CONSOLIDATED REVENUE AND RESULT

OCTOBER-DECEMBER 2018

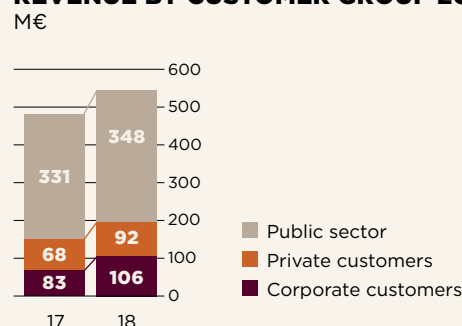
Pihlajalinna's revenue for the quarter amounted to EUR 127.0 (107.9) million, an increase of EUR 19.0 million, or 17.6 per cent. Growth in revenue due to M&A transactions was EUR 17.6 million, or 16.3 per cent. The most significant M&A transactions were the acquisitions of Doctagon, the Forever fitness centre chain and Kymijoen Työterveys in the first quarter.

EBITDA amounted to EUR 10.6 (8.1) million, an increase of EUR 2.5 million, or 30.7 per cent. Profitability was significantly improved by service provider refunds from hospital districts for public sector specialised care cost accruals. The volumes and profitability of clinic and surgical operations were lower than in the comparison period due to the competitive situation and patient guidance by insurance companies. The profitability of occupational healthcare services remained on a par with the previous year in spite of investments in the nurse telephone service.

REVENUE BY CUSTOMER GROUP 2018



REVENUE BY CUSTOMER GROUP 2018



M&A transactions had an impact of EUR 2.1 million on EBITDA, while the start-up of new private clinics had an impact of EUR -0.4 million. Transfer taxes and expert fees related to M&A transactions (IFRS 3 costs) reduced EBITDA by EUR 0.1 (0.3) million. Personnel expenses of EUR 0.9 (0.4) million were capitalised in development costs during the quarter.

Adjusted EBITDA amounted to EUR 11.1 (8.5) million, an increase of EUR 2.6 million, or 30.2 per cent. EBITDA adjustments totalled EUR 0.4 (0.4) million.

Depreciation, amortisation and impairment amounted to EUR 4.7 (3.6) million. Amortisation and impairment of intangible assets amounted to EUR 1.9 (1.4) million, of which purchase price allocation (PPA) amortisation was EUR 1.3 (1.0) million. Depreciation, amortisation and impairment of property, plant and equipment amounted to EUR 2.8 (2.2) million.

Pihlajalinna's operating profit amounted to EUR 6.0 (4.6) million, an increase of EUR 1.4 million, or 30.6 per cent. The EBIT-to-revenue ratio (EBIT margin) was 4.7 (4.2) per cent. The adjusted operating profit was EUR 6.5 (4.9) million, an increase of EUR 1.6 million, or 32.2 per cent. The adjusted EBIT margin was 5.1 (4.6) per cent.

Pihlajalinna's public specialised care revenue included in complete social and healthcare outsourcings amounted to EUR 21.8 (20.8) million. The EBITDA of public specialised care amounted to EUR 2.4 (0.0) million and the operating profit was EUR 2.3 (0.0) million. Profitability was significantly improved by service provider refunds from hospital districts for public sector specialised care cost accruals. 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 operational economy surplus refunds 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 totalled EUR -0.8 (-0.4) million. Profit before tax amounted to EUR 5.2 (4.1) million, an increase of EUR 1.1 million, or 25.9 per cent. Taxes in the income statement amounted to EUR -1.4 (-0.6) million. The profit was EUR 3.8 (3.5) million. Earnings per share (EPS) was EUR 0.12 (0.12).

JANUARY-DECEMBER 2018

Pihlajalinna's revenue for the financial year amounted to EUR 487.8 (424.0) million, an increase of EUR 63.8 million, or 15.0 per cent. Growth in revenue due to M&A transactions was EUR 65.7 million, or 15.5 per cent. The most significant M&A transactions were the acquisitions of Doctagon, the Forever fitness centre chain and Kymijoen Työterveys.

EBITDA was EUR 31.2 (33.3) million, a decrease of EUR 2.1 million, or 6.4 per cent.

Profitability was reduced by a decrease in surgical and reception centre operations due to the competitive situation, patient guidance by insurance companies and the contraction of reception centre operations. Structural reforms and the codetermination negotiations held in the spring had a negative effect on business performance. Profitability was improved by service provider refunds from hospital districts for public sector specialised care cost accruals. However, public specialised care costs increased significantly during the first half of the year. The profitability of occupational healthcare services remained on a par with the previous year in spite of investments in the nurse

telephone service. Pihlajalinna's market share as a provider of occupational healthcare services increased significantly compared to the previous year.

M&A transactions had an impact of EUR 6.6 million on EBITDA, while the start-up of new private clinics had an impact of EUR -3.5 million. Transfer taxes and expert fees related to M&A transactions (IFRS 3 costs) reduced EBITDA by EUR 1.6 (0.9) million. Personnel expenses of EUR 1.3 (0.4) million were capitalised in development costs during the financial year.

As part of Pihlajalinna's structural reforms, the Group carried out codetermination negotiations for production-related reasons and due to the restructuring of business operations. The negotiations were concluded on 14 March 2018 and the number of staff reductions was 25. As a result of the reductions, personnel expenses will be reduced by approximately EUR 2.8 million annually. Employment termination expenses related to staff reductions amounted to EUR 0.6 million during the financial year.

Adjusted EBITDA was EUR 32.3 (34.1) million, a decrease of EUR 1.8 million, or 5.2 per cent. EBITDA adjustments totalled EUR 1.1 (0.7) million.

Depreciation, amortisation and impairment amounted to EUR 18.4 (14.2) million. Amortisation and impairment of intangible assets amounted to EUR 7.1 (5.2) million, of which purchase price allocation (PPA) amortisation was EUR 5.1 (3.8) million. Depreciation, amortisation and impairment of property, plant and equipment amounted to EUR 11.3 (9.0) million.

Pihlajalinna's operating profit was EUR 12.8 (19.1) million, a decrease of EUR 6.3 million, or 33.1 per cent. The EBIT-to-revenue ratio (EBIT margin) was 2.6 (4.5) per cent. Adjusted operating profit was EUR 14.0 (20.0) million, a decrease of EUR 6.0 million, or 29.9 per cent. The adjusted EBIT margin was 2.9 (4.7) per cent.

Pihlajalinna's public specialised care revenue included in complete social and healthcare outsourcings amounted to EUR 86.4 (84.3) million. The EBITDA of public specialised care amounted to EUR 2.5 (0.9) million and the operating profit was EUR 2.2 (0.7) million. Profitability was significantly improved by service provider refunds from hospital districts for public sector specialised care cost accruals. However, public specialised care costs increased significantly during the first half of the year. 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 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 totalled EUR -2.8 (-1.7) million. Profit before tax was EUR 10.0 (17.4) million, a decrease of EUR 7.5 million, or 42.9 per cent. Taxes in the income statement amounted to EUR -2.8 (-3.4) million. Profit was EUR 7.1 (14.1) million. Earnings per share (EPS) was EUR 0.17 (0.46).

MARKET AND LEGISLATION REVIEW

The preparations for the restructuring of social welfare and healthcare services moved forward in 2018, although the implementation of the reforms was postponed. The legislation related to the reforms is currently in the Constitutional Law Committee and the reforms are intended to enter into effect on 1 January 2021, which is when the responsibility for organising social and healthcare services will be transferred to the counties.

If the legislation is enacted, the first county elections are planned for autumn 2019. Personal budgets and service vouchers would be adopted in 2022. The freedom of choice in social and healthcare services would enter into effect gradually. Freedom of choice pilots would begin when the legislation is confirmed. As freedom of choice increases, private operators will increasingly produce publicly funded social and healthcare services. Initially, these services will focus particularly on primary care and care services.

According to an estimate by the Ministry of Social Affairs and Health, the size of the freedom-of-choice market would be approximately EUR 5.4 billion (of which health and social services centres would account for roughly EUR 1.9 billion, service vouchers for roughly EUR 1.6 billion, personal budgets for roughly EUR 1.5 billion and dental care units for roughly EUR 0.4 billion). The Ministry of Social Affairs and Health has confirmed that service voucher pilots will continue in 2019.

Pihlajalinna's view is that there will be opportunities for the private sector to complement the public sector's services, particularly in basic-level specialised care and non-urgent specialised care, as the population ages and the public sector cuts and centralises specialised care in fewer units.

Activity in public service procurement from private operators has increased as the decisions on social and healthcare service reform have been postponed. Pihlajalinna began residential service operations in Laihia on 1 September 2018 and the partial outsourcing of social and healthcare services in Hattula at the beginning of 2019. In addition, Kristiinankaupunki has carried out negotiation-based tendering procedures to outsource part of its social and healthcare services. The procurement decision based on the tendering process has not yet been made.

The situation in the private market remains unchanged. The occupational healthcare market is expected to grow if municipalities and other public sector entities decide to divest the occupational healthcare providers they currently own. For example, the City of Kotka sold Kymijoen Työterveys, and the Ylä-Savo joint municipal authority for social and healthcare services sold Terveyspalvelu Verso, to Pihlajalinna during the financial year.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND CASH FLOW

At the end of the financial year, Pihlajalinna Group's total statement of financial position was EUR 349.5 (253.6) million. Consolidated cash and cash equivalents stood at EUR 36.3 (37.1) million.

The Group's net cash flow from operating activities during the financial year amounted to EUR 27.4 (34.9) million. Taxes

paid amounted to EUR -5.5 (-4.6) million. The change in net working capital was EUR 1.5 (6.6) million. Cash flow from operating activities was reduced by the lower EBITDA and improved by higher trade payables and other liabilities.

Net cash flow from operating activities for the quarter totalled EUR 20.6 (16.5) million. The change in net working capital was EUR 11.5 (9.3) million. Cash flow from operating activities was improved by higher trade payables and other liabilities.

Net cash flow from investing activities totalled EUR -60.1 (-18.5) million. Subsidiary acquisitions had an impact of EUR -41.0 (-8.9) million on net cash flow from investing activities. Investments in property, plant and equipment and intangible assets totalled EUR -19.6 (-10.1) million, and proceeds from the disposals of property, plant and equipment totalled EUR 0.4 (0.2) million.

The Group's cash flow after investments (free cash flow) was EUR -32.7 (16.4) million.

Net cash flow from financing activities totalled EUR 31.9 (-6.9) million. The Group withdrew EUR 121.5 (14.5) million in new loans and repaid its financial liabilities, including changes in credit limits, by a total of EUR 72.1 (6.4) million. Pihlajalinna Plc distributed dividends of EUR 3.6 (3.1) million in the spring. Dividends of EUR 1.4 (2.8) million were distributed to non-controlling interests. Repayments of financial lease liabilities totalled EUR 3.4 (3.2) million and interest paid and other financial expenses amounted to EUR 2.6 (1.8) million. Changes in non-controlling interests had a net effect of EUR -6.4 (-4.0) million on cash flow. Pihlajalinna significantly increased its holdings in municipal joint ventures in June 2018.

The Group's gearing was 68.7 (32.3) per cent. Interest-bearing net debt amounted to EUR 90.1 (34.2) million. The Group's gearing was particularly increased by acquisitions, which had a combined cash flow effect of EUR -36.9 (-8.4) million. The Group also paid EUR -4.0 (-0.5) million in contingent considerations (earn-out payments).

Return on capital employed was 5.8 (11.8) per cent and return on equity was 6.0 (13.6) per cent.

FINANCING ARRANGEMENTS

Pihlajalinna reorganised its debt financing in the first quarter. A new five-year EUR 120 million unsecured financing arrangement was concluded 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 Group met the set covenants on 31 December 2018.

The Group's credit limit agreements valid until further notice, totalling EUR 10 million, remained unchanged. The notice period of the credit limit agreements is one month.

At the end of the financial year, Pihlajalinna had EUR 39.0 million in unused committed credit limits.

ACQUISITIONS, DIVESTMENTS AND CAPITAL EXPENDITURE

Acquired/divested entity	Month of acquisition	Industry	Domicile
Terveyspalvelu Verso Oy, 100% of the share capital	12/2018	Occupational health services	Iisalmi
Hammashannu Oy, sold 100% of the share capital (part of the SYH chain)	9/2018	Dental care	Turku
Anula Oy, 100% of the share capital	7/2018	Dental care	Hämeenlinna
Leaf Areena Oy, 100% of the share capital	6/2018	Fitness centres	Turku
Suomen Yksityiset Hammaslääkärit chain, 51% of the share capital	3/2018	Dental care	Several
Doctagon Ab, 100% of the share capital (directed share issue)	3/2018	Private clinic operations, occupational health services, staffing services	Helsinki
Forever fitness centre chain, 70% of the share capital	2/2018	Fitness centres	Several
Röntgentutka Oy, 50% of the share capital (previous holding 50%, acquisition achieved in stages)	2/2018	Imaging	Tampere
Linnan Klinikka Oy, 100% of the share capital	2/2018	Private clinic operations, occupational health services	Hämeenlinna
Kymijoen Työterveys Oy, 100% of the share capital	2/2018	Occupational health services	Kotka
Salon Lääkintälaboratorio Oy (Sallab), 100% of the share capital	1/2018	Private clinic operations, occupational health services	Salo
Someron Lääkärikeskus Oy, 100% of the share capital	1/2018	Private clinic operations, occupational health services	Somero

A summary of the acquisitions is presented in the Note 26 Business combinations

Gross investments, including acquisitions, totalled EUR 101.7 (30.4) 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 9.9 (8.3) million during the financial year. Capital expenditure relating to the opening of new units totalled EUR 12.4 (5.1) million. Gross investments associated with M&A transactions totalled EUR 79.3 (17.0) million.

The Group's investment commitments related to development, additional and replacement investments amounted to approximately EUR 1.1 million.

Pihlajalinna will develop a new assisted living facility for senior citizens in Laihia, under a subletting model, with capacity for 60 residents. The building is scheduled to be completed in autumn 2019. Pihlajalinna has made a commitment to acquire an assisted living facility from the municipality of Laihia following the construction of the new facility. In addition, Pihlajalinna is committed to renovating two smaller care homes that it acquired previously.

Pihlajalinna's expansion will continue regardless of the postponement of the potential reform of health and social

services. During the 2017 financial year, Pihlajalinna announced it plans to open new units in 10 new locations by 2020. Future expansion will be primarily achieved by acquisitions and municipal projects. No new surgical units will be opened in 2019.

ACQUISITIONS OF NON-CONTROLLING INTERESTS

Pihlajalinna increased its holdings in municipal joint ventures in June 2018 and, at the end of the financial year, Pihlajalinna owned 81 per cent of the shares of Mäntänvuoren Terveys Oy and Kolmostien Terveys Oy as well as 90 per cent of the shares of Jokilaakson Terveys Oy. In addition, the company signed a conditional agreement with the Kuusiokunnat municipalities according to which it will increase its holding in Kuusiolinna Terveys Oy to 97 per cent by the end of 2018. The validity of the agreement has, however, been extended until 15 March 2019.

Pihlajalinna has paid a total of EUR 8.4 million for the completed share acquisitions. According to the conditional agreement, the transaction price for the acquisition of Kuusiolinna Terveys shares is EUR 18.4 million.

Company	Pihlajalinna's holding, 1 January 2018	Pihlajalinna's holding, 31 December 2018	First year of service production under the current contract	Duration of contract (years)
Jokilaakson Terveys Oy	51%	90%	internal service provision	internal service provision
Kuusiolinna Terveys Oy	51%	51% (will increase to 97% after the parties have signed a separate entry into force document, the validity of the agreement has been extended until 15 March 2019)	2016	10+5
Mäntänvuoren Terveys Oy	66%	81%	2016	10+5
Kolmostien Terveys Oy	71%	81%	2015	10+5

CHANGES IN GROUP STRUCTURE

The following changes in Group structure took place during the financial year:

- Hoivakoti Nestori Oy merged with Ikkipihlaja Johanna Oy on 1 May 2018 (sister company merger).
- Tampereen Röntgenkonsultit Oy merged with Pihlajalinna Tampere Oy on 30 November 2018 (subsidiary merger).

- Röntgentutka Oy merged with Pihlajalinna Tampere Oy on 1 December 2018 (subsidiary merger).
- The business operations of Salon Lääkintälaboratorio Oy and Someron Lääkäriasema Oy were sold to Pihlajalinna Turku Oy on 1 October 2018.
- The business operations of Doctagon Ab's Helsinki branch were sold to Pihlajalinna Lääkärikeskukset Oy on 31 December 2018.

RESEARCH AND DEVELOPMENT

Development costs that fulfilled the criteria for capitalisation amounted to EUR 1.3 (1.2) million during the financial year.

In financial year 2018, development activities were focused on the continued development of digital services and mobile services and their deployment across all customer groups. Other projects completed during the financial year were related to a remote service model for municipal residents for use in social and healthcare outsourcing, operating models for fixed-price occupational healthcare agreements, a sports clinic concept and a social and healthcare service centre concept. Further focus areas in development included the customer relationship programme, business intelligence and the EU General Data Protection Regulation.

PERSONNEL

At the end of the financial year, the number of personnel was 5,850 (4,753), an increase of 1,097 persons or 23 per cent. The Group's personnel averaged 4,868 (3,879) persons as full-time equivalents, an increase of 989 persons or 26 per cent. The Group's employee benefit expenses totalled EUR 208.4 (175.4) million, an increase of EUR 33.0 million or 19 per cent.

The increase in the number of personnel was primarily due to acquisitions and newly opened business locations.

During the financial year, Pihlajalinna carried out targeted codetermination negotiations for production-related reasons and due to the restructuring of business operations. The negotiations concerned 372 employees and they resulted in 31 redundancies and the discontinuation of positions. Of these, 57 employees found new jobs within the Group.

MANAGEMENT CHANGES AND MANAGEMENT TEAM

Pihlajalinna's Board of Directors appointed the following ten (10) members to the Group Management Team on 14 March 2018:

- Joni Aaltonen, CEO
- Minna Elomaa, Head of Business Operations, Southern Finland
- Tero Järvinen, Head of Business Operations, Ostrobothnia
- Teija Kulmala, Head of Business Operations, Mid-Finland
- Ville Lehtonen, CFO
- Siri Markula, Head of Communications and IR, until 12 October 2018
- Perttu Monthan, CDO, until 11 December 2018
- Sanna Määtänen, Head of Service and Product Development
- Pauliina Rannikko, Head of HR and General Counsel, until 14 December 2018
- Pauli Waroma, Head of Marketing and Communications (Head of Communications effective from 1 December)

Stefan Wentjärvi was appointed as Pihlajalinna's Head of Sales. He took up his post and joined the Group Management Team on 1 September 2018.

Marko Savolainen was appointed General Counsel of Pihlajalinna. He took up his post and joined the Group Management Team on 14 December 2018.

BOARD OF DIRECTORS

The Annual General Meeting held on 5 April 2018 decided that the Board of Directors will be composed of eight (8) members. Timo Everi, Leena Niemistö, Jari Sundström, Seija Turunen and Mikko Wirén were re-elected and Matti Bergendahl, Kati Sulin

and Gunvor Kronman were elected as new members of the Board of Directors for a term of office ending at the conclusion of the next Annual General Meeting.

The AGM elected Mikko Wirén as the Chairman of the Board and Matti Bergendahl as Vice-Chairman.

COMMITTEES NOMINATED BY THE BOARD

Audit Committee: Seija Turunen (chairman), Matti Bergendahl, Leena Niemistö and Kati Sulin

Remuneration Committee: Mikko Wirén (chairman), Timo Everi, Gunvor Kronman and Jari Sundström

SHAREHOLDERS' NOMINATION BOARD

On 26 September 2018, the four largest registered shareholders of Pihlajalinna Plc nominated the following representatives to the Shareholders' Nomination Board:

- Jari Eklund, Group Director and Board member, LocalTapiola General Mutual Insurance Company and LocalTapiola Mutual Life Insurance Company (Chairman)
- 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

The Annual General Meeting of 5 April 2018 amended the second paragraph of Section 2 of the Charter of the Shareholders' Nomination Board. The paragraph in question has been published in its entirety on 5 April 2018 in the stock exchange release announcing the resolutions of Pihlajalinna Plc's Annual General Meeting of Shareholders.

REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS

The Annual General Meeting of 5 April 2018 decided that the remuneration of Board members shall remain unchanged as follows: the full-time Chairman EUR 250,000, the Deputy Chairman EUR 48,000 and the other 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. In addition, reasonable travelling expenses would be paid according to the Company travel rules.

AUDITORS AND AUDITING

At Pihlajalinna's Annual General Meeting held on 5 April 2018, KPMG Oy Ab, a firm of authorised public accountants, was elected as the company's auditor for the financial year 1 January–31 December 2018. Lotta Nurminen, APA, is the principal auditor.

SHARES AND SHAREHOLDERS

Pihlajalinna acquired the entire share capital of Doctagon Ab through a directed share issue in March 2018. In the directed share issue, the entire transaction price for Doctagon Ab, totalling EUR 30,105,000, was paid in Pihlajalinna Plc shares. The directed share issue offered 2,006,989 new shares to be subscribed according to the purchase deed terms with a subscription price of EUR 15.00 per share. The number of new shares corresponded to approximately 10 per cent of all of Pihlajalinna Plc's shares before issuing the new shares. The total number of Pihlajalinna Plc's shares after the registration of the new shares is 22,620,135. The shares were entered in the Trade Register on 14 March 2018.

At the end of the financial year, Pihlajalinna Plc's share capital entered in the Trade Register amounted to EUR 80,000 and the total number of shares outstanding was 22,620,135. The company has one share series, with each share entitling its holder to one vote at the Annual General Meeting. All shares bestow their holders with equal rights to dividends and other distribution of the company's assets. At the end of the financial

year, the company had 13,372 (12,489) shareholders. The company does not hold any treasury shares. 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.

Share-related information	10-12/2018	10-12/2017	2018	2017
No. of shares outstanding at the end of the period	22,620,135	20,613,146	22,620,135	20,613,146
Average no. of shares outstanding during the period	22,620,135	20,613,146	22,224,236	20,613,146
Highest price, EUR	11.06	16.40	15.28	18.42
Lowest price, EUR	8.56	12.60	8.56	12.60
Average price, EUR*	9.56	14.45	12.18	16.30
Closing price, EUR	8.62	13.34	8.62	13.34
Share turnover, 1,000 shares	830	1 617	6 182	5 189
Share turnover, %	3.7	7.9	27.8	25.2
Market capitalisation at the end of the period, EUR million	195.0	274.0	195.0	274.0

* average share price weighted by trading volume

BOARD AUTHORISATIONS

The Annual General Meeting of 5 April 2018 authorised the Board of Directors to resolve on the repurchase of the company's own shares using non-restricted equity. The shares may be purchased as a directed repurchase. The authorisation is for a maximum of 2,061,314 shares. The authorisation will remain in force until the end of the next AGM, however, no longer than until 30 June 2019.

The Annual General Meeting of 5 April 2018 authorised the Board of Directors to decide on the issuance of shares and other special rights entitling to shares referred to in Chapter 10, Section 1 of the Finnish Companies Act. Pursuant to the authorisation, the share issue may be carried out as a directed share issue. The authorisation is for a maximum of 3,091,971 shares. The authorisation concerns both the issuance of new shares and the transfer of the company's own shares. The authorisation will remain in force until the end of the next AGM, however, no longer than until 30 June 2019.

RISKS AND UNCERTAINTIES IN BUSINESS OPERATIONS

Pihlajalinna assesses risks annually and the objective is the minimisation and better anticipation of risks.

Political decision-making and structural reforms in the public sector also affect social and healthcare services, and may directly or indirectly impact the Group's business and growth opportunities. The future overall effects of the potential health and social services reform and any other possible changes in the arrangement of social and healthcare services are difficult to predict. Reforms may hamper the Group's operations in some segments of social and healthcare services but, on the other hand, the Group's extensive operations in different segments may partially balance out the effects of reforms. The Group closely monitors political decision-making processes.

In addition to the aforementioned factors, public contracts involve the risk of possible appeals and trials. Furthermore, the continuity of key existing customer relationships and contracts involves risks, especially in the long term.

Determining the annual profitability of the Group's 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.

In addition, the most essential risks and uncertainties affecting the Group's operations are connected to the success of opening new locations, 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 spring 2017. For income taxation (the Act on the Taxation of Business Profits and Income from Professional Activity) has been completed without sanctions. The other aspects of the tax audit are still incomplete.

The Group's trade receivables include EUR 3.6 (2.5) million in substantially delayed payments from a significant customer. Pihlajalinna has signed a conditional agreement that also concerns the payment of the receivables in question. According to the Group management's estimate, the customer will pay the receivables in full.

In its other receivables, the Group has a total of EUR 2.4 million in service provider refunds for public sector specialised care cost accruals, estimated on a municipality-specific basis. According to the Group management's view, under the service agreements, the refunds of cost accruals are payable to Pihlajalinna because they were accumulated during Pihlajalinna's service provision and liability for costs.

At the end of the 2018 financial year, goodwill on Pihlajalinna's statement of financial position amounted to EUR 169.9 (103.9) million. Pihlajalinna checks annually and, if necessary, quarterly, that the carrying amount of goodwill does not exceed the fair value. During the financial year, 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 which, in turn, could have an unfavourable impact on Pihlajalinna's operating result and equity.

More information on Pihlajalinna's risks and risk management will be provided in the Corporate Governance Statement and

the Statement of Non-financial Information, scheduled to be published in week 11. More information on financial risks and their management is provided in the consolidated financial statements under Note 25 Financial risk management. The consolidated financial statements will be published as part of the Annual Report on the company's investor website at investors.pihlajalinna.fi in week 11.

RISK MANAGEMENT

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.

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 be aware of and manage risks related to their responsibilities.

FLAGGING NOTIFICATIONS

During the financial year, Pihlajalinna received the following flagging notifications under Chapter 9, Section 5 of the Securities Markets Act:

Date	Shareholder	Thres- hold	Holding total, %	Number of shares at the time of the flagging notice
26 Sep 2018	Fennia Group (Fennia Mutual Insurance Company and Fennia Life)	Over 10%	10.02%	2,265,586
24 May 2018	Fennia Group (Fennia Mutual Insurance Company and Fennia Life)	Over 5%	6.03%	1,364,252
14 Mar 2018	LocalTapiola Group (LocalTapiola General Mutual Insurance Company and LocalTapiola Mutual Life Insurance Company)	Under 25%	23.76%	5,375,350
15 Feb 2018	LocalTapiola Group (LocalTapiola General Mutual Insurance Company and LocalTapiola Mutual Life Insurance Company)	Over 25%	26.07%	5,373,026

INCENTIVE SCHEMES

The share-based long-term incentive programme for the company's key employees approved by the Board of Directors of Pihlajalinna Plc on 14 May 2018 became void, as the required level of adjusted operating profit was not achieved. No rewards will be paid under the incentive programme.

A precondition for the payment of share rewards based on the plan was that the actual adjusted operating profit for the calendar year 2018 meet the company's outlook effective on 14 May 2018.

During the financial year, the company did not use any share-based incentive schemes pertaining to the Board of Directors.

SEASONALITY

Pihlajalinna's business operations are affected by seasonality to some extent. Revenue from Pihlajalinna's complete social and healthcare outsourcings and other fixed-price services is recognised evenly over time. During the summer holidays, especially in July, the personnel costs are lower and profitability is improved mainly due to personnel cost accruals. However, service demand by Pihlajalinna's private and corporate customers is lower, and profitability weaker, during the holiday seasons, especially in July–August and December. Quarterly seasonality has historically had a favourable impact on profitability in the third quarter.

THE BOARD OF DIRECTORS' PROPOSAL FOR PROFIT DISTRIBUTION

The Board of Directors proposes that a dividend of EUR 0.10 per share be paid for the financial year that ended on 31 December 2018.

Calculation of the parent company's distributable funds:

EUR	31 Dec 2018
Reserve for invested unrestricted equity	183,190,483.50
Retained earnings	24,125,933.46
Profit for the financial year	51,578.66
Capitalised development costs	-1,281,316.43
Total	206,086,679.19

On the balance sheet date, the number of shares entitling their holder to dividend was 22,620,135, and consequently, the total dividend amount would be EUR 2,262,013.50. 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 obligations.

Earnings per share for the financial year was EUR 0.17. The proposed dividend of EUR 0.10 is 58.1 per cent of earnings per share.

Pihlajalinna Plc's Annual General Meeting is scheduled for 4 April 2019 in Tampere, Finland. The Board of Directors will decide on the notice of the General Meeting and the included proposals at a later date.

PIHLAJALINNA'S OUTLOOK FOR 2019

Pihlajalinna's consolidated revenue is expected to increase from the 2018 level. Adjusted EBIT is expected to improve clearly compared to 2018.

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 11. 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 11.

EVENTS AFTER THE BALANCE SHEET DATE

Pihlajalinna Plc's Shareholders' Nomination Board submitted its proposals to the company's Board of Directors, to be presented to the Annual General Meeting of 2019.

THE NUMBER OF MEMBERS AND COMPOSITION OF THE BOARD OF DIRECTORS

The Nomination Board proposes to the Annual General Meeting of Pihlajalinna Plc, scheduled to be held on 4 April 2019, that the number of the members of the Board of Directors be confirmed as seven, instead of the current number (eight).

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

Mika Manninen (b. 1975, Master of Science in Economics and Business Administration) is a member of Fennia Group's Management Team and is currently the Group CFO. Prior to this, he worked as the Fennia Group's Risk Management Director from 2015 to 2017. Manninen has over 10 years of experience in various positions in banking from 2001 to 2015.

Hannu Juvonen (b. 1955, Licentiate of Medicine, Specialist, MBA) was most recently the Director of the Kanta-Häme Hospital District from 2016 to 2018, and has held management positions in the Helsinki Social Services and Health Care Division from 2013 to 2016 and in East Savo Hospital District from 2009 to 2012. He previously worked as the Investment Director of Korona Invest Oy from 2007 to 2009, and as an expert and Community Relations and Communication director at Pfizer Oy from 2000 to 2006. He was a full-time private medical practitioner from 1990 to 2000. In conjunction with his positions he has accumulated experience of holding Board positions in several companies and other organisations.

Matti Jaakola (b. 1955, Master of Science in Economics and Business Administration) has a long track record of holding various marketing and management positions in international and Finnish companies. He is currently the Chairman of the Board of Directors of two Finnish industrial companies and a member of the Board of Directors of a foreign forest industry company. He has also been a partner of CV Group Oy since 2012 and the CEO of CapWell Oy since 2006. Jaakola has been the CEO of the Georgia-Pacific Corporation in North Europe and of Henkel KgA in the Nordic countries, and has held various management positions in Metsä Group. Jaakola has extensive experience of Board work both in Finland and abroad, and has been involved in the administration of key industry associations.

The personal details of the current members of the Board and details of their positions of trust are available on the company's investor website 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 BOARD OF DIRECTORS

The Shareholders' Nomination Board proposes that the remuneration of the Board of Directors be kept otherwise unchanged, except for a reduction in the remuneration of the Vice-Chairman, 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 2020: 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 the other members of the Board of Directors EUR 24,000 per year.

Additionally, the Nomination Board proposes that each member of the Board of Directors be paid an attendance fee of EUR 500 per Board or Committee meeting. Reasonable travel expenses will also be reimbursed to the members of the Board in accordance with the company's travel rules.

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

ACQUISITIONS OF NON-CONTROLLING INTERESTS

Pihlajalinna increased its ownership of Kolmostien Terveys Oy by agreeing to buy 15% of the shares in the company at the end of February 2019. Following the transaction, the City of Parkano will own 4% of the company and Pihlajalinna will own 96%.

KEY FINANCIAL FIGURES

SCOPE OF OPERATIONS	2018	2017	2016	2015	2014
Revenue, EUR million	487.8	424.0	399.1	213.3	148.9
Change, %	15.0	6.2	87.1	43.3	42.5
Organic revenue growth, EUR million	-2.0	10.1	134.5	44.3	26.2
Change, %	-0.5	2.5	63.0	29.7	25.1
Gross investments, EUR million*	101.7	30.4	27.3	44.6	28.3
% of revenue	20.8	7.2	6.9	20.9	19.0
Capitalised development costs, EUR million*	1.3	1.2		1.3	0.1
% of revenue	0.3	0.3		0.6	0.0
Employee benefit expenses, EUR million	208.4	175.4	167.2	97.4	62.2
Personnel at the end of the period (NOE)	5,850	4,753	4,407	3,047	1,714
Average number of personnel (FTE)	4,868	3,879	3,526	2,503	1,619

PROFITABILITY	2018	2017	2016	2015	2014
EBITDA, EUR million*	31.2	33.3	27.9	11.6	11.8
EBITDA, %*	6.4	7.9	7.0	5.4	7.9
Adjusted EBITDA, EUR million*	32.3	34.1	28.9	12.5	14.0
Adjusted EBITDA, %*	6.6	8.0	7.2	5.9	9.4
Operating profit (EBIT), EUR million*	12.8	19.1	15.1	3.6	6.0
Operating profit, %*	2.6	4.5	3.8	1.7	4.0
Adjusted operating profit (EBIT), EUR million*	14.0	20.0	16.6	4.5	8.2
Adjusted operating profit, %*	2.9	4.7	4.2	2.1	5.5
Net financial expenses, EUR million	-2.8	-1.7	-1.4	-2.3	-3.1
% of revenue	-0.6	-0.4	-0.4	-1.1	-2.1
Profit before tax, EUR million*	10.0	17.4	13.7	1.3	2.9
% of revenue	2.0	4.1	3.4	0.6	1.9
Income tax, EUR million	-2.8	-3.4	-3.0	-0.1	-1.0
Profit for the financial year	7.4	14.1	10.8	1.2	1.9
Cash flow after investments, EUR million	-32.7	16.4	6.8	-14.4	-8.1
Return on equity (ROE), %*	6.0	13.6	11.1	2.3	7.7
Return on capital employed (ROCE), %*	5.8	11.8	10.8	3.4	7.1

FUNDING AND FINANCIAL POSITION	2018	2017	2016	2015	2014
Interest-bearing net financial debt, EUR million	90.1	34.2	22.1	23.5	71.1
% of revenue	18.5	8.1	5.5	11.0	47.8
Equity ratio, %*	37.6	41.8	46.5	50.5	8.0
Gearing, %*	68.7	32.3	21.9	25.2	686.3
Net debt/adjusted EBITDA*	2.8	1.0	0.8	1.9	5.1

SHARE RELATED INFORMATION

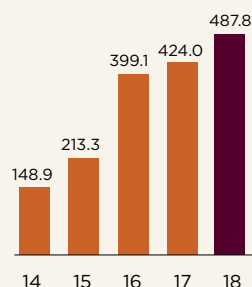
	2018	2017	2016	2015	2014
Earnings per share (EPS)	0.17	0.46	0.39	0.03	0.11
Equity per share, EUR*	5.39	4.87	4.74	4.47	0.70
Dividend per share, EUR (the Board of Directors' proposal)	0.10	0.16	0.15		
Dividend per share, % (the Board of Directors' proposal)*	58.1	34.7	38.4		
Effective dividend yield, % (the Board of Directors' proposal)*	1.2	1.2	0.8		
Number of shares at year-end	22,620,135	20,613,146	20,613,146	20,613,146	
Average number of shares	22,224,236	20,613,146	20,613,146	16,767,940	
Market capitalisation, EUR million	195.0	274.0	379.7	364.9	
Dividends paid, EUR million (the Board of Directors' proposal)	2.3	3.30	3.10		
P/E ratio*	50.1	28.9	47.2	640.0	
Highest quotation, EUR	15.28	18.42	18.87	19.85	
Lowest quotation, EUR	8.56	12.60	12.90	11.38	
Average quotation, EUR	12.18	16.30	16.38	12.72	
Closing price at year-end, EUR	8.62	13.34	18.42	17.70	
Trading volume of shares, 1,000 shares*	6,182	5,189	8,196	7,680	
Trading volume of shares, %*	27.8	25.2	39.8	45.8	

* Alternative performance measure

QUARTERLY INFORMATION EUR 1,000	Q4/18	Q3/18	Q2/18	Q1/18	Q4/17	Q3/17	Q2/17	Q1/17
INCOME STATEMENT								
Revenue	126,962	116,290	125,340	119,172	107,924	99,387	106,696	109,976
Other operating income	1,916	457	644	1,330	1,177	532	281	261
Materials and services	-48,067	-42,847	-49,674	-48,587	-43,424	-40,724	-44,705	-46,685
Employee benefit expenses	-53,334	-48,743	-54,351	-51,981	-44,941	-41,211	-45,203	-44,056
Other operating expenses	-16,840	-14,471	-16,398	-15,627	-12,597	-8,844	-9,934	-10,598
EBITDA	10,637	10,686	5,560	4,307	8,139	9,140	7,136	8,898
Adjusted EBITDA	11,072	10,668	6,626	3,908	8,503	9,040	7,383	9,135
Adjusted EBITDA, %	8.7	9.2	5.3	3.3	7.9	9.1	6.9	8.3
Depreciation, amortisation and impairment	-4,682	-4,742	-4,756	-4,206	-3,580	-3,669	-3,427	-3,506
Operating profit (EBIT)	5,955	5,944	804	101	4,559	5,471	3,708	5,392
Adjusted operating profit (EBIT)	6,510	5,926	1,870	-299	4,923	5,371	3,987	5,701
Adjusted operating profit (EBIT), %	5.1	5.1	1.5	-0.3	4.6	5.4	3.7	5.2
Financial income	45	19	33	21	43	38	67	34
Financial expenses	-797	-769	-650	-749	-469	-506	-442	-445
Profit before taxes	5,203	5,194	187	-627	4,132	5,003	3,333	4,981
Income taxes	-1,358	-1,181	-250	-26	-625	-1,032	-656	-1,067
Profit for the period	3,845	4,013	-63	-653	3,507	3,971	2,677	3,914
Share of the result for the financial year attributable to owners of the parent company	2,733	2,327	42	-1,276	2,442	1,882	2,013	3,178
Share of the result for the financial year attributable to non-controlling interests	1,112	1,686	-105	623	1,064	2,088	664	736
EPS	0.12	0.11	0.00	-0.06	0.12	0.09	0.10	0.15
Personnel at the end of the period (NOE)	5,850	5,867	5,918	5,638	4,753	4,767	4,898	4,519
Change in personnel during the quarter	-17	-51	280	885	-14	-131	380	112

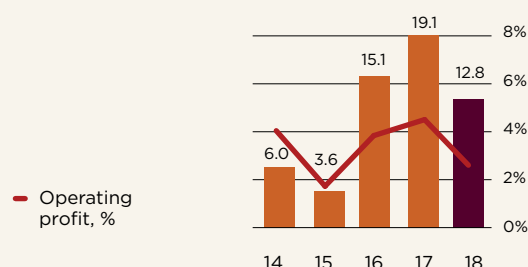
REVENUE

EUR million



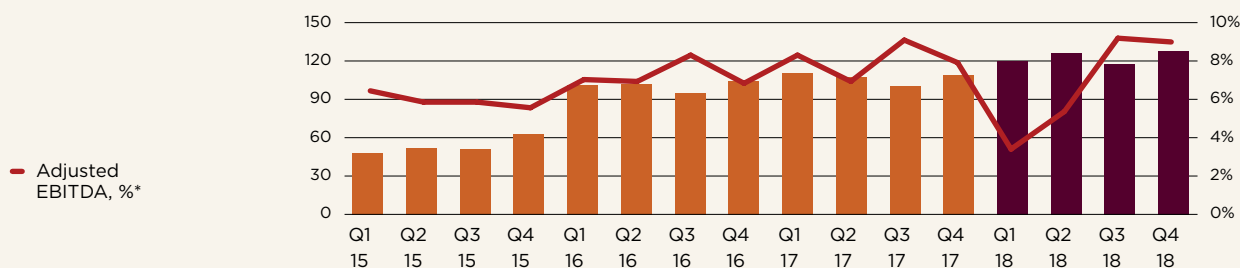
OPERATING PROFIT (EBIT)

EUR million / %



REVENUE

EUR million



CALCULATION OF KEY FINANCIAL FIGURES AND ALTERNATIVE PERFORMANCE MEASURES

KEY FIGURES	
Earnings per share (EPS)	$\frac{\text{Profit for the financial year attributable to owners of the parent company}}{\text{Average number of shares during the financial year}}$
ALTERNATIVE PERFORMANCE MEASURES	
Equity per share	$\frac{\text{Equity attributable to owners of the parent company}}{\text{Number of shares at the end of the financial year}}$
Dividend per share	$\frac{\text{Dividend distribution for the financial year (or proposal)}}{\text{Number of shares at the end of the financial year}}$
Dividend/result, %	$\frac{\text{Dividend per share} \times 100}{\text{Earnings per share (EPS)}}$
Effective dividend yield, %	$\frac{\text{Dividend per share} \times 100}{\text{Closing price for the financial year}}$
P/E ratio	$\frac{\text{Closing price for the financial year}}{\text{Earnings per share (EPS)}}$
Share turnover, %	$\frac{\text{Number of shares traded during the period} \times 100}{\text{Average number of shares}}$
Return on equity (ROE), %	$\frac{\text{Profit for the period (rolling 12 mths)} \times 100}{\text{Equity (average)}}$
Return on capital employed, % (ROCE)	$\frac{\text{Profit before taxes (rolling 12 mths)} + \text{financial expenses (rolling 12 mths)} \times 100}{\text{Total statement of financial position - non-interest-bearing liabilities (average)}}$
Equity ratio, %	$\frac{\text{Equity} \times 100}{\text{Total statement of financial position - prepayments received}}$
Gearing, %	$\frac{\text{Interest-bearing net debt - cash and cash equivalents} \times 100}{\text{Equity}}$
EBITDA	Operating profit + depreciation, amortisation and impairment
EBITDA, %	$\frac{\text{Operating profit} + \text{depreciation, amortisation and impairment} \times 100}{\text{Revenue}}$
Adjusted EBITDA*	Operating profit + depreciation, amortisation and impairment + adjustment items
Adjusted EBITDA, %*	$\frac{\text{Operating profit} + \text{depreciation, amortisation and impairment} + \text{adjustment items} \times 100}{\text{Revenue}}$
Net debt/Adjusted EBITDA*, rolling 12 mths	$\frac{\text{Interest-bearing net debt - cash and cash equivalents}}{\text{Adjusted EBITDA (rolling 12 mths)}}$
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, %*	$\frac{\text{Adjusted operating profit (EBIT)} \times 100}{\text{Revenue}}$
Profit before taxes	Profit for the financial year + income tax
Gross investments	Increase in property, plant and equipment and intangible assets excluding finance leases
Organic revenue growth, %	$\frac{\text{Revenue for the period} - \text{revenue from M\&A transactions for the period} - \text{revenue for the previous period} \times 100}{\text{Revenue for the previous period}}$

* 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 Pihlajalinn'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. Pihlaja does not recognise adjustments affecting comparability for acquisition-related transfer taxes and expert fees (IFRS 3 costs) or purchase price allocation (PPA) amortisation.

RECONCILIATIONS OF ALTERNATIVE PERFORMANCE MEASURES

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.

Symbols used:

/ divide by the next number/numbers
- deduct the next number/numbers
+ add the next number/numbers

EUR 1,000, unless otherwise specified	2018	2017
Return on equity (ROE), %		
Result for the period (rolling 12 mths) /	7,143	14,068
Equity at the start of the period	105,856	101,010
Equity at the end of the period	131,159	105,856
Equity (average) x 100	118,507	103,433
Return on equity (ROE), %	6.0	13.6

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), %		
Profit before taxes (rolling 12 mths) +	9,957	17,449
Financial expenses (rolling 12 mths)	2,965	1,862
/	12,922	19,311
Total statement of financial position at the start of the period -	253,581	217,742
non-interest-bearing liabilities at the start of the period	76,486	67,071
	177,095	150,672
Total statement of financial position at the end of the period -	349,530	253,581
Non-interest-bearing liabilities at the end of the period	78,083	76,486
	271,447	177,095
Average x 100	224,271	163,883
Return on capital employed (ROCE), %	5.8	11.8

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, %		
Equity /	131,159	105,856
Total statement of financial position -	349,530	253,581
Advances received x 100	897	366
Equity ratio, %	37.6	41.8

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, %		
Interest-bearing financial liabilities -	126,378	71,239
Cash and cash equivalents /	36,316	37,074
Equity x 100	131,159	105,856
Gearing, %	68.7	32.3

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 is 115%.

EUR 1,000, unless otherwise specified	2018	2017
Net debt / adjusted EBITDA, rolling 12 mths		
Interest-bearing financial liabilities -	126,378	71,239
Cash and cash equivalents	36,316	37,074
Net debt /	90,062	34,164
Adjusted EBITDA (rolling 12 mths)	32,274	34,061
Net debt / adjusted EBITDA, rolling 12 mths	2.8	1.0

This figure indicates how quickly the company could pay back its debt at the current level of profits, if it were to use its entire EBITDA to pay back debt and no investments would be made and no dividends paid, for example. 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. 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.

EBITDA and Adjusted EBITDA

Result for the period	7,143	14,068
Income taxes	-2,815	-3,381
Financial expenses	-2,965	-1,862
Financial income	118	181
Depreciation, amortisation and impairment	-18,386	-14,182
EBITDA	31,190	33,312
Total EBITDA adjustments	1,083	749
Adjusted EBITDA	32,274	34,061

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, %

EBITDA /	31,190	33,312
Revenue x 100	487,764	423,984
EBITDA, %	6.4	7.9

Adjusted EBITDA, %

Adjusted EBITDA /	32,274	34,061
Revenue x 100	487,764	423,984
Adjusted EBITDA, %	6.6	8.0

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

Result for the period	7,143	14,068
Income taxes	-2,815	-3,381
Financial expenses	-2,965	-1,862
Financial income	118	181
Operating profit	12,804	19,130
Total adjustments of depreciation, amortisation and impairment	119	102
Total EBITDA adjustments	1,083	749
Total adjustments of operating profit	1,203	852
Adjusted operating profit (EBIT)	14,007	19,981

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.

EUR 1,000, unless otherwise specified	2018	2017
Operating profit (EBIT), %		
Operating profit /	12,804	19,130
Revenue x 100	487,764	423,984
Operating profit (EBIT), %	2.6	4.5
Adjusted operating profit (EBIT), %		
Adjusted operating profit /	14,007	19,981
Revenue x 100	487,764	423,984
Adjusted operating profit (EBIT), %	2.9	4.7
Cash flow after investments		
Net cash flow from operating activities	27,405	34,941
Net cash flow from investing activities	-60,070	-18,549
Cash flow after investments	-32,665	16,392

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		
Result for the period	7,143	14,068
Income taxes	-2,815	-3,381
Profit before taxes	9,957	17,449
Gross investments		
Property, plant and equipment at the end of the period	72,558	61,917
Other intangible assets at the end of the period	22,914	16,604
Goodwill at the end of the period	169,927	103,893
Add depreciation, amortisation and impairment	18,386	14,182
-		
Property, plant and equipment at the start of the period	61,917	45,498
Other intangible assets at the start of the period	16,604	16,319
Goodwill at the beginning of the period	103,893	92,270
Change in financial leases during the period		12,473
Proceeds from the sale of property, plant and equipment during the period	-322	-325
Gross investments	101,693	30,361

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, %		
Revenue for the period -	487,764	423,984
Revenue from M&A transactions during the period	65,741	14,759
Revenue for the previous period	423,984	399,092
Organic revenue growth /	-1,961	10,133
Revenue for the previous period x 100	423,984	399,092
Organic revenue growth, %	-0.5	2.5
Revenue growth attributable to M&A transactions, %	15.5	3.7
Revenue growth	63,780	24,892
Revenue growth, %	15.0	6.2

Organic revenue growth is the growth of existing business, not achieved through M&A transactions. Organic growth can be achieved through increasing the service offering, new customer acquisition, growth in the number of visits by 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.

EUR 1,000, unless otherwise specified	2018	2017
EBITDA	31,190	33,312
Adjustments to EBITDA		
Closure of operating locations	42	448
Subsidiary's previous holding at fair value	-964	-296
Conciliation agreement concerning the Group's facility expenses		220
Dismissal-related expenses	565	377
Gain on the disposal of business	-47	
Change in fair value of contingent consideration	1,192	
Other	296	
Adjustments to EBITDA in total	1,083	749
Adjusted EBITDA	32,274	34,061
Depreciation, amortisation and impairment	-18,386	-14,182
Adjustments to depreciation, amortisation and impairment		
Closure of operating locations	119	102
Adjustments to depreciation, amortisation and impairment in total	119	102
Adjustments to operating profit in total	1,203	852
Adjusted operating profit (EBIT)	14,007	19,981
Operating profit (EBIT)	12,804	19,130
Financial income	118	181
Financial expenses	-2,965	-1,862
Income taxes	-2,815	-3,381
Profit for the period	7,143	14,068
The adjustment items are presented in the income statement items as follows:		
Other operating income	-1,011	-296
Employee benefit expenses	565	377
Other operating expenses	1,530	668
EBITDA adjustment items total	1,083	749
Depreciation, amortisation and impairment	119	102
Operating profit adjustment items total	1,203	852

SHARES AND SHAREHOLDERS

MAJOR SHAREHOLDERS, 31 DEC. 2018

		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	1,891,865	8.4%
5	Elo Mutual Pension Insurance Company	1,267,161	5.6%
6	Niemistö Leena Katriina	703,475	3.1%
7	Fondita Nordic Micro Cap Mutual Fund	550,000	2.4%
8	Nordea Bank Abp	545,097	2.4%
9	Ilmarinen Mutual Pension Insurance Company	490,000	2.2%
10	Skandinaviska Enskilda Banken Ab (Publ), Helsinki Branch	323,873	1.4%
	10 largest, total	13,561,087	60.0%
	Other shareholders	9,059,048	40.0%
	Total	22,620,135	100.0%

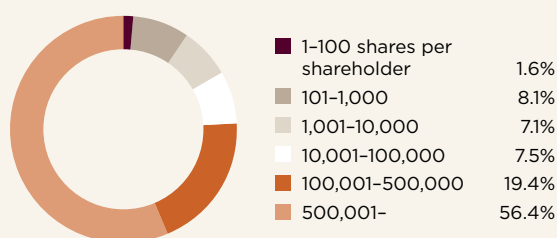
DISTRIBUTION OF SHAREHOLDING BY SIZE RANGE, 31 DEC. 2018

Shares per shareholder	Number of shareholders	% of shareholders	Number of shares	Percentage of shares, %
1-100	7,215	54.0%	354,779	1.6%
101-1,000	5,460	40.8%	1,827,524	8.1%
1,001-10,000	600	4.5%	1,600,220	7.1%
10,001-100,000	69	0.5%	1,696,640	7.5%
100,001-500,000	20	0.1%	4,393,758	19.4%
500,001-	8	0.1%	12,747,214	56.4%
	13,372	100.0%	22,620,135	100.0%
of which nominee-registered shares	10		1,236,617	5.5%
Outstanding shares			22,620,135	100.0%

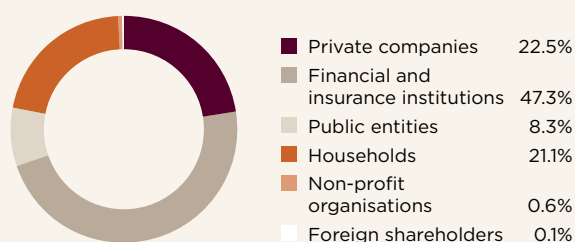
DISTRIBUTION OF SHAREHOLDING BY SECTOR, 31 DEC. 2018

	Number of shareholders	% of shareholders	Number of shares	Percentage of shares, %
Private companies	516	3.9%	5,089,548	22.5%
Financial and insurance institutions	44	0.3%	10,708,003	47.3%
Public entities	6	0.0%	1,879,157	8.3%
Households	12,734	95.2%	4,779,750	21.1%
Non-profit organisations	44	0.3%	139,361	0.6%
Foreign shareholders	28	0.2%	24,316	0.1%
	13,372	100.0%	22,620,135	100.0%
of which nominee-registered shares	10		1,236,617	5.5%
Outstanding shares			22,620,135	100.0%

DISTRIBUTION OF SHAREHOLDING 31.12.2018



DISTRIBUTION OF SHAREHOLDING BY SECTOR 31.12.2018



SHAREHOLDING BY THE MANAGEMENT 31 DEC. 2018

		Direct holding		Indirect holdings	
		Number of shares	Percentage of shares and votes, %	Number of shares	Percentage of shares and votes, %
Board of Directors					
Matti Bergendahl					
Jari Sundström					
Kati Sulin					
Gunvor Kronman					
Leena Niemistö		703,475	3.1%		
Mikko Wirén				2,309,010	10.2%
Seija Turunen					
Timo Everi					
Management Team					
Joni Aaltonen		81,920	0.4%		
Minna Elomaa					
Tero Järvinen		560	0,0%		
Teija Kulmala					
Ville Lehtonen					
Sanna Määttänen		11,700	0.1%		
Pauli Waroma					
Stefan Wentjärvi		22,038	0.1%		
Marko Savolainen					

Financial statements

1 Jan–31 Dec 2018

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, IFRS

EUR 1,000	Note	1.1.-31.12.2018	1.1.-31.12.2017
REVENUE	1	487,764	423,984
Other operating income	2	4,347	2,251
Materials and services	3	-189,175	-175,538
Employee benefit expenses	4	-208,409	-175,412
Other operating expenses	6	-63,371	-42,288
Share of profit in associated companies and joint ventures	28	35	316
EBITDA		31,190	33,312
Depreciation, amortisation and impairment	5	-18,386	-14,182
OPERATING PROFIT		12,804	19,130
Financial income	8	118	181
Financial expenses	9	-2,965	-1,862
Financial income and expenses		-2,847	-1,681
PROFIT BEFORE TAXES		9,957	17,449
Income taxes	10	-2,815	-3,381
PROFIT FOR THE PERIOD*		7,143	14,068
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		7,143	14,068
Total comprehensive income for the financial year attributable to			
Owners of the parent		3 826	9,515
Non-controlling interests		3,316	4,553
Earnings per share for profit attributable to owners of the parent company, EUR			
Basic	11	0.17	0.46
Diluted		0.17	0.46

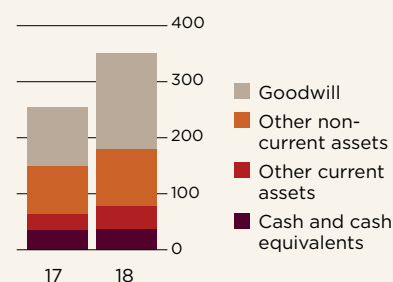
* The Group does not have any other comprehensive income items

CONSOLIDATED STATEMENT OF FINANCIAL POSITION, IFRS

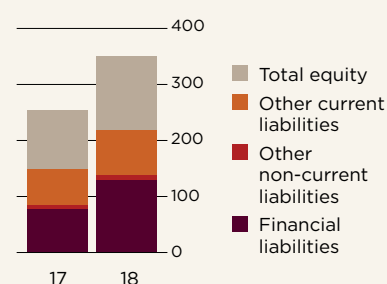
EUR 1,000	Note	31.12.2018	31.12.2017
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	12	72,558	61,917
Goodwill	13	169,927	103,893
Other intangible assets	13	22,914	16,604
Interests in associates	28	23	3,012
Other investments		139	101
Other receivables	14	1,800	1,568
Deferred tax assets	19	3,745	2,224
		271,106	189,320
CURRENT ASSETS			
Inventories		2,454	2,169
Trade and other receivables	15	37,923	23,959
Current tax assets		1,731	1,059
Cash and cash equivalents	16	36,316	37,074
		78,424	64,261
TOTAL ASSETS		349,530	253,581
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent	21		
Share capital		80	80
Reserve for invested unrestricted equity		116,520	87,945
Retained earnings		5,295	12,268
		121,895	100,293
Non-controlling interests		9,264	5,563
Total equity		131,159	105,856
LIABILITIES			
NON-CURRENT LIABILITIES			
Deferred tax liabilities	19	5,997	5,457
Provisions	17	302	829
Financial liabilities		122,811	66,336
Other non-current liabilities		1,505	1,655
		130,614	74,277
CURRENT LIABILITIES			
Trade and other payables	18	79,494	61,822
Current tax liabilities		1,884	1,304
Financial liabilities		6,380	10,321
		87,757	73,448
TOTAL LIABILITIES		218,371	147,725
TOTAL EQUITY AND LIABILITIES		349,530	253,581

ASSETS

EUR 1,000

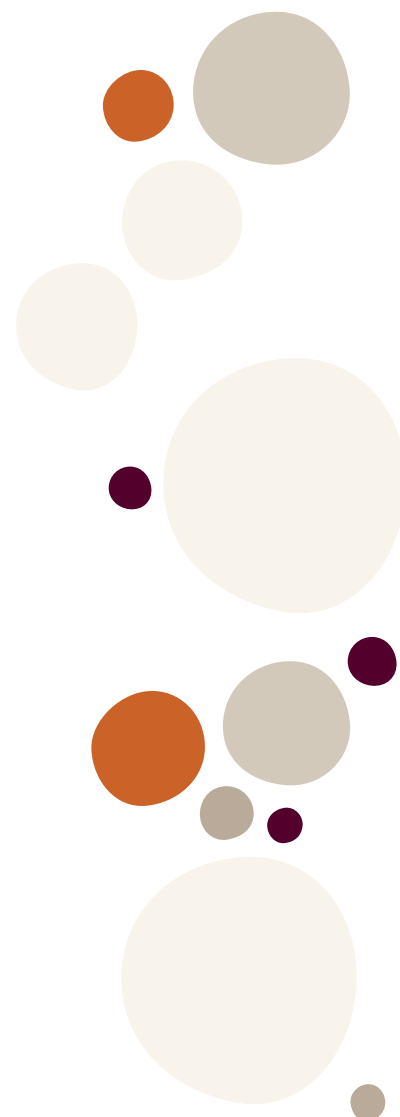
**EQUITY AND LIABILITIES**

EUR 1,000



CONSOLIDATED STATEMENT OF CASH FLOWS, IFRS

EUR 1,000	Note	1.1.-31.12.2018	1.1.-31.12.2017
Cash flow from operating activities			
Cash receipts from sales		486,063	423,755
Cash receipts from other operating income		1,945	1,535
Operating expenses paid		-455,223	-386,026
Operating cash flow before financial items and taxes		32,785	39,265
Interest received		108	227
Taxes paid		-5,488	-4,551
Net cash flow from operating activities		27,405	34,941
Cash flow from investing activities:			
Investments in property, plant and equipment and intangible assets		-19,589	-10,140
Proceeds from disposal of property, plant and equipment and intangible assets		392	223
Changes in other investments		12	-55
Changes in loan receivables			250
Dividends received		12	103
Acquisition of subsidiaries less cash and cash equivalents at date of acquisition	27	-40,951	-8,929
Disposal of subsidiaries less cash and cash equivalents at date of disposal	27	55	
Net cash flow from investing activities		-60,070	-18,549
Cash flow from financing activities:			
Proceeds from issuing shares			
Acquisitions of non-controlling interests		-6,424	-4,044
Proceeds from short-term borrowings	23		722
Proceeds from long-term borrowings	23	121,520	14,500
Repayment of borrowings	23	-72,131	-7,157
Repayment of financial lease liabilities	23	-3,406	-3,189
Interest and other operational financial expenses		-2,618	-1,801
Dividends paid and other profit distribution		-5,034	-5,886
Net cash flow from financing activities		31,906	-6,855
Changes in cash and cash equivalents		-759	9,537
Cash at the beginning of the financial year		37,074	27,537
Cash at the end of the financial year		36,316	37,074



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR 1,000

	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. 2017	80	87,945	9,744	3,239,7980	101,010
Profit for the period			9,515	4,553	14,068
Total comprehensive income for the period			9,515	4,553	14,068
Dividends paid			-3,162	-1,660	-4,822
Transactions with owners, total			-3,162	-1,660	-4,822
Changes in NCI without a change in control			-3,830	-214	-4,044
Changes in NCI with a change in control				-355	-355
Total changes in ownership interests			-3,830	-570	-4,399
Total equity, 31 Dec. 2017	80	87,945	12,268	5,563	105,856

EUR 1,000

	Equity attributable to owners of the parent company				
	Share capital	Reserve for invested unrestricted equity	Retained earnings	Non-controlling interests	Total equity
Total equity, 31 Dec. 2017	80	87,945	12,268	5,563	105,856
IFRS 15 adoption			0		0
IFRS 9 adoption			0		0
Total equity, 1 Jan. 2018	80	87,945	12,268	5,563	105,856
Profit for the period			3 826	3,316	7,143
Total comprehensive income for the period			3 826	3,316	7,143
Directed share issue		28,574			28,574
Dividends paid			-3,619	-1,225	-4,844
Investments in Group companies				2,381	2,381
Transactions with owners, total		28,574	-3,619	1,156	26,111
Changes in NCI without a change in control			-7,180	-771	-7,951
Total changes in ownership interests			-7,180	-771	-7,951
Total equity, 31 Dec. 2018	80	116,520	5,295	9,264	131,159

Accounting policies

COMPANY PROFILE

Pihlajalinna is one of the leading private social and healthcare services providers in Finland. The Group serves private persons, companies, insurance companies and public sector entities, such as municipalities and hospital districts. Pihlajalinna produces 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, service housing units with 24-hour assistance and reception centres was approximately 110. In addition, Pihlajalinna has four major municipal outsourcing arrangements and two partial outsourcing arrangements that have dozens of business locations combined (including health centres, maternity and child health clinics, service housing units with 24-hour assistance and daytime activity centres). Pihlajalinna cooperated with approximately 100 municipalities in 2018.

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 14 February 2019. 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 2018. 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

The adoption of **IFRS 15 Revenue from Contracts with Customers** has not had an impact on the Group's equity or the revenue recognition principles applied by Pihlajalinna. The standard has, however, increased the amount of information presented with regard to revenue. Starting from 1 January 2018, Pihlajalinna presents the Group's revenue distribution by business area and by customer group.

In response to the adoption of **IFRS 9 Financial Instruments**, Pihlajalinna has revised its accounting model for credit losses to comply with the requirements of the standard. Expected credit losses are now recognised at the beginning of a contract. The adoption of the standard has not had an impact on the Group's equity and the change does not have a material impact on the Group's result.

Other new or amended standards and interpretations that entered into force during the 2018 financial year have not had an impact on Pihlajalinna's financial statements.

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**.

ADOPTION OF IFRS STANDARDS APPLICABLE IN THE FUTURE

IFRS 16 Leases

Nature of changes

IFRS 16 enters into effect on 1 January 2019 and it replaces IAS 17 Leases and related interpretations. Under the new standard, nearly all leases are recognised in the lessee's statement of financial position, as operating leases and finance leases are no longer separated. A right-of-use asset is recognised along with a financial liability representing lease payments. The only exceptions are short-term leases and leases for which the underlying asset is of low value.

The new standard requires the lessee to recognise a right-of-use asset and a lease liability representing unpaid future lease payments. 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.

During the latter part of 2018, Pihlajalinna has reviewed all of its lease arrangements in relation to the new accounting regulations pursuant to IFRS 16. The review indicated that the majority of Pihlajalinna's lease arrangements are leases for business premises. The other reviewed lease arrangements 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.

The majority of Pihlajalinna's lease arrangements are long-term leases for business premises. For lease arrangements valid until further notice, with a short notice period, Pihlajalinna will estimate the probable lease term. Making these estimates requires a significant degree of management judgement.

As the Group does not operate as a lessor to a material extent, no significant effects on the financial statements are expected.

The adoption of the standard will not affect the covenant calculations of the Group's financing arrangement.

Transition plan

Pihlajalinna will apply IFRS 16 fully retrospectively by adjusting the figures for each previous reporting period in 2018 in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Prior to the publication of the interim report for the first quarter of 2019, Pihlajalinna will publish a release that presents the adjustments to financial figures for each of the reporting periods in 2018.

Preliminary information on the quantitative effects of IFRS 16 adoption

The following lease-related items will be presented in the consolidated statement of financial position (EUR million):

	2018 IAS 17 Leases	2018 IFRS 16 Leases	2018 IFRS 16 total
EUR 1,000			
ASSETS			
Property, plant and equipment			
Right-of-use assets			
Land areas		1.7	1.7
Business premises	28.2	80.5	108.7
Machinery and equipment	1.0	1.1	2.1
Total right-of-use assets	29.3	83.2	112.5
Deferred tax assets	0.3	0.3	0.5
Trade and other receivables			
Current subleases	0.0	0.2	0.2
TOTAL ASSETS (under IFRS 16)	29.5	83.6	113.2
EQUITY			
Retained earnings			
Cumulative adjustment to retained earnings of 1 January 2018	-0.7	-0.7	-1.5
Effect on the profit for the financial year	-0.3	-0.3	-0.6
TOTAL	-1.0	-1.0	-2.0
Liabilities			
Deferred tax liabilities	0.0	0.0	0.0
Non-current financial liabilities			
Lease liabilities	27.1	72.6	99.7
Current financial liabilities			
Lease liabilities	3.4	12.1	15.5
Total lease liabilities	30.5	84.7	115.2
TOTAL EQUITY AND LIABILITIES (Effect of IFRS 16)	29.5	83.6	113.2

The following lease-related items will be presented in the consolidated income statement (EUR million):

EUR 1,000	2018 IAS 17 Leases	2018 IFRS 16 Leases	2018 IFRS 16 total
INCOME STATEMENT			
Other operating income			
Lease income from subleases		-0.2	-0.2
Other operating expenses (adjustment of leases)	4.4	13.7	18.2
Effect of IFRS 16 on EBITDA	4.4	13.6	18.0
Depreciation, amortisation and impairment			
Depreciation of right-of-use assets			
Land areas		-0.3	-0.3
Business premises	-3.1	-12.0	-15.1
Machinery and equipment	-0.6	-0.5	-1.1
Total depreciation of right-of-use assets	-3.8	-12.7	-16.5
Effect of IFRS 16 on operating profit	0.7	0.9	1.5
Financial income			
Interest income from subleases		0.0	0.0
Financial expenses			
Interest expenses on right-of-use assets	-1.0	-1.3	-2.3
Income tax			
Change in deferred taxes	0.1	0.1	0.1
Effect of IFRS 16 on the profit for the financial year	-0.3	-0.3	-0.6

Cash flow from operating activities will increase and cash flow from financing activities will decrease by an estimated EUR 41 million due to repayments of lease liabilities and new lease liabilities being classified as cash flow from financing activities.

The IFRIC 23 interpretation entering into effect on 1 January 2019 provides a more detailed framework regarding the recognition of uncertain tax positions and emphasises requirements related to notes to financial statements.

Other new or amended standards and interpretations effective in upcoming financial periods are not expected to have a significant impact on Pihlajalinna's financial statements.

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 and hospitals, 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 of social and health service outsourcing, which also includes the provider's liability for the costs of specialised care. During the financial year, the Group expanded its operations to include wellbeing 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 records the remunerations of employed healthcare professionals, contract-based practitioners and holders of Series B shares of Pihlajalinna Terveys Oy under revenues 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 contractual 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.

The adoption of IFRS 15 Revenue from Contracts with Customers has not had an impact on the Group's equity or the revenue recognition principles applied by Pihlajalinna. The adoption of the standard has, however, increased the amount of information presented with regard to revenue. Pihlajalinna presents revenue distribution by business area and by customer group.

IFRS 15 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

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. through insurance companies)

Occupational Healthcare

- individual occupational healthcare customer visits (e.g. appointments with occupational healthcare nurses and doctors, laboratory tests)
- 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

The transaction price is primarily comprised of individual visits 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), 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) 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.

KEY ACCOUNTING ESTIMATES AND DECISIONS BASED ON MANAGEMENT JUDGEMENT

Social and healthcare outsourcings are mainly based on fixed annual prices, 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 basis based on service use.

Pihlajalinna has implemented changes to its segment reporting as a result of structural reforms. Effective from the beginning of 2018, Pihlajalinna's operating segments are the Group's geographical business areas, which are combined into one reportable segment. Pihlajalinna reports its Group-level results as its segment data in 2018, with the Group-level results for 2017 presented as comparison figures.

Pihlajalinna's CEO makes significant operational decisions at the Group level. Accordingly, Pihlajalinna's operations and results are reported as one reporting segment. 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 7 Adjusted EBITDA and adjusted operating profit.

REVENUE BY BUSINESS AREA

Pihlajalinna's geographical business areas are 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.

EUR 1,000	2018	%	2017	%
Southern Finland	107,633	20	60,691	13
Mid-Finland	311,881	57	301,392	63
Ostrobothnia	108,792	20	105,405	22
Northern Finland	12,307	2	7,606	2
Other operations	4,797	1	6,027	1
Intra-Group sales	-57,646		-57,137	
Total consolidated revenue	487,764	100	423,984	100

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 healthcare customers, insurance company customers and other corporate contract customers with the exception of public sector occupational healthcare 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 healthcare services and staffing services.

EUR 1,000	2018	%	2017	%
Corporate customers	105,639	19	82,627	17
of which insurance company customers	25,162	5	26,600	6
Private customers	92,009	17	67,961	14
Public sector	347,762	64	330,533	69
Intra-Group sales	-57,646		-57,137	
Total consolidated revenue	487,764	100	423,984	100

INFORMATION ON KEY CUSTOMERS

The Group's revenues from the four largest municipal customers totalled approximately EUR 252.4 (243.7) million, representing 52 (57) % of the consolidated revenue.

INFORMATION ON UNSATISFIED PERFORMANCE OBLIGATIONS RELATED TO SERVICE AGREEMENTS ON THE PROVISION OF SOCIAL AND HEALTHCARE SERVICES

EUR 1,000	31.12.2018	31.12.2017
2018		242,627
2019	243,814	243,783
2020	244,896	244,864
2021	245,983	245,951
2022	247,074	247,042
2023	248,171	248,139
2024	249,272	249,240
2025	250,379	250,346
2026	251,490	251,458
2027	252,607	252,574
2028	253,728	253,695
2029	254,855	254,822
2030	219,739	219,739
	2,962,007	3,204,280

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

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	2018	2017
Capital gains on property, plant and equipment	289	295
Rental income	380	223
Government grants	1,290	805
Insurance indemnities	81	291
Fair value measurement of pre-existing interest in acquiree	964	296
Other income items	1,343	340
Total	4,347	2,251

3. MATERIALS AND SERVICES

ACCOUNTING POLICIES

Pihlajalinna Terveys Oy, a Group subsidiary, has issued a second series of shares (Series B) and established contingency funds associated with them. Funds accumulate 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 is included in current liabilities under the item Other liabilities, presented in Note 18 Trade and other payables and Note 20 Financial assets and liabilities by measurement category. Work contribution-based dividends paid by the company are an income tax deductible item.

EUR 1,000	2018	2017
Materials	-17,465	-13,798
Change in inventories	-74	14
External services, practitioners	-70,767	-59,300
External services, other	-100,868	-102,454
Total	-189,175	-175,538

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. On the financial statements date, the company did not have any share-based incentive schemes for the CEO, other members of the Management Team or the Board of Directors.

EUR 1,000	2018	2017
Wages and salaries	-172,355	-143,304
Pension costs – defined contribution plans	-30,459	-25,665
Other social security expenses	-5,595	-6,443
Total	-208,409	-175,412
Personnel on average (FTE)	4,868	3,879
Personnel at the end of the period (NOE)	5,850	4,753

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. DEPRECIATION, AMORTISATION 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
Capitalised 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

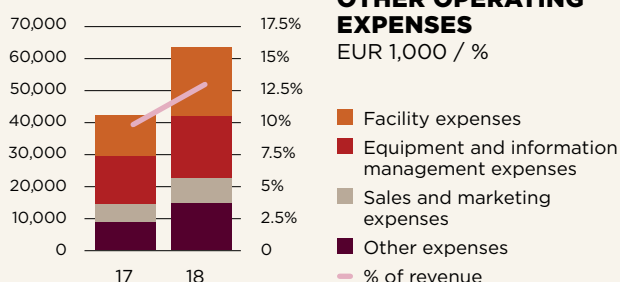
EUR 1,000	2018	2017
Amortisation by asset type		
Intangible assets		
Trademarks	-776	-776
Capitalised development costs	-527	-314
Other intangible assets related to purchase price allocations	-4,355	-3,032
Other intangible assets	-1,473	-1,099
	-7,131	-5,221
Property, plant and equipment		
Buildings	-3,189	-3,185
Renovation expenses on real estate	-2,234	-1,294
Machinery and equipment	-5,828	-4,479
Other tangible assets	-4	-4
	-11,255	-8,962
Total depreciation, amortisation and impairment	-18,386	-14,182

6. OTHER OPERATING EXPENSES

EUR 1,000	2018	2017
Facility expenses	-21,484	-12,960
Equipment and information management expenses	-19,311	-14,718
Sales and marketing expenses	-7,623	-5,624
Other expenses	-14,953	-8,986
Total	-63,371	-42,288
Auditor's fees		
Auditing, BDO	-81	-68
Auditing, KPMG Oy Ab	-251	-193
Auditor's statements (based on law and regulations)	-18	
Non-audit services, KPMG Oy Ab	-8	-19
Total	-357	-279

BREAKDOWN OF OTHER OPERATING EXPENSES

EUR 1,000 / %



7. 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, Management Team and regional management monitor and forecast adjusted EBITDA and adjusted operating profit on a monthly basis.

EUR 1,000	2018	2017
EBITDA	31,190	33,312
Adjustments to EBITDA		
Closure of operating locations	42	448
Subsidiary's previous holding at fair value	-964	-296
Conciliation agreement concerning the Group's facility expenses		220
Dismissal-related expenses	565	377
Gain on the disposal of business	-47	
Change in fair value of contingent consideration	1,192	
Other	296	
Adjustments to EBITDA in total	1,083	749
Adjusted EBITDA	32,274	34,061
Depreciation, amortisation and impairment	-18,386	-14,182
Adjustments to depreciation, amortisation and impairment		
Closure of operating locations	119	102
Adjustments to depreciation, amortisation and impairment in total	119	102
Adjustments to operating profit in total	1,203	852
Adjusted operating profit (EBIT)	14,007	19,981
Operating profit (EBIT)	12,804	19,130
Financial income	118	181
Financial expenses	-2,965	-1,862
Income taxes	-2,815	-3,381
Profit for the period	7,143	14,068
The adjustment items are presented in the income statement items as follows:		
Other operating income	-1,011	-296
Employee benefit expenses	565	377
Other operating expenses	1,530	668
EBITDA adjustment items total	1,083	749
Depreciation, amortisation and impairment	119	102
Operating profit adjustment items total	1,203	852

8. FINANCIAL INCOME

EUR 1,000	2018	2017
Dividend income from available-for-sale financial assets	12	3
Interest income from loans and receivables	94	47
Other financial income	12	131
Total	118	181

9. FINANCIAL EXPENSES

1 000 €	2018	2017
Interest expenses from financial liabilities carried at amortised cost	-2,452	-1,452
Other financial expenses	-512	-410
Total	-2,965	-1,862

10. 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	2018	2017
Current taxes	-4,953	-4,188
Taxes for the previous financial years	-104	-50
Deferred taxes:		
Origination and reversal of temporary differences	2,243	857
Total	-2,815	-3,381

Reconciliation of effective tax rate

EUR 1,000	2018	2017
Profit before taxes	9,957	17,449
Taxes calculated on the basis of the Finnish tax rate (20%)	-1,991	-3,490
Income not subject to tax	4	1
Non-deductible expenses	-575	-88
Unrecorded deferred tax assets from tax losses	-6	-1
Utilised prior losses with unrecognised tax benefits	32	29
Share of associated company's profit	1	63
Fair value measurement of contingent consideration	-238	
Fair value measurement of pre-existing interest in acquiree	199	
Reversal of unused replacement reserve	-221	
Other items	85	155
Taxes for prior financial years	-104	-50
Taxes in the income statement	-2,815	-3,381
Effective tax rate	28.3%	19.4%

11. 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 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. The parent company does not have dilutive instruments.

	2018	2017
Profit for the financial year attributable to owners of the parent, EUR	3,826,449.44	9,515,009.52
Number of shares outstanding, weighted average	22,224,236	20,613,146
Earnings per share (EPS), EUR/share	0.17	0.46

12. 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.

During the financial year, the Group opened new full-service 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 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 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.

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 2018	88	40,648	13,005	4,015	29,380	161	5,827	93,124
Additions	25	397	2,404	1,127	10,913		2,089	16,956
Business combinations			1,321	430	3,448	10		5,210
Transfers between items	-9		5,237		1,606		-6,470	364
Disposals					-1,037			-1,037
Cost at 31 December 2018	104	41,045	21,968	5,572	44,310	171	1,446	114,617
Accumulated depreciation at 1 January 2018		-8,200	-6,378		-16,624	-5	0	-31,206
Depreciation and amortisation		-3,189	-2,234		-5,828	-4		-11,255
Transfers between items			-205		-128			-333
Disposals					735			735
Accumulated depreciation at 31 December 2018		-11,388	-8,817		-21,845	-9	0	-42,059
Carrying amount at 1 January 2018	88	32,448	6,627	4,015	12,757	156	5,827	61,917
Carrying amount at 31 December 2018	104	29,657	13,151	5,572	22,465	162	1,446	72,558

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 2017	88	28,172	10,780	4,088	26,260	146	61	69,595
Additions		12,476	497	9	3,803	13	6,039	22,837
Business combinations			1,632		1,222	3		2,857
Transfers between items			262		275		-273	264
Disposals			-166	-83	-2,180			-2,429
Cost at 31 December 2017	88	40,648	13,005	4,015	29,380	161	5,827	93,124
Accumulated depreciation at 1 January 2017		-5,015	-5,061		-14,020	-1	0	-24,098
Depreciation and amortisation		-3,185	-1,294		-4,479	-4		-8,962
Transfers between items			-189		-75			-264
Disposals			166		1,950			2,116
Accumulated depreciation at 31 December 2017		-8,200	-6,378	0	-16,624	-5	0	-31,206
Carrying amount at 1 January 2017	88	23,157	5,719	4,088	12,241	145	61	45,496
Carrying amount at 31 December 2017	88	32,447	6,627	4,015	12,757	156	5,827	61,917

FINANCE LEASES

ACCOUNTING POLICIES

An asset leased with finance leases is recognised in the consolidated statement of financial position from the commencement of the lease term at the fair value of the leased asset at the inception of the lease or at the present value of

minimum lease payments, whichever is lower. An asset acquired with finance leases is depreciated during the asset's economic useful life or lease term, whichever is shorter. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. Lease obligations are included in financial liabilities.

Property, plant and equipment include the following assets acquired under finance leases:

EUR 1,000	Buildings	Shares in real estate companies	Machinery and equipment	Total
31/12/2018				
Cost	33,648	5,661	2,793	42,102
Accumulated depreciation	-8,378	-2,681	-1,766	-12,826
Carrying amount	25,270	2,979	1,027	29,276
31/12/2017				
Cost	33,648	5,661	1,393	40,702
Accumulated depreciation	-6,135	-1,788	-1,151	-9,074
Carrying amount	27,513	3,873	242	31,629

The Group concluded a 15-year sale and leaseback agreement concerning Pihlajalinna Lääkärikeskukset Oy's hospital property in 2013, which met the criteria for a finance lease. The Group sold five of its care properties in 2015 and leased them back for 15 years. Similarly, the Koskiklinikka lease has been interpreted as a 12-year sale and leaseback agreement and it meets the

criteria for a finance lease. The additions in 2017 consisted of leases for three care homes, which were interpreted as financial leases.

Additions to the costs of property, plant and equipment include assets leased with finance leases totalling EUR 1,355 thousand (EUR 12,473 thousand in 2017).

13. 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 acquired net assets. 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 acquired net assets.

Goodwill is not amortised but tested annually for impairment, and whenever there is an indication that the asset may be impaired. For this purpose, 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

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 2018	103,893	7,762	3,813	13,826	8,388	119	137,802
Additions			1,344		3,602	431	5,377
Business combinations	66,034		49	7,687	359		74,130
Transfers between items					361	-305	56
Disposals					-3		-3
Cost at 31 December 2018	169,927	7,762	5,206	21,513	12,707	245	217,362
Accumulated depreciation at 1 January 2018		-3,150	-816	-8,986	-4,353		-17,305
Depreciation and amortisation		-776	-527	-4,355	-1,473		-7,131
Disposals					-84		-84
Accumulated depreciation at 31 December 2018		-3,926	-1,343	-13,341	-5,910		-24,521
Carrying amount at 1 January 2018	103,893	4,612	2,997	4,840	4,036	119	120,496
Carrying amount at 31 December 2018	169,927	3,836	3,864	8,173	6,797	245	192,841

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 2017	92,270	7,762	2,659	11,648	6,211	122	120,674
Additions			1,154		745	1,080	2,979
Business combinations	11,622			2,178	349		14,149
Transfers between items					1,083	-1,083	0
Disposals							
Cost at 31 December 2017	103,893	7,762	3,813	13,826	8,388	119	137,802
Accumulated depreciation at 1 January 2017		-2,374	-503	-5,954	-3,254		-12,085
Depreciation and amortisation		-776	-314	-3,032	-1,099		-5,221
Accumulated depreciation at 31 December 2017		-3,150	-816	-8,986	-4,353		-17,305
Carrying amount at 1 January 2017	92,270	5,390	2,156	5,694	2,956	122	108,588
Carrying amount at 31 December 2017	103,893	4,613	2,997	4,840	4,036	119	120,496

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.

ALLOCATION OF GOODWILL

ACCOUNTING POLICIES

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 acquired net assets. Goodwill is not amortised but is tested for impairment at least once per year.

Goodwill created through business combinations is allocated to cash-generating units (CGUs), meaning geographical

business areas, as shown in the table below. Pihlajalinna's operating structure is based on four geographical business areas: Mid-Finland, Southern Finland, Ostrobothnia and Northern Finland. Each business area is managed by a Head of Business Operations who is in charge of their area's business operations and service offering both for the private and the public sector.

The Head of Business Operations is responsible for preparing the area's budget and managing the area's resources, investments and profitability. The business areas use shared support services.

The carrying amounts of goodwill are allocated to the business areas as follows:

EUR 1,000	2018	2017
Southern Finland	90,313	42,859
Mid-Finland	60,853	48,280
Ostrobothnia	4,744	4,744
Northern Finland	7,686	6,434
Tested goodwill in total on 30 November	163,596	102,317
Re-estimation of initial acquisition cost and contingent consideration during the measurement period	-14	995
Acquisition of Terveyspalvelu Verso Oy on 28 December 2018	6,344	
Achievement of control in Dextra Lapsettomuuslinikka Oy		581
Goodwill as per the statement of financial position at the end of the financial year, on 31 December	169,927	103,893

Goodwill testing was carried out on 30 November 2017 by operating segment, which were the CGUs under the definition previously used by the Group.

IMPAIRMENT TESTING OF CASH-GENERATING UNITS THAT INCLUDE GOODWILL

ACCOUNTING POLICIES

If indications of amortisation or impairment exist, the asset's recoverable amount is estimated. The recoverable amount is also estimated annually in conjunction with the closing of the books for the following assets regardless of whether or not there are indications of impairment: goodwill and intangible assets not yet available for use.

The need to recognise an impairment loss is assessed at the level of CGUs, or in other words, at the lowest level of units that are mainly independent of other units and whose cash flows are separable and largely independent of the cash flows of other corresponding units. A CGU is the lowest such level in the Group whose goodwill is monitored for internal management purposes. Such corporate assets that serve a number of CGUs and do not generate a separate cash flow have been attributed to CGUs and are tested as part of the relevant CGU.

The recoverable amount is the fair value of an asset less costs of disposal or the asset's value-in-use, whichever is greater. The value-in-use is understood as the future net cash flows expected to be derived from the asset or the CGU in question, discounted to their present value. The discount rate applied is the pre-tax rate, which reflects current market assessments of the time value of money and particular risks associated with the asset.

An impairment loss is recognised when the carrying amount of an asset is larger than its recoverable amount. An impairment loss is recognised immediately in profit or loss. If the impairment loss is attributable to a CGU, it is first allocated to decrease the goodwill allocated to the said CGU and then to decrease the carrying amount of the unit's other assets on a pro rata basis. When an impairment loss is recognised, the useful life of the asset to which the depreciation or amortisation is allocated is re-estimated. An impairment loss recognised on an asset other than goodwill is reversed in case a change has occurred in the estimates used for determining

the asset's recoverable amount. However, an impairment loss shall not be reversed to an extent larger than what the carrying amount of the asset would be excluding the recognition of the impairment loss. An impairment loss recognised on goodwill is not reversed in any situation.

KEY ACCOUNTING ESTIMATES AND DECISIONS BASED ON MANAGEMENT JUDGEMENT

The recoverable amounts of the CGUs are based on value-in-use calculations prepared by using discounted cash flow forecasts. The cash flow forecasts are based on the budget for 2019 approved by the Board of Directors, and the cash flow estimates for 2020–2023 are based on the Head of Business Operations' estimates of the growth and profitability of the business. Cash flows arising beyond the forecast period approved by the management are capitalised using a stable 2% growth rate.

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 asset-specific risks. The discount rate is a pre-tax rate.

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.

Other key assumptions used in goodwill testing by business area:

2018	Discount rate (pre tax WACC)	Discount rate (after tax WACC)
Southern Finland	8.50%	7.18%
Mid-Finland	8.50%	7.18%
Ostrobothnia	8.50%	7.18%
Northern Finland	8.14%	7.18%

2018	The terminal period's share of the amount of expected cash flows:
Southern Finland	71%
Mid-Finland	73%
Ostrobothnia	73%
Northern Finland	81%

2018	Revenue growth during the testing period	Profitability growth during the testing period
Southern Finland	3.0%	6.0%
Mid-Finland	1.0%	2.4%
Ostrobothnia	3.0%	3.0%
Northern Finland	15.0%	13.2%

In impairment testing, the growth of revenue and profitability is based on presumed organic growth by business area in normal market conditions, the general development of the social and healthcare services market and the operative management's views. The opening of new private clinics in Turku, Seinäjoki and Oulu during the financial year was taken into account in estimating the business areas' volume and profitability development for the testing period.

SENSITIVITY ANALYSES IN IMPAIRMENT TESTING

Based on the testing calculations, there is no need to recognise impairment. The recoverable amounts of all cash-generating units exceeded their carrying amounts.

The occurrence of any of the following changes, ceteris paribus, would lead to the carrying amount of the business area's assets being equal to its recoverable amount:

2018	Decline in EBIT margin	Decline in volume	Increase in discount rate
Southern Finland	more than 1 percentage point	more than 12 percentage points	more than 1 percentage point
Mid-Finland	more than 5 percentage points	more than 50 percentage points	more than 14 percentage points
Ostrobothnia	more than 5 percentage points	more than 68 percentage points	more than 70 percentage points
Northern Finland	more than 1 percentage point	more than 12 percentage points	more than 1 percentage point

In assessing the recoverable amounts of the CGUs, taking the aforementioned into consideration, the management estimates that no reasonably probable change in any key variable would lead to a situation where the units' recoverable amounts would be lower than their carrying amounts.

14. OTHER NON-CURRENT RECEIVABLES

EUR 1,000	2018	2017
Lease deposits paid	1,800	1,568
Total	1,800	1,568

15. 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.

Following the adoption of IFRS 9, the Group recognises a credit loss provision based on expected credit losses. 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

The Group's trade receivables include EUR 3.6 (2.5) million in substantially delayed payments from a significant customer. Pihlajalinna has signed a conditional agreement regarding the payment of the receivables in question. According to the Group management's estimate, the customer will pay the receivables in full.

The Group's prepayments and accrued income include EUR 2.4 million in the service provider's shares of hospital districts' operational economy surplus refunds. According to the Group management's estimate, the refunds are payable to the service provider to the extent they were accumulated during Pihlajalinna's service provision and liability for costs.

EUR 1,000	2018	2017
Trade receivables	26,582	17,509
Prepayments and accrued income	11,022	5,291
Other receivables	320	1,158
Total	37,923	23,959

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

The Group recognised EUR 148 thousand (EUR 337 thousand) in impairment losses on trade receivables during the financial year.

AGEING ANALYSIS OF TRADE RECEIVABLES

EUR 1,000	2018	Impairment losses	Net 2018	2017	Impairment losses	Net 2017
Past due	16,847		16,847	11,787		11,787
Less than 30 days	2,822		2,822	1,129		1,129
30-60 days	573		573	1,062		1,062
61-90 days	450		450	253		253
More than 90 days	6,522	-633	5,889	3525	-247	3,278
Total	27,214	-633	26,582	17,757	-247	17,509

EUR 1,000	2018	2017
Credit loss provision at 1 January	247	325
Credit losses recorded	351	148
Credit loss provision, used	-198	-226
Credit loss provision, increase	233	
Credit loss provision at 31 December	633	247

MATERIAL ITEMS INCLUDED UNDER PREPAYMENTS AND ACCRUED INCOME:

EUR 1,000	2018	2017
Sales and income accruals	3,923	742
Personnel expenses	3,463	1,241
Expenses paid in advance	1,935	2,698
Other	1,700	610
Total	11,022	5,291

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

16. CASH AND CASH EQUIVALENTS

ACCOUNTING POLICIES

Cash and cash equivalents consist of cash at hand, demand deposits and other highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The items classified under cash and cash equivalents have a maturity of no more than three months from the date of acquisition. The account with credit limit in use is included in current financial liabilities.

EUR 1,000	2018	2017
Cash in hand and at bank	36,316	37,074
Total	36,316	37,074

17. 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. A restoration provision is recognised when the Group has a contractual obligation or decision to restore business premises to a certain condition as required by an agreement or decision at the termination of a lease or when business requirements change. The Group has recognised restoration provisions relating to its premises and provisions for onerous contracts related to vacant business premises.

EUR 1,000	Premises restoration provision	Onerous contracts	Total
31/12/2017	847		847
Increases in provisions	330	396	726
Reversals of unused provisions	-744		-744
31/12/2017	433	396	829
Increases in provisions	330		330
Provisions used		-94	-94
Reversals of unused provisions	-763		-763
31/12/2018	0	302	302

18. TRADE AND OTHER PAYABLES

EUR 1,000	2018	2017
Trade payables	18,789	12,573
Accrued liabilities	49,049	38,800
Pre-payments	897	366
Other liabilities	10,759	10,084
Total	79,494	61,822
Material items included under Accrued liabilities:		
Wages and salaries and social security payments	32,375	27,426
Doctor's fee liability	6,350	5,356
Allocation of sales	1,795	1,505
Allocation of purchase invoices	7,446	3,919
Financial items	114	8
Other accrued liabilities	968	587
Total	49,049	38,800

19. 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, unpaid dividends based on work contributions, 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 2018:

EUR 1,000					
Deferred tax assets	01/01/2018	Recognised in profit and loss	Recognised in equity	Subsidiaries acquired	31/12/2018
Tax losses carried forward confirmed by tax authorities	483	1,310			1,794
Liability to holders of Series B shares	1,215	99			1,314
Sales proceeds from sale and leaseback arrangements	343	-30			313
Other items	184	-123		264	325
Expenses arising from directed share issue		-11	11		0
Deferred tax assets on the statement of financial position	2,224	1,245	11	264	3,745
Deferred tax liabilities					
Property, plant and equipment and intangible assets	1,224	784			2,009
Replacement reserve for business premises	814	-814			0
Measurement of property, plant and equipment and intangible assets at fair value in business combinations	3,378	-1,026		1,538	3,889
Other items	43	57			99
Deferred tax liabilities on the statement of financial position	5,457	-999		1,538	5,997

Changes in deferred taxes during 2017:

EUR 1,000					
Deferred tax assets	01/01/2017	Recognised in profit and loss	Recognised in equity	Subsidiaries acquired	31/12/2017
Tax losses carried forward confirmed by tax authorities	93	109		281	483
Liability to holders of Series B shares	1,031	184			1,215
Sales proceeds from sale and leaseback arrangements	373	-30			343
Other items	93	67		23	184
Deferred tax assets on the statement of financial position	1,589	331		304	2,224
Deferred tax liabilities					
Property, plant and equipment and intangible assets	877	347			1,224
Replacement reserve for business premises	917	-103			814
Recognition at fair value in business combinations	3,704	-762		436	3,378
Other items	51	-8			43
Deferred tax liabilities on the statement of financial position	5,548	-526		436	5,457

The Group had confirmed losses of EUR 8,966 (2,415) thousand, for which deferred tax assets of EUR 1,794 (483) thousand were recognised. The recognition of deferred tax assets on the statement of financial position is justified, as the Group is likely to accrue taxable income against which the losses in question can be used before they expire.

The Group has incurred losses amounting to EUR 5,580 (556) thousand for which deferred tax assets have not been recognised. The losses will expire in 2025–2028.

20. 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, demand deposits and other highly liquid investments that are readily

convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The items classified under cash and cash equivalents have a maturity of no more than three months from the date of acquisition. 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, financial 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

31.12.2018	Note	Fair value hierarchy	Fair value through profit or loss	Amortised cost	Total carrying amounts	Fair values total
Non-current financial assets						
Other shares and participations		level 3	139		139	139
Lease deposits	14	level 2		1,800	1,800	1,800
Current financial assets						
Trade receivables	15			26,582	26,582	26,582
Other receivables	15	level 2		320	320	320
Cash and cash equivalents	16			36,316	36,316	36,316
Total			139	65,018	65,157	65,157
Carrying amounts of financial liabilities						
Non-current financial liabilities						
Loans from financial institutions	22	level 2		93,627	93,627	93,627
Finance lease liabilities	22	level 2		27,117	27,117	27,117
Other liabilities	22	level 2		720	720	720
Contingent consideration	26	level 3	1,348		1,348	1,348
Current financial liabilities						
Loans from financial institutions	22	level 2		1,493	1,493	1,493
Cheque account with credit limit	22			0	0	0
Finance lease liabilities	22	level 2		3,421	3,421	3,421
Contingent consideration	26	level 3	1,465		1,465	1,465
Trade and other payables	18			25,357	25,357	25,357
Total			2,812	151,735	154,548	154,548

EUR 1,000

31/12/2017	Note	Fair value hierarchy	Fair value through profit or loss	Available-for-sale financial assets	Amortised cost	Total carrying amounts	Fair values total
Non-current financial assets							
Other shares and participations		level 3		101		101	101
Lease deposits	14	level 2			1,568	1,568	1,568
Current financial assets							
Trade receivables	15				17,509	17,509	17,509
Other receivables	15	level 2			1,158	1,158	1,158
Cash and cash equivalents	16				37,074	37,074	37,074
Total				101	57,310	57,412	57,412
Non-current financial liabilities							
Loans from financial institutions	22	level 2			34,555	34,555	34,555
Finance lease liabilities	22	level 2			29,551	29,551	29,551
Other liabilities	22	level 2			752	752	752
Contingent consideration	26	level 3	1,478			1,478	1,478
Current financial liabilities							
Loans from financial institutions	22	level 2			2,209	2,209	2,209
Cheque account with credit limit	22				1,178	1,178	1,178
Finance lease liabilities	22	level 2			2,993	2,993	2,993
Contingent consideration	26	level 3	3,940			3,940	3,940
Trade and other payables	18				18,648	18,648	18,648
Total			5,418		89,887	95,305	95,305

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 financial 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 26 Business combinations.

21. 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.

Reconciliation of the number of shares

EUR 1,000

	Number of shares	Share capital	Reserve for invested unrestricted equity	Total
31/12/2017	20,613,146	80	87,945	88,026
Directed share issue 14 March 2018	2,006,989		28,574	28,574
31/12/2018	22,620,135	80	116,520	116,600

Pihlajalinna acquired the entire share capital of Doctagon Ab through a directed share issue in March 2018. In the directed share issue, the entire transaction price for Doctagon Ab, totalling EUR 30,105,000, was paid in Pihlajalinna Plc shares. The directed share issue offered 2,006,989 new shares to be subscribed according to the purchase deed terms with a subscription price of EUR 15.00 per share. The number of new shares corresponded to approximately 10 per cent of all of Pihlajalinna Plc's shares before issuing the new shares. The total number of Pihlajalinna Plc's shares after the registration of the new shares is 22,620,135. The shares were entered in the Trade Register on 14 March 2018.

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 206,086,679.19, of which the profit for the financial year accounts for EUR 51,578.66.

Dividends

After the balance sheet date, the Board of Directors has proposed that a dividend of EUR 0.10 per share be distributed.

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.

EUR 1,000	2018	2017
Current interest-bearing liabilities		
Bank loans	1,493	2,209
Cheque accounts with credit limit	0	1,178
Finance lease liabilities	3,421	2,993
Total	4,915	6,381
Interest-bearing financial liabilities total	126,378	71,239

At the end of the financial year, the Group had EUR 39.0 (34.8) 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.

FINANCE LEASES

ACCOUNTING POLICIES

Leases are classified as either finance leases or operating leases. Leasing agreements by which the risks and benefits associated with the ownership of an asset are substantially transferred to the lessee represent finance leases.

An asset leased with finance leases is recognised in the consolidated statement of financial position from the commencement of the lease term at the fair value of the leased asset at the inception of the lease or at the present value of minimum lease payments, whichever is lower. An asset acquired with finance leases is depreciated during the asset's economic useful life or lease term, whichever is shorter. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. Lease obligations are included in financial liabilities.

Lease payments based on operating leases are expensed in profit or loss on a straight-line basis during the lease term. The Group's other leases are mainly related to business premises.

Sale and leaseback

The most significant of the Group's finance leasing agreements are due to sale and leaseback transactions of premises.

22. INTEREST-BEARING FINANCIAL LIABILITIES

EUR 1,000	2018	2017
Non-current interest-bearing liabilities		
Bank loans	93,627	34,555
Other liabilities	720	752
Finance lease liabilities	27,117	29,551
Total	121,463	64,858

Maturity periods of minimum lease payments:

EUR 1,000	2018	2017
Within one year	4,338	3,993
Between one and five years	14,021	14,552
Over five years later	17,517	20,325
Minimum lease payments total	35,876	38,870
Financial expenses accrued in the future	-5,337	-6,326
Present value of finance lease liabilities	30,538	32,544

Maturity periods of the present value of finance lease liabilities

EUR 1,000	2018	2017
Within one year	4,275	3,933
Between one and five years	12,864	13,306
Over five years later	13,399	15,305
Present value of finance lease liabilities total	30,538	32,544

23. CHANGES IN INTEREST-BEARING LIABILITIES WITH NO IMPACT ON CASH FLOW

EUR 1,000

	2017	Cash flow	Business combinations	New instalments and financial leasing	Effective interest rate	2018
Non-current interest-bearing liabilities	35,307	53,040	2,710	3,094	196	94,347
Current interest-bearing liabilities	3,388	-3,652	659	1,097		1,492
Finance lease liabilities	32,544	-3,406	1,401			30,539
Total liabilities from financing	71,239	45,982	4,770	4,191	196	126,378

24. 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	Note	2018	2017
Total equity		131,159	105,856
Total statement of financial position – prepayments received		348 634	253,215
Equity ratio¹		37.6%	41.8%
Interest-bearing financial liabilities	22	126,378	71,239
Cash and cash equivalents	16	-36,316	-37,074
Interest-bearing net debt		90,062	34,165
Gearing²		68.7%	32.3%
EBITDA		31,190	33,312
Adjustment items*		1,083	749
Adjusted EBITDA		32,274	34,061
Net debt/adjusted EBITDA		2.8	1.0

* 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 Pihlajalinnä'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.

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

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 7 Adjusted EBITDA and adjusted operating profit.

25. 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 financial management, 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's revenues and cash flows from operations are mostly independent of fluctuations in market interest rates. 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, 25% (50%) 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 1.89% (2.19%). The duration, i.e. the fixed interest rate period, of the financing portfolio was 3.9 (3.1) years.

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

EUR 1,000	2018	2017
Fixed rate financial liabilities	31,975	35,509
Variable rate financial liabilities	94,803	35,845
Total variable rate position	94,803	35,845

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.

	2018	2018	2017	2017
Change	0.5 per- centage points higher	0.5 per- centage points lower	0.5 per- centage units higher	0.5 per- centage units lower
Effect on profit before tax	-474	0	-179	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 forecasts for cash flow from sales 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 36.3 (37.1) million, in addition to which the Group had EUR 39.0 (34.8) million in unused committed credit limits available.

Pihlajalinna reorganised its debt financing in the first quarter of the financial year. A new five-year EUR 120 million unsecured financing arrangement was concluded 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. The Group met the set covenants on 31 December 2018.

The Group's credit limit agreements valid until further notice, totalling EUR 10 million, remained unchanged. The notice period of the credit limit agreements is one month.

The Group's equity ratio at the end of the financial year was 37.6 (41.8) 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. 2018	less than 1 year	1-2 years	2-3 years	3-4 years	over 4 years
Loans from financial institutions	95,120	-2,851	-2,556	-2,360	-93,189	-314
Finance lease liabilities	30,538	-4,338	-4,256	-3,822	-3,135	-20,325
Other interest-bearing liabilities	720	-20	-93	-57	-57	-864
Contingent consideration	2,812	-1,465	-1,348			
Cheque account with credit limit	0					
Trade payables	18,789	-18,789				
Other liabilities, series B	6,568	-6,568				
Total	154,548	-34,031	-8,252	-6,238	-96,381	-21,502

EUR 1,000						
	Carrying amount at 31 Dec. 2017	less than 1 year	1-2 years	2-3 years	3-4 years	over 4 years
Loans from financial institutions	36,764	-36,399	-410	-176	-40	-40
Finance lease liabilities	32,544	-3,993	-3,901	-3,807	-3,710	-23,459
Other interest-bearing liabilities	752	-20	-93	-57	-57	-916
Contingent consideration	5,418	-3,946	-1,122	-357		
Cheque account with credit limit	1,178	-1,209				
Trade payables	12,573	-12,573				
Other liabilities, series B	6,075	-6,075				
Total	95,305	-64,216	-5,526	-4,396	-3,806	-24,416

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 financial covenants linked to the Group's financing arrangement are based on the ratio of the Group's net debt to pro forma EBITDA (leverage) and the Group's gearing. The maximum value of the leverage covenant is 3.75. The closer the Group's covenant term is to said leverage maximum value, the higher the margin on the financing arrangement. The maximum value of the gearing covenant is 115%. The Group met the terms of the covenants at the end of the financial year, with the leverage indicator being 2.61 and gearing being 68.7%.

At the end of the reporting period, 31 December 2018, the loan amount to which the covenants apply was EUR 91.0 million.

Credit risk

The Group's credit risk mostly consists of credit risks involved in customer receivables related to business operations. The Group has no significant credit risk concentrations related to customer receivables, as the key customers in the public sector (municipalities and public entities) and the largest occupational healthcare customers have a good credit rating that has been checked.

The Group's trade receivables include EUR 3.6 (2.5) million in substantially delayed payments from a significant customer.

Pihlajalinna has signed a conditional agreement regarding the payment of the receivables in question. According to the Group management's estimate, the customer will pay the receivables in full.

The Group has recognised a total of EUR 2.4 million in service provider refunds for public sector specialised care cost accruals, estimated on a municipality-specific basis. According to the Group management's view, under the service agreements, the refunds of cost accruals are payable to Pihlajalinna because they were accumulated during Pihlajalinna's service provision and liability for costs.

The payment information of corporate and personal customers is checked at every appointment. For the collection of payments, the Group mostly uses an external collections agency. The Group's private customers also have a special Joustotili (Flexible Account) available to them, which allows for flexible financing of services and includes a check of the private customer's creditworthiness.

The ageing analysis of trade receivables is presented in Note 15 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.

26. BUSINESS COMBINATIONS

ACQUISITIONS DURING THE FINANCIAL YEAR 2018

EUR 1,000	Month of acquisition	Industry	Domicile
Acquired/divested entity			
Terveyspalvelu Verso Oy, 100% of the share capital	Dec-18	Occupational health services	Iisalmi
Hammashannu Oy, sold 100% of the share capital (part of the SYH chain)	Sep-18	Dental care	Turku
Anula Oy, 100% of the share capital	Jul-18	Dental care	Hämeenlinna
Leaf Areena Oy, 100% of the share capital	Jun-18	Fitness centres	Turku
Suomen Yksityiset Hammaslääkärit chain, 51% of the share capital	Mar-18	Dental care	Useita
Doctagon Ab, 100% of the share capital (directed share issue)	Mar-18	Private clinic operations, occupational health services, staffing services	Helsinki
Forever fitness centre chain, 70% of the share capital	Feb-18	Fitness centres	Useita
Röntgentutka Oy, 50% of the share capital (previous holding 50%, acquisition achieved in stages)	Feb-18	Imaging	Tampere
Linnan Klinikka Oy, 100% of the share capital	Feb-18	Private clinic operations, occupational health services	Hämeenlinna
Kymijoen Työterveys Oy, 100% of the share capital	Feb-18	Occupational health services	Kotka
Salon Lääkintälaboratorio Oy (Sallab), 100% of the share capital	Jan-18	Private clinic operations, occupational health services	Salo
Someron Lääkärikeskus Oy, 100% of the share capital	Jan-18	Private clinic operations, occupational health services	Somero

Acquisitions achieved in stages

Röntgentutka Oy, a former joint venture, became a wholly-owned subsidiary of Pihlajalinna in February 2018. Pihlajalinna consolidates the company as an acquisition

achieved in stages. The pre-existing interest in acquiree was remeasured to fair value and the gains, amounting to EUR 964 thousand, were recognised in other operating income.

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 partially preliminary information has been consolidated:

EUR 1,000	2018
Consideration transferred	
Cash, basic transaction price	43,014
Value of issued shares	28,620
Contingent consideration	110
Total cost of the combination	71,744

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

EUR 1,000	Note	2018
Property, plant and equipment	12	5,210
Intangible assets	13	8,096
Deferred tax assets		264
Inventories		293
Other investments		67
Trade and other receivables		8,401
Cash and cash equivalents		6,162
Total assets		28,492
Deferred tax liability		-1,538
Interest-bearing financial liabilities	23	-4,770
Other liabilities		-11,616
Total liabilities		-17,924
Preliminary net assets		10,569

Goodwill generated in the acquisition:

EUR 1,000	Note	2018
Consideration transferred		71,742
Previous holding measured at fair value		4,005
Share of the acquisition allocated to non-controlling interests		827
Net identifiable assets of acquirees		-10,538
Preliminary goodwill	13	66,034
Transaction price paid in cash		43,014
Cash and cash equivalents of acquiree		-6,162
Preliminary effect on cash flow*		36,853

Customer contracts, non-compete agreements and patient databases were recorded in the acquisitions 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 1,336 thousand, have been recorded under other operating expenses.

The revenue and results for the acquired business operations beginning from the date of acquisition (total revenue EUR 54,646 thousand and total operating profit EUR 3,661 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 2018, consolidated revenue would have amounted to EUR 502,744 thousand and operating profit for the financial year would have been EUR 14,577 thousand.

Acquisition of non-controlling interests

At the beginning of June, Pihlajalinna increased its ownership in Kolmostien Terveys Oy by acquiring 10 per cent of the company's share capital from the City of Parkano. After the transaction, the Group owns 81 per cent of the company.

Pihlajalinna increased its holding in Mäntänvuoren Terveys Oy by purchasing 15 per cent of the shares in the company from the City of Mänttä-Vilppula in June. After the transaction, the Group owns 81 per cent of the company.

Pihlajalinna increased its holding in Jokilaakson Terveys Oy by purchasing 39 per cent of the shares in the company from the City of Jämsä in June. After the transaction, the Group owns 90 per cent of the company.

ACQUISITIONS DURING THE FINANCIAL YEAR 2017

On 2 January 2017, Pihlajalinna acquired the entire share capital of Itä-Suomen Lääkäritalo Oy, which operates in the Kuopio region. Itä-Suomen Lääkäritalo has, under the name Lääkärikeskus ITE, worked in close cooperation with Itä-Suomen Lääkärikeskus Oy, which Pihlajalinna acquired on 1 February 2016.

On 6 July 2017, Pihlajalinna acquired the entire share capitals of Kuopio-based Sataman Röntgen Oy and Joensuu-based Joen Magneetti Oy.

On 3 August 2017, Pihlajalinna acquired the Oulu-based Caritas Lääkärit Oy. At the same time, the company's name was changed to Pihlajalinna Madetojanpuisto Oy.

Pihlajalinna acquired Paraisten Lääkärikeskus Oy on 4 December 2017.

Acquisitions achieved in stages

Insta Care Oy, a former joint venture, became a wholly-owned subsidiary of Pihlajalinna as of 1 June 2017. At the same time, the company's name was changed to Pihlajalinna Solutions Oy. Pihlajalinna consolidates the company as an acquisition achieved in stages. The previous holding was measured at fair value and the gains were recognised through profit and loss.

On 31 December 2017, Pihlajalinna exercised its right to convert a proportion of a convertible bond issued by Dextra Lapsettomuuskliniikka Oy into new shares in the company in accordance with the terms of the bond. Pihlajalinna consolidates Dextra Lapsettomuuskliniikka Oy as an acquisition achieved in stages. The pre-existing interest in acquiree was remeasured to fair value and the gains were recognised through profit and loss. Following the conversion of the bond, Pihlajalinna's ownership in the company is approximately 51%.

Of the fair value measurement of pre-existing interest in the acquiree, EUR 296 thousand is recognised in other operating income and EUR 16 thousand in the reserve for invested unrestricted equity.

Since the acquisitions are not material individually, the following partially preliminary information has been consolidated:

EUR 1,000	2017
Consideration transferred	
Cash, basic transaction price	10,052
Contingent consideration	3,435
Total cost of the combination	13,487

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

EUR 1,000	Note	2017
Property, plant and equipment	12	2,857
Intangible assets	13	2,527
Deferred tax assets		304
Inventories		196
Other investments		1
Trade and other receivables		1,424
Cash and cash equivalents		1,622
Total assets		8,932
Deferred tax liability		-436
Interest-bearing financial liabilities		-3,335
Other liabilities	23	-3,336
Total liabilities		-7,107

Preliminary net assets

1,826

Goodwill generated in the acquisition:

EUR 1,000	Note	2017
Consideration transferred		13,487
Previous holding measured at fair value		312
Share of the acquisition allocated to non-controlling interests		-355
Net identifiable assets of acquirees		-1,826
Preliminary goodwill	13	11,617
Transaction price paid in cash		10,052
Cash and cash equivalents of acquiree		-1,622
Preliminary effect on cash flow*		8,429

Customer contracts, non-compete agreements and patient databases were recorded 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 350 thousand, have been recorded under other operating expenses.

The revenue and results for the acquired business operations beginning from the date of acquisition (total revenue EUR 8,786 thousand and total operating profit EUR 438 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 2017, consolidated revenue would have amounted to EUR 433,656 thousand and operating profit for the financial year would have been EUR 19,700 thousand.

Acquisition of non-controlling interests

Pihlajalinna increased its holding in Mäntänvuoren Terveys Oy by purchasing, in accordance with its commitment, 15 per cent of the company's share capital from the City of Mänttä-Vilppula at the beginning of July. After the transaction, the Group owned 66 per cent of the company.

In December, Pihlajalinna increased its ownership in Kolmostien Terveys Oy by acquiring 10 per cent of the company's share capital from the City of Parkano in accordance with Pihlajalinna's commitment. After the transaction, the Group owned 71 per cent of the company.

CONTINGENT CONSIDERATION

The fair value of contingent consideration is determined on the basis of the budget for the 2018 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	2018	2017
Contingent consideration, 1 January	5,418	2,381
Increase in contingent consideration from the acquisition of business operations	110	2,300
Increase in the fair value of contingent consideration during the measurement period	1,192	1,135
Effect of the unwinding of discount	136	103
Contingent consideration paid during the financial year*	-4,044	-500
Contingent consideration, 31 December	2,812	5,418

The treatment of the Mediapu Oy acquisition made in the 2016 financial year has been revised during the measurement period by supplementing the identifiable assets by a non-competition agreement of EUR 1,000 thousand and a deferred tax liability of EUR 200 thousand, and recognising an additional EUR 1,135 thousand in contingent considerations. As a result, goodwill increased by EUR 335 thousand.

* 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	2018	2017
Acquisitions in the financial year, effect on cash flow	36,853	8,429
Contingent consideration paid during the financial year	4,044	500
Total	40,897	8,929

27. SUBSIDIARIES AND MATERIAL NON-CONTROLLING INTERESTS

THE GROUP'S STRUCTURE

The Group had 59 (32) subsidiaries in 2018. Of these subsidiaries, 30 (24) are wholly-owned and 29 (7) are partially owned.

A list of all of the Group's subsidiaries is presented in Note 31 Related party transactions.

In 2018, the Group had 1 associated company and 1 (1) joint operation. In 2017, the Group had 1 joint venture, in which the Group acquired control during the 2018 financial year.

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		
		2018	2017	2018	2017	2018	2017	
Jokilaakson Terveys Oy	Jämsä	10%	49%	298	1,249	573	1,838	
Mäntänvuoren Terveys Oy	Mänttä-Vilppula	19%	34%	923	771	1,497	1,029	
Jämsän Terveys Oy	Jämsä	49%	49%	-177	426	575	752	
Kuusioliinna Terveys Oy	Alavus	49%	49%	2,137	1,977	3,445	2,043	
Kolmostien Terveys Oy	Parkano	19%	29%	114	168	303	288	
Pihlajalinna Erityisasumispalvelut Oy	Hämeenlinna	30%	30%	-122	-38	-153	-32	
Dextra Lapsettomuuslinikka Oy	Helsinki	49%	49%	303		-52	-355	
Pihlajalinna Turku Oy	Turku	15%		-257		-288		
Pihlajalinna Liikuntakeskukset Group	several	30%		68		2,718		
Suomen Yksityiset Hammaslääkärit Group	several	49%		27		642		
Laihian Hyvinvointi Oy	Laihia	19%		3		4		
				3,316	4,553	9,264	5,563	

SUMMARY OF FINANCIAL INFORMATION ON SUBSIDIARIES WITH A MATERIAL NON-CONTROLLING INTEREST

EUR 1,000										
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	Jokilaakson Terveys Oy		Mäntänvuoren Terveys Oy		Jämsän Terveys Oy		Kuusioliinna Terveys Oy		Kolmostien Terveys Oy	
Current assets	8,062	6,087	15,288	8,154	11,588	8,745	20,043	16,150	6,175	4,217
Non-current assets	1,179	1,132	1,179	1,248	490	421	993	722	1,046	1,138
Current liabilities	3,332	3,319	8,217	6,318	10,813	7,561	13,875	12,597	5,612	4,343
Revenue	27,477	26,180	50,418	42,375	73,383	73,587	93,016	91,259	35,445	34,255
Operating profit	3,744	3,146	6,103	2,840	-449	1,101	5,440	5,068	743	731
Profit/loss	2,977	2,548	4,856	2,267	-361	870	4,360	4,034	601	578
Share of profit/loss attributable to owners of the parent	2,679	1,300	3 933	1,496	-184	1,047	2,224	1,898	487	411
Non-controlling interests' share of profit/loss	298	1,249	923	771	-177	-177	2,137	2,137	114	168
Net cash flow from operating activities	3,367	3,088	4,068	3,948	1,972	2,117	4,090	4,633	2,894	2,590
Net cash flow from investing activities	-302	-143	-11,715	-78	-170	-203	-538	-299	-5,249	-221
Net cash flow from financing activities	-1,001	-1,000	-38	-1,901	-1	-1	-1,502	-2,001	-659	-704
of which dividends paid to non-controlling interests	-490	-490		-931			-735	-980	-190	-343

EUR 1,000	2018	2017	2018	2017	2018	2018	2018	2018
	Dextra Lapsettomuus- klinikka Oy		Pihlajalinna Erityisasumis- palvelut Oy		Pihlajalinna Liikunta- keskukset Group	Suomen Yksityiset Hammaslääkärit Group	Pihlajalinna Turku Oy	Laihian Hyvinvointi Oy
Current assets	249	777					2,901	873
Non-current assets	1,141	1,622	684	149	2,093	681	3,354	20
Current liabilities	1,497	3,124	1,334	256	12,010	1,777	5,546	870
Non-current liabilities			650	150	1,033	0	2,380	
Revenue	4,493		1113		14,890	4,619	4,570	1,522
Operating profit	857		-479	-157	499	127	-1,814	25
Profit/loss	618		-405	-126	228	55	-1,716	15
Share of profit/loss attributable to owners of the parent	315		-284	-88	160	28	-1,459	12
Non-controlling interests' share of profit/loss	303		-122	-38	68	27	-257	3
Net cash flow from operating activities	1,237		-914	-234	-192	-164	-3,543	418
Net cash flow from investing activities	-28		-481	-117	-3,120	-1,499	-2,163	-22
Net cash flow from financing activities of which dividends paid to non-controlling interests	-1,763		1,395	351	5,079	1,882	6,066	0

28. 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		2018	2017
Interests in associates	Ullanlinnan Silmälääkärit Oy	23	
Interests in joint ventures	Röntgentutka Oy		3,011
Interests in joint operations		40	40
Total carrying amount		63	3,051

INTERESTS IN ASSOCIATES AND JOINT VENTURES

Name	Main business location	Sector	Holding, %	
			2018	2017
Röntgentutka Oy	Tampere	Imaging		50%
Ullanlinnan Silmälääkärit Oy	Helsinki	Health-care services	37%	

EUR 1,000	Ullanlinnan Silmälääkärit Oy	Röntgentutka Oy
	2018	2017
Current assets	105	2,343
Financial assets included in current assets	78	1,850
Non-current assets	43	883
Current liabilities	46	677
Financial liabilities included in current liabilities		71
Non-current liabilities	30	280
Financial liabilities included in non-current liabilities	30	280
Revenue	421	3,986
Depreciation and amortisation	-9	-290
Operating profit	17	791
Profit/loss	13	631
Interest income		1
Interest expenses	-3	-3
Income tax expenses or income		-157
Associate's net assets	72	2,269
Group's holding	37%	50%
Joint venture's carrying amount in the consolidated statement of financial position	23	3,011

The share of associates' profit is presented under other operating expenses up to the carrying amount of the Group's

investment in their shares. During the financial year 2018, the Group acquired control in Röntgentutka Oy.

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.

29. OPERATING LEASES

GROUP AS LESSEE

The Group has leased almost all of the premises it uses. The lease terms range from a few years to fifteen years, and normally they include the option to extend the lease after the original expiry date. The leases generally include an index clause.

Minimum lease payments under non-cancellable operating leases:

EUR 1,000	2018	2017
Within one year	18,152	8,278
More than one year and a maximum of five years later	52,754	22,752
Over five years later	54,902	19,057
Total	125,807	50,087

The amount of lease liabilities has increased significantly due to acquisitions.

GROUP AS LESSOR

The Group leases out parts of its premises under operating leases. The amount of rental income is not material.

30. CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

EUR 1,000	2018	2017
Collateral given on own behalf		
Pledged collateral notes	1,300	1,300
Sureties	320	3 099

Lawsuits and official proceedings

At the time of the financial statements, the Group had no pending lawsuits or official proceedings.

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 and the Deputy CEO.

THE GROUP'S PARENT COMPANY AND SUBSIDIARY RELATIONSHIPS

The Group's parent company is Pihlajalinna Plc, which owns the entire share capital of Doctagon Ab and all of Pihlajalinna Terveys Oy's Series A shares. Doctagon Ab owns the shares in Impact Care Oy and Pihlajalinna Terveys Oy owns the shares in the other subsidiaries.

COMPANY	Domicile	Holding	% of votes
Parent company Pihlajalinna Plc	Tampere		
Doctagon Ab	Helsinki	100%	100%
Impact Care Oy	Helsinki	100%	100%
Pihlajalinna Terveys Oy	Tampere	100%	100%
Parent company Pihlajalinna Plc	Jämsä	100%	100%
Jokilaakson Terveys Oy	Jämsä	90%	90%
Pihlajalinna Lääkärikeskukset Oy	Helsinki	100%	100%
Mäntänvuoren Terveys Oy	Mänttä-Vilppula	81%	81%
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	81%	81%
Jämsän Terveys Oy	Jämsä	51%	51%
Kuusiolinna Terveys Oy	Alavus	51%	51%
Pihlajalinna Tampere Oy	Tampere	100%	100%
Lääkäriasema DokTori Oy	Lappeenranta	100%	100%
Etelä-Pohjanmaan Sydäntutkimuspalvelu Oy	Seinäjoki	100%	100%
Kompassi Hammaslääkärikeskus Oy	Seinäjoki	100%	100%
Kompassi Lääkärikeskus Oy	Seinäjoki	100%	100%
Ala-Malmin Hammaslääkärit Oy	Helsinki	100%	100%
Mediapu Oy	Oulu	100%	100%
Pihlajalinna Oulu Oy	Oulu	100%	100%
Pihlajalinna Seinäjoki Oy	Seinäjoki	100%	100%
Pihlajalinna Turku Oy	Turku	100%	100%
Pihlajalinna Solutions Oy	Tampere	100%	100%
Pihlajalinna Erityisasumispalvelut Oy	Hämeenlinna	70%	70%
Pihlajalinna Madetojanpuisto Oy	Oulu	100%	100%
Pihlajalinna Parainen Oy	Parainen	100%	100%
Dextra Lapsettomuuskliniikka Oy	Helsinki	51%	51%
Hattulan Hyvinvointi Oy	Hattula	100%	100%
Someron Lääkäriasema Oy	Somero	100%	100%
Salon Lääkäriasema Oy	Salo	100%	100%
Pihlajalinna Kymijoki Oy	Kotka	100%	100%
Linnan Klinikka Oy	Hämeenlinna	100%	100%
Pihlajalinna Liikuntakeskukset Oy	Tampere	70%	70%
Forever Matinkylä Oy	Espoo	70%	70%
Etelä-Karjalan Liikuntakeskus Oy	Lappeenranta	70%	70%
Forever Helsinki Oy	Helsinki	70%	70%
Forever Herttoniemi Oy	Helsinki	70%	70%
Forever Hiekkaharju Oy	Vantaa	70%	70%
Forever Hämeenlinna Oy	Hämeenlinna	70%	70%
Forever Järvenpää Oy	Järvenpää	70%	70%
Forever Lahti Oy	Lahti	70%	70%
Forever Varisto Oy	Vantaa	70%	70%
Keravan Forever Oy	Kerava	70%	70%
Leaf Areena Oy	Turku	70%	70%
Suomen Yksityiset Hammaslääkärit Oy	Tampere	51%	51%
Tampereen Hammaspiste Oy	Tampere	51%	51%
Hammaslääkäripalvelu Savodent Oy	Kuopio	51%	51%
Hammaspirta Oy	Oulu	51%	51%
Paimion Hammaslääkäripalvelu Oy	Paimio	51%	51%
Salon Hammaslääkärikeskus Oy	Salo	51%	51%
Mandipula Raisio Oy	Raisio	51%	51%
Hammaslääkärikeskus Mandipula Oy	Raisio	51%	51%
Laihian Hyvinvointi Oy	Laihia	81%	81%
Anula Oy	Hämeenlinna	100%	100%
Terveyspalvelu Verso Oy	Iisalmi	100%	100%

Information on the associates is presented in Note 28 Interests in associates and joint arrangements.

CHANGES IN GROUP STRUCTURE

The following changes in Group structure took place during the financial year:

Hoivakoti Nestori Oy merged with Ikipihlaja Johanna Oy on 1 May 2018 (sister company merger).

Tampereen Röntgenkonsultit Oy merged with Pihlajalinna Tampere Oy on 30 November 2018 (subsidiary merger).

Röntgentutka Oy merged with Pihlajalinna Tampere Oy on 1 December 2018 (subsidiary merger).

The business operations of Salon Lääkintälaboratorio Oy and Someron Lääkäriasema Oy were sold to Pihlajalinna Turku Oy on 1 October 2018.

The business operations of Doctagon Ab's Helsinki branch were sold to Pihlajalinna Lääkärikeskukset Oy on 31 December 2018.

EMPLOYEE BENEFITS OF MANAGEMENT

EUR 1,000	2018	2017
Salaries and other short-term employee benefits, Management Team	1,465	853
Advisor fees, Mikko Wirén		87
Advisor fees, Leena Niemistö		16
Total	1,465	955

WAGES AND SALARIES

EUR 1,000	2018	2017
CEO Joni Aaltonen (since 11 December 2017)	285	7
CEO Aarne Aktan (until 10 December 2017)		332
Members of the Board of Directors		
Leena Niemistö	44	54
Jari Sundström	36	35
Mikko Wirén	262	212
Seija Turunen	38	35
Jari Eklund (until 5 April 2018)	9	35
Timo Everi	37	34
Matti Bergendahl (since 5 April 2018)	45	
Gunvor Kronman (since 5 April 2018)	28	
Kati Sulin (since 5 April 2018)	29	
Total	811	743

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.

In addition to statutory pension insurance, the Chairman of the Board of Directors has a supplementary defined contribution pension plan.

RELATED PARTY TRANSACTIONS AND RELATED PARTY RECEIVABLES AND LIABILITIES

EUR 1,000	2018	2017
Key management personnel		
Rents paid	982	1,057
Services procured	1,207	1,289
Trade payables	124	64
Associates		
Services sold		9
Services procured	35	1,022
Rents received	20	241
Interest received		88
Dividends received		100
Trade payables		83

The Group has leased several of its business premises from members of the key management personnel, including 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.

The Group's statutory accident insurance policy has been taken out from another related party.

Pihlajalinna Plc's Shareholders' Nomination Board submitted its proposals to the company's Board of Directors, to be presented to the Annual General Meeting of 2019.

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

The Nomination Board proposes to the Annual General Meeting of Pihlajalinna Plc, scheduled to be held on 4 April 2019, that the number of the members of the Board of Directors be confirmed as seven, instead of the current number (eight). The Nomination Board proposes that 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. The Nomination Board further proposes that Mika Manninen, Hannu Juvonen and Matti Jaakola be elected as new members of the Board of Directors.

Mika Manninen (b. 1975, Master of Science in Economics and Business Administration) is a member of Fennia Group's Management Team and is currently the Group CFO. Prior to this, he worked as the Fennia Group's Risk Management Director from 2015 to 2017. Manninen has over 10 years of experience in various positions in banking from 2001 to 2015. Hannu Juvonen (b. 1955, Licentiate of Medicine, Specialist, MBA) was most recently the Director of the Kanta-Häme Hospital District from 2016 to 2018, and has held management positions in the Helsinki Social Services and Health Care Division from 2013 to 2016 and in East Savo Hospital District from 2009 to 2012. He previously worked as the Investment Director of Korona Invest Oy from 2007 to 2009, and as an expert and Community Relations and Communication director at Pfizer Oy from 2000 to 2006. He was a full-time private medical practitioner from 1990 to 2000. In conjunction with his positions he has accumulated experience of holding Board positions in several companies and other organisations.

Matti Jaakola (b. 1955, Master of Science in Economics and Business Administration) has a long track record of holding various marketing and management positions in international and Finnish companies. He is currently the Chairman of the Board of Directors of two Finnish industrial companies and a member of the Board of Directors of a foreign forest industry

company. He has also been a partner of CV Group Oy since 2012 and the CEO of CapWell Oy since 2006. Jaakola has been the CEO of the Georgia-Pacific Corporation in North Europe and of Henkel KgA in the Nordic countries, and has held various management positions in Metsä Group. Jaakola has extensive experience of Board work both in Finland and abroad, and has been involved in the administration of key industry associations.

The personal details of the current members of the Board and details of their positions of trust are available on the company's investor website 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 Board of Directors:

The Shareholders' Nomination Board proposes that the remuneration of the Board of Directors be kept otherwise unchanged, except for a reduction in the remuneration of the Vice-Chairman, 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 2020: 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 the other members of the Board of Directors EUR 24,000 per year. Additionally, the Nomination Board proposes that each member of the Board of Directors be paid an attendance fee of EUR 500 per Board or Committee meeting. Reasonable travel expenses will also be reimbursed to the members of the Board in accordance with the company's travel rules. The above-mentioned proposals will also be included in the notice of the Annual General Meeting, to be published at a later date.

Acquisitions of non-controlling interests:

Pihlajalinna increased its ownership of Kolmostien Terveys Oy by agreeing to buy 15% of the shares in the company at the end of February 2019. Following the transaction, the City of Parkano will own 4% of the company and Pihlajalinna will own 96%.

33. SHARE-BASED INCENTIVE SCHEMES

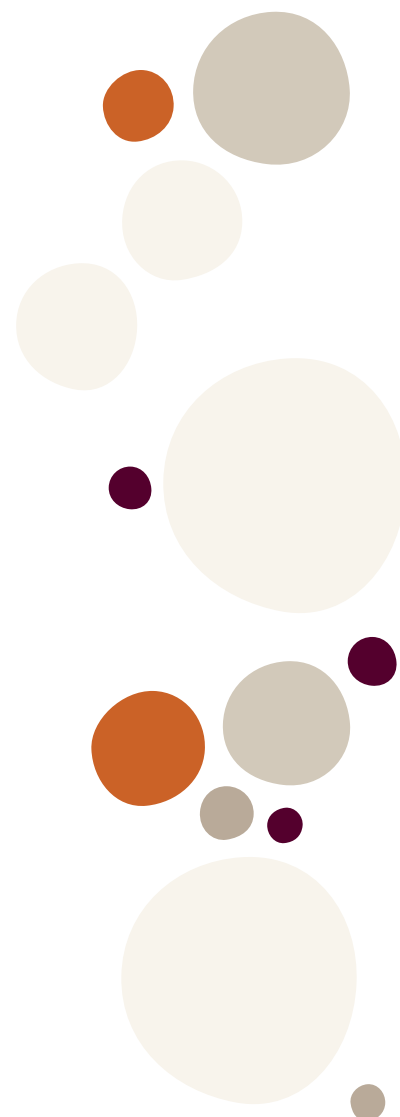
The share-based long-term incentive programme for the company's key employees approved by the Board of Directors of Pihlajalinna Plc on 14 May 2018 became void, as the required level of adjusted operating profit was not achieved. No rewards will be paid under the incentive programme.

A precondition for the payment of share rewards based on the plan was that the actual adjusted operating profit for the calendar year 2018 meet the company's outlook effective on 14 May 2018.

During the financial year, the company did not use any share-based incentive schemes pertaining to the Board of Directors.

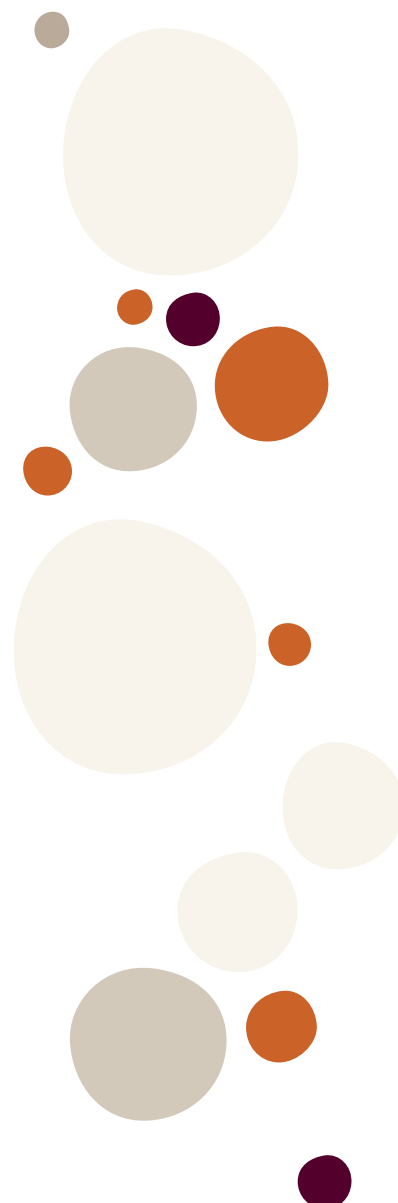
PARENT COMPANY INCOME STATEMENT, FAS

EUR 1,000	Note	1.1.-31.12.2018	1.1.-31.12.2017
REVENUE	1.1.	2,428	1,556
Other operating income	1.2.	304	
Personnel expenses	1.3.	-1,350	-1,749
Depreciation, amortisation and impairment	1.4.	-1,072	-310
Other operating expenses	1.5.	-2,966	-2,000
OPERATING PROFIT (LOSS)		-2,656	-2,503
Financial income and expenses	1.6.	321	20,476
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES		-2,335	17,972
Appropriations	1.7.		
Change in depreciation difference		-501	-13
Group contribution		2,900	4,795
Income taxes	1.8.	-13	-545
PROFIT (LOSS) FOR THE FINANCIAL YEAR		52	22,210



PARENT COMPANY BALANCE SHEET, FAS

EUR 1,000	Note	31.12.2018	31.12.2017
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	2.1.	5,003	2,712
Tangible assets	2.2.	3,015	121
Investments	2.3.	204,485	173,791
		212,504	176,624
CURRENT ASSETS			
Non-current receivables	2.4.	61	61
Current receivables	2.5.	115,308	48,926
Cash and cash equivalents		2,272	21
		117,642	49,008
TOTAL ASSETS		330,145	225,633
EQUITY AND LIABILITIES			
EQUITY			
Share capital	2.6.	80	80
Reserve for invested unrestricted equity		183,190	153,085
Retained earnings		24,126	5,535
Profit/loss for the financial year		52	22,210
		207,448	180,911
Accumulated appropriations	2.7.	514	13
LIABILITIES			
Non-current liabilities	2.8.	93,368	34,037
Current liabilities		28,816	10,672
		122,184	44,709
TOTAL EQUITY AND LIABILITIES		330,145	225,633



PARENT COMPANY CASH FLOW STATEMENT, FAS

EUR 1,000	1.1.-31.12.2018	1.1.-31.12.2017
CASH FLOW FROM OPERATING ACTIVITIES		
Cash receipts from sales	2,639	877
Cash receipts from other operating income	304	
Operating expenses paid	-4,782	-3,988
Operating cash flow before financial income and taxes	-1,839	-3,111
Interest received	2,263	1,251
Taxes paid	-547	-841
Cash flow from operating activities	-123	-2,701
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in tangible and intangible assets	-3,263	-1,453
Investments in subsidiaries	-589	
Dividends received		20,031
Cash flow from investing activities	-3,852	18,578
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings from group companies	19,235	-16,809
Loans granted to Group companies	-67,747	-10,875
Repayment of short-term borrowings	-1,178	
Proceeds from short-term borrowings		835
Proceeds from long-term borrowings	91,000	14,500
Repayment of long-term borrowings	-34,438	-5,034
Group contributions received	4,795	5,176
Interest paid	-1,821	-560
Dividends paid	-3,619	-3,092
Cash flows from financing activities	6,227	-15,858
CHANGE IN CASH AND CASH EQUIVALENTS	2,252	19
Cash at the beginning of the financial year	21	1
Cash at the end of the financial year	2,272	21

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2018

ACCOUNTING POLICIES

Pihlajalinna Plc (2617455-1), domiciled in Tampere, is the parent company of Pihlajalinna Group.

The company was established on 15 April 2014.

VALUATION PRINCIPLES

Valuation of non-current assets

Intangible 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 acquisition cost or at probable fair market value at the balance sheet date, if the estimated future revenue generated is expected to be permanently lower.

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.

Statement regarding unamortised capitalised development costs (Accounting Ordinance 2:4, 1, 3–4)

The company's capitalised product development costs are related to the development of Pihlajalinna mobile application and the company website. The Pihlajalinna mobile application was introduced in financial year 2017 in Pihlajalinna's occupational healthcare accounts and for insurance customers. The mobile application makes it possible to provide a quick and easy AI-assisted remote doctor service via chat and video. Online services support the brand revamp and enable booking and access to personal health information for private customers, insurance customers and occupational healthcare customers. The development of the Pihlajalinna mobile application and online services continued in financial year 2018.

Statement regarding the amortisation period of development costs (5–7 years)

The amortisation period for the Pihlajalinna mobile application is set at seven years to reflect its useful life. The capitalised costs of development projects totalled EUR 1,606 (1,164) thousand in 2018. Unamortised capitalised development costs included in intangible assets, which restricts profit distribution, amounted to EUR 1,281 (1,103) 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	2018	2017
Revenues by sector		
Sale of services	2,428	1,556
	2,428	1,556

1.2. OTHER OPERATING INCOME

EUR 1,000	2018	2017
Lease income from equipment	304	
	304	

1.3. PERSONNEL EXPENSES

EUR 1,000	2018	2017
Wages and salaries	-1,215	-1,516
Pension costs	-127	-210
Other social security expenses	-7	-23
	-1,350	-1,749

1.4. DEPRECIATION AND IMPAIRMENT

EUR 1,000	2018	2017
Depreciation according to plan		
Intangible assets	-741	-286
Property, plant and equipment	-331	-23
	-1,072	-310

1.5. OTHER OPERATING EXPENSES

EUR 1,000	2018	2017
Voluntary social security expenses	-58	-83
Facility expenses	-241	-44
Vehicle expenses	-31	-47
ICT expenses	-1,628	-999
Machinery and equipment expenses	-1	-6
Sales, marketing and travel expenses	-49	-26
Administrative expenses	-958	-796
Other operating expenses, total	-2,966	-2,000
Auditor's fees		
audit fees	-70	-63
auxiliary services	-10	-2
	-80	-65

1.6. FINANCIAL INCOME AND EXPENSES

EUR 1,000	2018	2017
Dividend income		
From Group companies		20,031
Dividend income, total		20,031
Interest income from non-current investments		
From Group companies	2,256	907
From others	0	27
Interest income from noncurrent investments, total	2,256	933
Interest expenses and other financial expenses		
To others	-1,935	-489
Interest expenses and other financial expenses, total	-1,935	-489
Financial income and expenses, total	321	20,476

1.7. APPROPRIATIONS

EUR 1,000	2018	2017
Difference between depreciation according to plan and depreciation in taxation	-501	-13
Group contributions received	2,900	4,795
	2,399	4,782

1.8. INCOME TAXES

EUR 1,000	2018	2017
Change in deferred tax assets		-19
Income taxes on actual operations during the financial year	-13	-526
	-13	-545

NOTES TO THE BALANCE SHEET

2.1. INTANGIBLE ASSETS

EUR 1,000	31.12.2018	31.12.2017
Development costs		
Acquisition cost at the start of the financial year	1,164	
Additions	443	1,164
Acquisition cost at the end of the period	1,607	1,164
Accumulated amortisation according to plan during the financial year	-61	
Amortisation according to plan during the financial year	-264	-61
Carrying amount at the end of the period	1,281	1,103
Other intellectual property rights		
Acquisition cost at the start of the financial year	1,464	1,183
Additions	13	282
Transfers between items	17	
Acquisition cost at the end of the period	1,494	1,464
Accumulated amortisation according to plan during the financial year	-321	-115
Amortisation according to plan during the financial year	-224	-205
Carrying amount at the end of the period	950	1,144
Other long-term expenditures		
Acquisition cost at the start of the financial year	470	
Additions	2,342	470
Transfers between items	15	
Acquisition cost at the end of the period	2,827	470
Accumulated amortisation according to plan during the financial year	-20	
Amortisation according to plan during the financial year	-253	-20
Carrying amount at the end of the period	2,554	451
Prepayments for intangible assets		
Acquisition cost at the beginning	15	
Additions	217	15
Transfers between items	-15	
Acquisition cost at the end of the period	217	15
Intangible assets, total		
Acquisition cost at the start of the financial year	3,114	1,183
Additions	3,015	1,931
Transfers between items	17	0
Acquisition cost at the end of the period	6,146	3,114
Accumulated amortisation according to plan during the financial year	-402	-115
Amortisation according to plan during the financial year	-741	-286
Carrying amount at the end of the period	5,003	2,712

2.2. TANGIBLE ASSETS

EUR 1,000	31.12.2018	31.12.2017
Machinery and equipment		
Acquisition cost at the start of the financial year	144	
Additions	3,242	144
Transfers between items	-19	
Acquisition cost at the end of the period	3,367	144
Accumulated amortisation according to plan during the financial year	-23	
Accumulated depreciation on disposals and transfers	3	
Amortisation according to plan during the financial year	-331	-23
Carrying amount at the end of the period	3,015	121
Property, plant and equipment, total		
Acquisition cost at the start of the financial year	144	
Additions	3,242	144
Transfers between items	-19	
Acquisition cost at the end of the period	3,367	144
Accumulated amortisation according to plan during the financial year	-23	
Accumulated depreciation on disposals and transfers	3	
Amortisation according to plan during the financial year	-331	-23
Carrying amount at the end of the period	3,015	121

2.3. INVESTMENTS

EUR 1,000	31.12.2018	31.12.2017
Shares in subsidiaries		
Acquisition cost at the start of the financial year	173,791	173,791
Additions	30,694	
Acquisition cost at the end of the period	204,485	173,791
Total investments	204,485	173,791

A full list of the Group's subsidiaries is presented in the notes to the consolidated financial statements in Note 31 Related party transactions.

2.4. NON-CURRENT RECEIVABLES

EUR 1,000	31.12.2018	31.12.2017
Receivables from others		
Lease deposits given	61	61
Total non-current receivables	61	61

2.5. CURRENT RECEIVABLES

EUR 1,000	31.12.2018	31.12.2017
Receivables from others		
Other receivables	47	143
Prepayments and accrued income	1,846	985
	1,894	1,128
Receivables from Group companies		
Trade receivables	480	691
Loan receivables	110,018	42,271
Prepayments and accrued income	2,916	4,836
	113,414	47,798
Material items included under Prepayments and accrued income		
Group contribution	2,900	4,795
Accrued direct taxes	850	315
Accrued social security expenses	102	98
Accrued interest income	0	11
Other	910	602
	4,762	5,821
Total current receivables	115,308	48,926

2.6. EQUITY

EUR 1,000	31.12.2018	31.12.2017
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	153,085	153,085
Directed share issue	30,105	
Reserve for invested unrestricted equity at the end	183,190	153,085
Retained earnings at the beginning	27,745	8,627
Dividends paid	-3,619	-3,092
Retained earnings	24,126	5,535
Profit for the financial year	52	22,210
Total unrestricted equity	207,368	180,831
Total equity	207,448	180,911
Distributable unrestricted equity		
Retained earnings	24,126	5,535
Profit for the financial year	52	22,210
Reserve for invested unrestricted equity	183,190	153,085
Capitalised development costs	-1,281	-1,103
	206,087	179,728

2.7. ACCUMULATED APPROPRIATIONS

EUR 1,000	31.12.2018	31.12.2017
Accumulated depreciation difference	514	13

2.8. LIABILITIES

EUR 1,000	31.12.2018	31.12.2017
2.8.1 Non-current liabilities		
Liabilities to others		
Loans from financial institutions	91,000	34,000
Other non-current liabilities	2,368	37
	93,368	34,037
Non-current liabilities, total	93,368	34,037

EUR 1,000	31.12.2018	31.12.2017
2.8.2 Current liabilities		
Liabilities to others		
Loans from financial institutions		1,178
Trade payables	253	301
Other liabilities	793	99
Accrued liabilities	263	402
	1,308	1,980
Liabilities to Group companies		
Trade payables	79	500
Accrued liabilities, interest	1	
Other liabilities	27,427	8,193
	27,507	8,692
Material items included under accrued liabilities		
Personnel expense allocations	92	166
Interest allocations	111	
Other items	61	236
	264	401
Current liabilities, total	28,816	10,672

OTHER NOTES

EUR 1,000	31.12.2018	31.12.2017
Collaterals and contingent liabilities		
Collaterals given on behalf of Group companies		
Other sureties		1,700

Pihlajalinna reorganised its debt financing in the first quarter of the 2018 financial year. A new five-year EUR 120 million unsecured financing arrangement was concluded 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.

At the end of the reporting period, 31 December 2018, the withdrawn loan amount to which the covenants apply was EUR 91.0 million. The maximum value of the leverage covenant is 3.75 and the maximum value of the gearing covenant is 115 %. The closer the Group's leverage covenant is to the maximum value, the higher the loan margin. The Group met the set covenants on 31 December 2018, with the leverage ratio being 2.61 and gearing 69%.

The Group's credit limit agreements valid until further notice, totalling EUR 10 million, remained unchanged. The notice period of the credit limit agreements is one month.

At the end of the financial year, Pihlajalinna had EUR 39.0 million in unused committed credit limits.

EUR 1,000	31.12.2018	31.12.2017
Total amount of lease liabilities		
Within one year		38
Between one and five years		54
Over five years later		
Total amount of lease commitments		
Within one year	147	204
Between one and five years	559	554
Over five years later	478	611

DATES OF AND SIGNATURES TO THE REPORT BY THE BOARD OF DIRECTORS AND THE FINANCIAL STATEMENTS

Helsinki, 14 February 2019

Mikko Wirén
Chairman

Leena Niemistö

Matti Bergendahl

Timo Everi

Seija Turunen

Jari Sundström

Kati Sulin

Gunvor Kronman

Joni Aaltonen
CEO

AUDITOR'S NOTE

A report on the performed audit has been issued today.

Tampere, 14 February 2019

KPMG Oy Ab

Lotta Nurminen
Authorised Public Accountant

AUDITOR'S REPORT TO THE ANNUAL GENERAL MEETING OF PIHLAJALINNA PLC

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

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 2018. 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 provided 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.

THE KEY AUDIT MATTER

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

Goodwill impairment assessment (refer to note 13 to the consolidated financial statements)

- | | |
|---|--|
| <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 a significant amount of goodwill.• 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.• The cash-generating units have changed as a consequence of changes in the company's reporting structure. Thus the assets to be tested have been reallocated to these units which has also required management judgment.• 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. In addition we assessed the reallocation of goodwill and other assets to the cash-generating units in the new reporting structure.• 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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THE KEY AUDIT MATTER**HOW THE MATTER WAS ADDRESSED IN THE AUDIT****Changes in Group structure and their accounting treatment (refer to notes 26, 27 and 28 to the consolidated financial statements)**

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| <ul style="list-style-type: none"> Several changes have taken place in the Group structure in the financial year ended due to business combinations, business combinations achieved in stages as well as subsidiary mergers, dissolutions, establishments and a sale. In addition, changes have taken place in the non-controlling interests due to selling of shares and share issues. In business combinations, the assets and liabilities of the acquiree are measured at fair value at the date of the acquisition which requires management to make estimates. Arrangements may also involve contingent considerations, determination of which also requires management to make estimates on future financial performance of the company, for example. The contingent consideration is measured at fair value at each reporting date. The accounting treatment of changes in control might require the management to remeasure previous share of ownership. Intra-group structural changes require documentation in accordance with the statutes. However, it needs to be ensured that the changes do not affect the consolidated statement of comprehensive income or statement of financial position. Due to the high level of judgement related to the entries recorded resulting from the changes in the Group structure, specific form required for the documentation and the number of changes, the entries and administrative documentation are considered a key audit matter. | <ul style="list-style-type: none"> For business combinations we considered the purchase agreements, evaluated the valuation principles of the assets and liabilities of the acquiree and the underlying assumptions used, as well as assessed the technical accuracy of the purchase price allocations. We also assessed the existence of intangible assets based on the transferred business and goodwill generated in the acquisition. Our audit procedures also included assessing fair values of any additional or contingent considerations for business combinations made in the current and previous financial years. For business combinations achieved in stages we considered the change in control and the appropriateness of the accounting treatment. We involved KPMG valuation specialists that assessed the appropriateness of the valuation principles applied. Regarding intra-group structural changes, we assessed the appropriateness of the administrative documents and continuity in the accounting as well as ensured that the arrangements do not affect the consolidated statement of comprehensive income or statement of financial position. Furthermore, we considered the appropriateness of the Group's disclosures in respect of the changes in the Group structure. |
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Audit of judgmental items from municipality outsourcing contracts (refer to notes 1 and 15 to the consolidated financial statements)

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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. High level of management judgement, which can have a significant impact on the consolidated profit and statement of financial position, is involved in the outsourcing contracts due to the extent of the contracts, definitions of contractual obligations and amendment clauses for changed situations. Possible future changes in the social and healthcare legislation may cause significant changes in the ownership and operations of the companies owned together with municipalities. Due to the complexity of the contracts and the length of the contract term, judgmental items and items requiring juridical interpretation under the municipality outsourcing contracts are considered a key audit matter. | <ul style="list-style-type: none"> Our audit procedures included assessment of the accounting principles applied to judgmental income and expense items. We observed the judgmental items recorded in the consolidated financial statements through discussions with management, analytically and by performing substantive testing from juridical point of view where applicable. 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 and assessed the appropriateness of the audit firm's work from the perspective of the audit of the consolidated financial statements. |
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Revenue recognition (refer to Accounting policies and notes 1 ja 15 to the consolidated financial statements)

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| <ul style="list-style-type: none"> The Group has adopted the new accounting standard IFRS 15 Revenue from Contracts with Customers on 1 January 2018. The consolidated revenue comprises several different services and revenue flows from different customer groups. Fitness centre operations were introduced in the Group during the current financial year. Management judgement may be required to account for terms and conditions in client contracts. Regarding some of the complete outsourcing contracts, at the reporting date the Group may not always be aware of the actual costs which affect the revenue to be recognized. Thus the revenue recognition based on these contracts requires the management to make estimates. Due to the significance of the item, adoption of the new accounting standard IFRS 15 as well as analyses of different contract terms and conditions associated with the choice of a revenue recognition method and high level of management judgement involved, revenue recognition is considered a key audit matter. | <ul style="list-style-type: none"> We assessed the effectiveness of application controls in respect of the main sales software and the related user rights management. We identified and assessed internal controls over invoicing as well as tested their effectiveness. In addition we performed substantive testing and analytical procedures, partly based on data analytics, in order to assess the appropriateness of revenue recognition. The subsidiaries administering the municipality outsourcing contracts are audited by another audit firm which has reported to us upon their audit in accordance with our instructions. In addition we discussed their significant findings with their lead partner and assessed the appropriateness of the audit firm's work from the perspective of the audit of the consolidated financial statements. We discussed with the management the revenue recognition practices applied and decisions involving management judgement which had an impact on revenue recognition. |
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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 4 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 14 February 2019
KPMG OY AB

Lotta Nurminen

Authorised Public Accountant, KHT

Information for shareholders

GENERAL MEETING

The Annual General Meeting of Pihlajalinna Plc will be held in Tampere-talo, Duetto 2 meeting room, located at Yliopistonkatu 55, 33100 Tampere, on Thursday, 4 April 2019 at 11:00 a.m. The reception of participants who have registered for the meeting will commence at 10:00 a.m.

RIGHT TO PARTICIPATE

A shareholder entered in the list of the company's shareholders maintained by Euroclear Finland Ltd on the record date of the General Meeting, 25 March 2019, has the right to participate in the General Meeting.

REGISTRATION

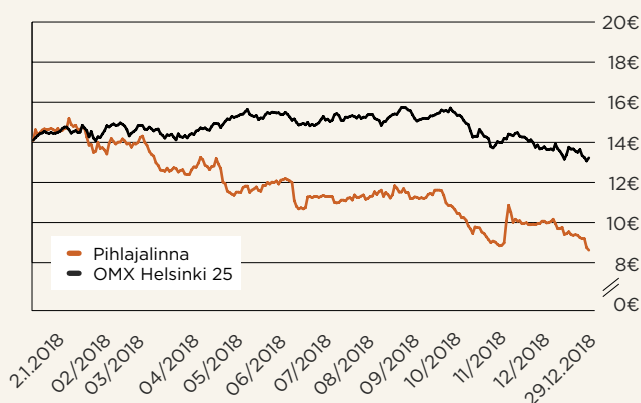
A shareholder who is registered in the shareholders' register of the Company and who wants to participate in the Annual General Meeting, shall register for the meeting no later than 28 March 2019 at 10:00 a.m. Registration for the meeting is possible via the registration link on the website at investors.pihlajalinna.fi, by letter to Pihlajalinna Oyj, Yhtiökokous 2019, Kehräsaari B, 33200 Tampere, by e-mail to yhtiokokous@pihlajalinna.fi or by telephone on +358 (0)20 770 6896 (9 a.m.–4 p.m.).

Any proxies are requested to be delivered as original copies before the end of the registration period to Pihlajalinna Oyj, Yhtiökokous 2019, Kehräsaari B, 33200 Tampere, Finland.

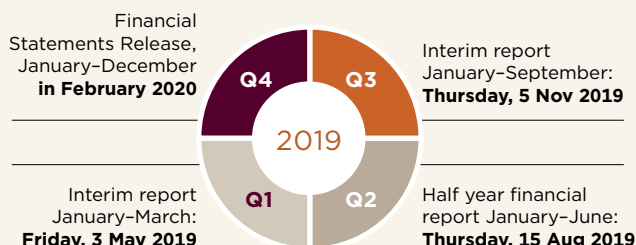
PAYMENT OF DIVIDEND

The Board of Directors proposes that a dividend of EUR 0.10 per share be paid for the financial year that ended on 31 December 2018 based on the adopted statement of financial position. The dividend would be paid to a shareholder who on the dividend record date, 8 April 2019, is registered as a shareholder in the Company's shareholders' register maintained by Euroclear Finland Ltd. The Board of Directors proposes that the dividend be paid on 15 April 2019.

PIHLAJALINNA SHARE PRICE DEVELOPMENT 2018



PIHLAJALINNA'S FINANCIAL REPORTING IN 2019



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.

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

CONTACT DETAILS:

Taina Erkkilä, Director, Communications and Investor Relations, +358 40 457 7897, taina.erkkila@pihlajalinna.fi

Additional information is available in the investor section at investors.pihlajalinna.fi

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