

Pihlajalinna Plc
—
**Corporate
Governance
Statement
2016**

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I Introduction

The Corporate Governance of Pihlajalinna Plc (the Company) is based on effective legislation, the Company's Articles of Association and the rules and regulations applied to companies listed on Nasdaq Helsinki. The Company abides by the Finnish Corporate Governance Code 2015 issued by the Securities Market Association. The Finnish Corporate Governance Code is available on the www.cgfinland.fi/en website maintained by the Securities Market Association.

In 2016, Pihlajalinna departed from Recommendation 1 of the Code concerning the content of the notice of the General Meeting. The notice of the General Meeting issued on 11 March 2016 did not include a proposal for the composition of the Board of Directors. The proposal was not available before the notice of the General Meeting was issued. The Company's largest shareholders, representing approximately 38 per cent of the Company's shares and votes, announced that they would publish the proposal for the composition of the Board of Directors before the General Meeting. The proposal for the composition of the Board of Directors was published on 23 March 2016. In all other respects Pihlajalinna abided by the governance code without exceptions.

This Corporate Governance Statement has been compiled as a separate statement from the annual report and will be published on the Company's website http://investors.pihlajalinna.fi/corporate-governance.aspx?sc_lang=en.

The Audit Committee and the Board of Directors of Pihlajalinna Plc have reviewed this Corporate Governance Statement.

II Corporate Governance

GENERAL MEETING

The General Meeting is Pihlajalinna's highest decision-making body. According to the Company's Articles of Association, the Annual General Meeting is held annually within six (6) months of the end of the financial year. The Annual General Meeting decides on the matters determined by the Limited Liability Companies Act and the Articles of Association. These matters include, among other things, the approval of the Financial Statements, the distribution of profit shown in the Balance Sheet and the election of members of the Board of Directors and the auditor and their remuneration. The Annual General Meeting of Shareholders decides also upon discharge of the Board of Directors and of the CEO from liability.

The Board of Directors is responsible for the invitations to the General Meeting and decides its venue and timing.

According to the Company's Articles of Association, the notice of a General Meeting shall be delivered to shareholders no earlier than three (3) months and no later than three (3) weeks prior to the date of the Meeting, nonetheless no later than nine (9) days prior to the record date of the Meeting. The notice shall be delivered to shareholders by sending the notice by post to their addresses registered in the Company's register of shareholders or by publishing a notice on the website of the Company or on at least one national daily newspaper determined by the Board of Directors. The notice of a General Meeting is published as a stock exchange release and on the Company's website. The Agenda, the proposals of the Board of Directors and other General Meeting material will be available on the Company's website at least three weeks prior to the General Meeting.

A shareholder has the right to have a matter within the remit of a General Meeting, under the Limited Liability Companies Act, to be discussed by the General Meeting if he or she requests this in writing from the Board of Directors by the date announced on the Company website. The date will be announced on the Company's website no later than by the end of the financial year preceding the Annual General Meeting. Any requests by shareholders to have a matter consid-

ered by the Annual General Meeting 2016 were to be delivered to the Company's Board of Directors as instructed on the Company's website and at the latest on Monday, 15 February 2016.

Pihlajalinna Plc's Annual General Meeting was held in Tampere 4 April 2016. The General Meeting was attended by 71 shareholders in person or by proxy. Approximately 56 per cent of the Company's shares and votes were represented in the meeting.

The Company's Chairman of the Board, members of the Board of Directors, the CEO and the Auditor attend the General Meeting. In addition, any candidates for the Board of Directors attend the General Meeting that decides on their election. If one or more members of the Board of Directors cannot attend the General Meeting, the Company informs the General Meeting of their absence at the beginning of the Meeting.

After the General Meeting, its decisions are published in a stock exchange release. The minutes of the General Meeting are published on the Company's website within two weeks of the General Meeting. The documents of the General Meeting must be kept on the Company's website for at least five years from the Meeting.

Pihlajalinna's Articles of Association are available on the Company's website at <http://investors.pihlajalinna.fi/corporate-governance/articles-of-association>. Any amendments to the Articles of Association require the decision of the General Meeting.

BOARD OF DIRECTORS

The composition and election procedure of the Board of Directors

The Board of Directors is elected on an annual basis by the Annual General Meeting. According to the Company's Articles of Association, there are a minimum of four (4) and a maximum of ten (10) members on the Board of Directors. The Board of Directors elects a Chairman from among its members.

The term of office of a member of the Board of Directors begins at the General Meeting where he or she was elected. The term of office of a member of the Board of Directors expires and the term of office of a successor member begins at the close of the General Meeting deciding on the election of the successor member, unless otherwise provided in the Articles of Association or decided when the successor member is elected.

The qualifications and independence of the Board members and the diversity of the Board of Directors

The Board of Directors shall have sufficient and versatile expertise and experience with respect to its duties. In preparing a proposal for the composition of the Board of Directors, attention shall be paid to the requirements placed by the Company's operations and its development stage. A person to be elected to the Board of Directors shall have the qualifications required by the duties and the possibility to devote a sufficient amount of time to the work. The number of the members and the composition of the Board of Directors shall make it possible for the Board of Directors to fulfill its duties in an efficient manner.

For the versatile support and development of the Company's business, the composition of the Company's Board of Directors should be sufficiently diverse. Both genders shall be represented on the Board of Directors. The overall aim of the Board composition is to achieve sufficiently extensive qualifications, expertise and experience. The sufficient diversity of the Board of Directors, including age and gender, as well as educational and professional background, is taken into account in the preparation of a proposal for the composition of the Board of Directors. The aim of the Company is that there are at least two women and at least two men on the Board of Directors.

The proposal for the Board composition is prepared by largest shareholders. In 2016, Sentica, LocalTapiola Group and MWW Yhtiö Oy (Mikko Wirén) participated in the preparation of the proposal for the composition of the Board of Directors. The shareholders who participated in the preparation for the composition of the Board of Directors represented approximately 38 percent of the shares in the Company.

The majority of the members of the Board of Directors must be independent of the Company. In addition, at least two of the members representing this majority shall be independent of major shareholders of the Company. The members of the Board of Directors must provide the Board of Directors with sufficient information for the evaluation of their qualifications and independence as well as inform the Board of Directors about any changes in this information. The members of the Board shall not act as representatives of persons who have proposed them to the Board or who otherwise belong to their interest groups.

The principles regarding the composition of the Board of Directors were realised in the Board of Directors elected in 2016. The Board of Directors has two female board members and four male board members. The members of the Board elected in 2016 represent versatile experience from managerial and board duties. All the members of the Board elected in 2016 hold a master's degree and one of them has a doctoral degree. The members of the Board of Directors have versatile industry-specific, economic and business skills. Their age distribution is from 44 to 63 years. At the end of 2016, the term of all members of the Board had lasted less than five years.

The duties and responsibilities of the Board of Directors are defined in the Limited Liability Companies Act, the Company's Articles of Association and the Charter of the Board of Directors. The Board of Directors conducts an annual evaluation of its operations and working methods and updates its Charter as needed.

Any matters that are far-reaching from the viewpoint of the Company's business shall be considered and decided by the Board of Directors. According to its Charter, the Board of Directors:

- considers and approves the Company's long-term strategic plan and goals;
- approves the Company's business plan, budget and financing plan and monitors their implementation;
- confirms the principles of the Company's internal control and risk management;
- reviews the material risks affecting the Company's operations and their management, and supervises the adequacy, relevance and efficiency of the Company's administrative processes;
- processes and approves business acquisitions and arrangements and other significant decisions, such as large municipal outsourcing;
- elects the CEO and Deputy CEO, releases them from their duties and decides on the terms and conditions of their service;
- confirms, based on the CEO's proposal, the members of the Group's Management Team, the heads of the operating segments and the direct subordinates of the CEO;
- approves the incentive schemes of the CEO and other management and the Company's remuneration principles;
- approves the Company's Corporate Governance Statement;
- confirms the Company's Insider Guidelines and practices relating to related party transactions and monitors compliance with these;
- decides on the Company's disclosure policy and monitors compliance with it.

The members of the Board of Directors are provided with sufficient information of the Group's operations, operating environment and

financial position, and new Board members must be introduced to the Company's operations at the beginning of their term. The Board of Directors is regularly informed of matters considered by Pihlajalinna Group's Management Team, receives profit and loss reports and auditor's reports and regularly (at least once a year) hears the auditor's opinions of the Company's financial situation and its developments.

The Board of Directors convenes regularly. The timing of the Board Meetings will be confirmed in advance for the Board's entire term of office. When necessary, the Board has additional meetings that can be organised as conference calls. At least one of the meetings is a strategy meeting and in at least one meeting the Board meets the Company's auditor.

Members of the Board of Directors in the financial year 2016

The members of the Board of Directors until the Annual General Meeting of 4 April 2016 were: Mika Uotila (Chairman), Aarne Aktan, Martti Ala-Härkönen, Heikki Dunder, Leena Niemistö, Veli-Matti Qvintus, Marjatta Rytömaa and Jari Sundström.

The Annual General Meeting 2016 held on 4 April 2016 decided that the number of members of the Board of Directors shall be six (6) at a time. The following individuals are elected members of the Board of Directors: Aarne Aktan (who announced that he will resign from the Board of Directors when his term as the new CEO of the Company commences), Jari Eklund, Timo Everi, Leena Niemistö, Jari Sundström, Seija Turunen and Mikko Wirén (term began when Mr. Wirén's appointment as the CEO ended).

Mikko Wirén's term of office as a member of the Board of Directors began on 8 August 2016 as he resigned from his position as the Company's CEO. On the same date, Aarne Aktan stepped down from the Board of Directors and assumed his new role as the Company's CEO.

At its organising meeting on 4 April 2016, Pihlajalinna Plc's Board of Directors elected Leena Niemistö as its Chairman and Jari Sundström as its Vice-Chairman. The Board of Directors elected Mikko Wirén as the Chairman of the Board of Directors and Leena Niemistö as the Vice-Chairman starting from 8 August 2016.

During the financial year 2016, the Board of Directors convened 18 times. The average attendance rate during the period was 96%.

Members of the Board of Directors:

Jari Eklund

- Member of the Board since 2016
- M.Sc. (Econ.),
- Finnish citizen, b. 1963
- Independent of the Company
- Principal occupation: Group Director of LocalTapiola Group

Timo Everi

- Member of the Board since 2016
- BBA & eMBA,
- Finnish citizen, b. 1963
- Independent of the Company and its major shareholders
- Principal occupation: Executive Partner at Hasan & Partners

Leena Niemistö

- Member of the Board since 2014
- Vice-Chairman of the Board of Directors since 2016
- D.Med.Sc., Specialist in Physiatrics
- Finnish citizen, b. 1963
- Independent of major shareholders
- Principal occupation: Vice-Chairman of Pihlajalinna Plc's Board of Directors, Senior Adviser

Jari Sundström

- Member of the Board since 2015
- LL.M., trained on the bench,
- Finnish citizen, b. 1960
- Independent of the Company
- Principal occupation: Managing Director of LocalTapiola General Mutual Insurance Company

Seija Turunen

- Member of the Board since 2016
- M.Sc. (Econ.),
- Finnish citizen, b. 1953
- Independent of the Company and its major shareholders
- Principal occupation: Board Professional

Mikko Wirén (starting from 8 August 2016)

- Chairman of the Board of Directors since 2016
- Lic.Med.,
- Finnish citizen, b. 1972
- Principal occupation: Chairman of Pihlajalinna Plc's Board of Directors, Senior Adviser

More information on the members of the Board of Directors on page 22 of the annual report and on Company's website.

Information on remunerations paid to the members of the Board of Directors is presented in section V.

BOARD COMMITTEES

The Board of Directors may appoint committees, management groups and other permanent or temporary bodies to perform duties specified by the Board of Directors. The Board of Directors confirms the charters of the Company's committees and Management Team as well as the guidelines and authorisations of any other bodies appointed by the Board of Directors. The Board of Directors has established from among its members an Audit Committee and a Nomination and Remuneration Committee. These committees have written charters approved by the Board of Directors

Audit Committee

Pihlajalinna Plc's Board of Directors has established from among its members an Audit Committee which monitors the Company's reporting process of financial statements and the efficiency of the Company's internal control, potential internal audit and risk management systems. The Audit Committee also reviews the description of the main features of the internal control and risk management systems in relation to the financial reporting process, which is included in the Company's Corporate Governance Statement, monitors the statutory audit of the financial statements and consolidated financial statements and evaluates the independence of the statutory auditor or audit firm, particularly the provision of related services to the Company. The members of the Audit Committee must have the expertise and experience necessary to perform the responsibilities of the Committee and at least one of the members must have special expertise in accounting, bookkeeping or auditing.

The Audit Committee comprises three to five members who are elected from among the members of the Board of Directors. The majority of the members of the Audit Committee must be independent of the Company, and at least one member must be independent of major shareholders of the Company.

The Board of Directors has confirmed a written Charter for the Audit Committee, according to which the Committee has the following duties, among other things:

- to monitor the reporting process of financial statements;

- to monitor the efficiency of the Company's internal control, potential internal audit and risk management systems;
- to review the description of the main features of the internal control and risk management systems in relation to the financial reporting process, which is included in the Company's Corporate Governance Statement;
- to monitor the statutory audit of the financial statements and consolidated financial statements;
- to evaluate the independence of the statutory auditor or audit firm, particularly the provision of related services to the Company;
- to prepare the proposal for resolution on the election of the auditor;
- to evaluate the effects of exceptional or extensive business transactions.

The Audit Committee regularly provides the Board of Directors with a summary of matters considered by the Committee.

The following individuals acted as the members of the Audit Committee until the Annual General Meeting of 4 April 2016: Mika Uotila (Chairman), Marjatta Rytömaa, Aarne Aktan and Martti Ala-Härkönen. On 4 April 2016, the Board of Directors elected the following individuals as the members of the Audit Committee: Seija Turunen (Chairman), Jari Eklund and Aarne Aktan. Aarne Aktan left the Audit Committee on 10 May 2016 and the Board of Directors elected Leena Niemistö to the Committee in Aarne Aktan's place. As of 10 May 2016, the Audit Committee comprises Seija Turunen (Chairman), Jari Eklund and Leena Niemistö.

During the financial year 2016, the Audit Committee convened five times. The attendance rate of the Committee members was 100%.

Nomination and Remuneration Committee

Pihlajalinna Plc's Board of Directors has established from among its members a Nomination and Remuneration Committee which assists the Board by preparing matters pertaining to the remuneration and nomination of the Company's CEO and other management, as well as the Company's remuneration principles.

The Nomination and Remuneration Committee comprises three to five members who are elected from among the members of the Board of Directors. The majority of the members of the Nomination and Remuneration Committee must be independent of the Company. The CEO or other executives of the Company may not be appointed to the Nomination and Remuneration Committee.

The Board of Directors has confirmed a written Charter for the Nomination and Remuneration Committee, according to which the Committee has the following duties, among other things:

- to prepare matters related to the nomination of the CEO and other management and to look for prospective successors for them;
- to prepare matters related to the remuneration and other financial benefits of the CEO and other management;
- to prepare proposals related to the Company's incentive plans;
- to evaluate the remuneration of the CEO and other management and to ensure the appropriateness of the Company's remuneration systems;
- to answer any questions related to the remuneration report at the General Meeting.

The members of the Nomination and Remuneration Committee until the Annual General Meeting of 4 April 2016 were Aarne Aktan (Chairman), Veli-Matti Qvintus and Marjatta Rytömaa. On 4 April 2016, the Board of Directors elected Leena Niemistö (Chairman), Jari Sundström and Timo Everi as the members of the Nomination and Remuneration

Attendance at Meetings by the Board of Directors and Committee Members

Name	Position	Board Meetings	Audit Committee Meetings	Nomination and Remuneration Committee Meetings
Martti Ala-Härkönen*	Member	4/4	1/1	
Heikki Dunder*	Member	4/4		
Veli-Matti Qvintus*	Member	3/4		2/2
Marjatta Rytömaa*	Member	4/4	1/1	2/2
Mika Uotila*	Chairman until 4 April 2016	4/4	1/1	
Aarne Aktan**	Member	8/10	2/2	0/2***
Leena Niemistö	Vice Chairman (Chairman 4 April–8 August 2016)	18/18	3/3	
Jari Sundström	Member (Vice Chairman 4 April–8 August 2016)	17/18		4/4
Jari Eklund	Member	14/14	4/4	
Timo Everi	Member	14/14		2/2
Seija Turunen	Member	13/14	4/4	
Mikko Wirén	Chairman	8/8		0/2***

* Board member until 4 April 2016

** Board member until 8 August 2016

***Aarne Aktan's ja Mikko Wirén's absences from the Nomination and Remuneration Committee Meetings were due to incapacity reasons.

Committee. On 8 August 2016, the Board of Directors elected Mikko Wirén to the Committee in Leena Niemistö's place. As of 8 August 2016, the Nomination and Remuneration Committee comprises Mikko Wirén (Chairman), Timo Everi and Jari Sundström.

During the financial year 2016, the Nomination and Remuneration Committee convened four times. The attendance rate of the Committee members was 71%.

Direct and indirect Pihlajalinna holdings of the Board of Directors	Number of shares on 31 December 2016
Mikko Wirén (MWW Yhtiö Oy)	2,274,010
Leena Niemistö	703,475
Jari Eklund	-
Timo Everi	-
Seija Turunen	-
Jari Sundström	-

CEO

The Board of Directors appoints the Chief Executive Officer and decides on the terms and conditions of his or her service contract. The CEO is in charge of the Company's operational management and Pihlajalinna Group's business in accordance with the instructions and orders issued by the Board of Directors. The CEO is responsible for ensuring that the Company's accounting practices comply with the law and that the financial matters are handled in a reliable manner. The Management Team assists the CEO in leading the Company's operations. During the financial year 2016, Mikko Wirén acted as the CEO of Pihlajalinna Plc until 8 August 2016 and Aarne Aktan since 8 August 2016.

MANAGEMENT TEAM

Pihlajalinna Group's Management Team assists the CEO in the operative business management. The Management Team prepares and steers the development of the Group's business, processes and joint Group functions and promotes cooperation and the flow of information between the various parts of the organisation. It also prepares the Group's strategic planning and budgeting, monitors the implementation of plans and reporting and prepares acquisitions and other major investments. In addition, the Management Team monitors and evaluates the profitability of the Company's businesses as well as the functioning of its internal control and reporting systems. The Management Team convenes regularly at the invitation of the CEO. The Management Team conducts an annual evaluation of its operations and working methods.

Pihlajalinna Plc changed its Management Team structure and composition on 7 September 2016. Simultaneously, the Group formed an Extended Management Team to support the Management Team. Starting from 7 September 2016, the Management Team comprises five persons: CEO Aarne Aktan who also acts as the EVP of the Private Clinics and Specialised Care segment, Deputy CEO and Head of Group Projects Juha Rautio, CFO Niclas Köhler, SVP of the Primary and Social Care segment Virpi Holmqvist and General Counsel Hanne Keidasto.

The Extended Management Team supports the CEO and the Management Team in major projects and the Group's shared services. In addition to the Management Team members, the Extended Management Team includes the following members: Head of M&A Joni Aaltonen, Head of HR Sanna Hildén, Head of Communications and IR Siri Markula, CIO Tuomas Ojala and Medical Director Kimmo Saarinen.

The Management Team has regular meetings. Since the change in Management Team's structure on 7 September 2016, the Management Team and the Extended Management Team have had regular weekly meetings.

In 2016, the Management Team also had the following members: CEO Mikko Wirén (until 8 August 2016), Deputy CEO Leena Niemistö (until 29 April 2016) and the following individuals until 7 September 2016: COO Joni Aaltonen, Business Director for Public Outsourcings Virpi Holmqvist, SVP responsible for Communications, Marketing and Investor Relations Terhi Kivinen, SVP of the Primary and Social Care segment Juha Rautio, Medical Director Kimmo Saarinen and CIO Tuomas Ojala.

Group's Management Team as of 7 September 2016:

Aarne Aktan

- b. 1973, B.Sc. (Econ.)
- Employed by the Company since 2016
- CEO, EVP, C & S segment

Juha Rautio

- b. 1969, M.Sc. (Admin.)
- Employed by the Company since 2010
- Deputy CEO and Head of Group Projects as of 7 September 2016

Virpi Holmqvist

- b. 1970, M.Sc. (Econ.)
- Employed by the Company since 2015
- SVP, P & S segment

Niclas Köhler

- b. 1966, M.Sc. (Econ.)
- Employed by the Company since 2016
- CFO as of 11 March 2016

Hanne Keidasto

- b. 1976, LL.M.
- Employed by the Company since 2014
- General Counsel

Pihlajalinna holdings of the Management Team	Number of shares on 31 December 2016
Aarne Aktan	5 400
Juha Rautio	57 850
Virpi Holmqvist	28 552
Niclas Köhler	-
Hanne Keidasto	4 170

III INTERNAL CONTROL

The goal of internal control associated with the financial reporting process is to ensure that Pihlajalinna Group's operations are profitable, that decision-making is based on reliable information and sufficient identification of business risks and that the financial reports published by the Company provide materially correct information about the Company's finances. In 2016, Pihlajalinna Group has not had a separate internal audit organisation.

The Group's financial development is monitored monthly with a Group-wide reporting system. The system encompasses actual results, the budget approved by the Board of Directors, monthly forecasts and operational indicators. The Group's Management Team, operating segment management groups and service area management groups analyse the result and deviations, are responsible for budgeting and forecasting, monitor the integration and development of acquisitions made and monitor other investments. The business controller function and financial management analyse and produce financial reports as well as prepare separate analyses for use by the management, the Audit Committee and the Board of Directors.

The Group's finance department provides guidelines on the preparation of financial statements and interim financial statements and prepares the consolidated financial statements. The finance department conducts the Group's asset management in a centralised manner.

Pihlajalinna Group's financial administration has defined and documented control targets and control points related to the financial and payroll administration processes in 2015 (process-specific control catalogues). The appropriateness and effectiveness of control targets and control points are evaluated at least once a year. Internal control observations are analysed and, as a result, guidelines, practices and potentially also control points are updated.

Pihlajalinna has disclosure, risk management and internal control principles that have been confirmed by the Board of Directors. Internal control is conducted by the Board of Directors, the Audit Committee, the operative management and employees, especially financial administration personnel. The Board of Directors may request external auditors or other service providers to perform internal audit assignments when necessary. The realisation of internal control is ensured by paying particular attention to the organisation of operations, the professional competence of the personnel, guidelines, reporting and the scope of auditing.

The CEO, the Management Team members and the directors of the subsidiaries are in charge of ensuring that accounting and administration in the areas they are responsible for comply with the law and that the Group's guidelines are adhered to. The Group's legal department sees to it that the Group's operations comply with the law. The auditors audit the accounting and administration of the parent company and the subsidiaries annually. In all Group companies, auditing is conducted by a firm of authorised public accountants. The auditor of the parent company is responsible for the coordination of audit focus areas, the analysis of audit observations from the point of view of consolidated financial statements and communication with the Group's financial management. The detailed auditing results are reported annually to the Group management, the Audit Committee and the Board of Directors.

IV RISK MANAGEMENT

In risk management, Pihlajalinna's aim is to operate as systematically as possible and incorporate risk management in normal business processes. Furthermore, the Company invests in quality management systems and the management of information security, occupational safety and health risks.

Pihlajalinna's Risk Management Policy defines and categorises the Group's risks and describes the goals of risk management. In addition, it defines risk management principles, operating methods and responsibilities.

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.

In 2017, risk management will be developed by establishing an Enterprise Risk Management process. In monitoring, risks are categorised into

- strategic
- operational
- financial and
- damage risks.

Strategic risks refer to uncertainty related to the implementation of the Group's short-term and long-term strategy. An example is structural changes in society. The role of the private sector as a provider of social and healthcare services as well as structural changes in the public sector have a material impact on the Company's business.

Operational risks are risks that are caused by external factors, technology, personnel's actions, organisation's operations or processes'

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

Financial risks refer to risks that are related to the Group's financial position, such as profitability, financing risk management, the functionality of financing processes and taxation. For instance, changes in tax legislation may have an impact on the Company's business.

Damage risks are related to accidents or other damages 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 Company.

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

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

V OTHER INFORMATION REQUIRED

INSIDER ADMINISTRATION

The Insider Guidelines of Pihlajalinna Plc are based on market abuse regulation, applicable legislation, insider guidelines of the Nasdaq Helsinki Ltd and regulations and guidelines issued by the Financial Supervisory Authority. Pihlajalinna's Board of Directors has confirmed the Insider Guidelines of the Company.

The Company's insider information and the managers' and their closely associated persons' transactions in Company's financial instruments are administered according to applicable legislation and Insider Guidelines of the Company. When necessary, the Company sets up project-specific insider lists on which every person who receives project-specific inside information will be included.

In addition to project-specific insider lists, the Company also maintains a supplementary section of the insider list which includes insiders who have access to all inside information related to the listed company on the basis of their position or duties (permanent insiders). Persons included in a project-specific insider list and the permanent insider list are prohibited from all trading during the project.

The insider lists are not public. The Company's insider lists are maintained in the SIRE register of Euroclear Finland Ltd.

In addition to the insider lists, the Company creates and maintains a list of persons discharging managerial responsibilities and related parties (natural or legal persons) who have the duty to notify their transactions related to Company's financial instruments to the Company and the Financial Supervisory Authority within three business days after the transaction. The Company publishes transactions notified to it with a release within the same time limit. Persons discharging managerial responsibilities imply Pihlajalinna's members of the Board of Directors and members of the Management Team.

Executives at Pihlajalinna and non-executive persons defined by the Company are prohibited from all trading in the Company's securities or related derivatives and other financial instruments on their own account or for the account of a third party during the period of 30 calendar days before the publication of the Company's annual

financial statements, interim report and half year financial report (closed window).

RELATED PARTIES

The purpose of Pihlajalinna Plc's Guidelines on Related Party Transactions is to ensure that any business transactions involving persons belonging to the Company's related parties are made independently and based on market terms. This also applies to business transactions that otherwise may raise suspicions on whether the transaction was made on market terms. The Company assesses and monitors that any related party transactions are overall in the best interests of the Company and that any conflicts of interest are duly taken into account when making decisions on related party transactions. The principles of the Guidelines on Related Party Transactions are observed throughout the Group and in the decision-making concerning all of the Group companies.

Pihlajalinna Plc's related parties include the Group's executives, such as the members, deputy members (if any) and secretary of the Board of Directors, the CEO, Deputy CEO and members of the Management Team, and the aforementioned persons' spouses and common-law spouses and other people living in the same household. In addition, related parties include organisations in which an above-mentioned related party, either alone or together with other related parties, exercises significant influence or control. Related parties also include the Company's subsidiaries, associated companies and joint ventures and their CEOs and Board members, as well as any organisations in which the above-mentioned parties exercise significant influence or control. Furthermore, related parties include the Company's shareholders holding at least 10 per cent of the Company's shares or votes.

Pihlajalinna Plc maintains a related party register of major business transactions between the Company and its related parties, the parties involved and the key terms of such transactions. The information entered in the register is collected annually from the persons belonging to the Company's related parties. In addition, persons considered as the Company's related parties are obliged to notify the Company's related party administration of any related party transactions which are being planned or which have come to their knowledge. Such notification must be made without delay after receiving such information.

The Company's related party register is not public, and any information entered in it will not be disclosed to third parties, with the exception of any authorities and the auditor entitled to receive such information.

Any related party transactions will be processed in accordance with the Guidelines on Related Party Transactions approved by Pihlajalinna's Board of Directors. Any major transactions to be performed with Pihlajalinna's management and its related parties shall always be approved by the Board of Directors.

AUDITORS AND AUDITING

According to Pihlajalinna's Articles of Association, the General Meeting shall elect one (1) auditor that shall be an auditing firm approved by the Central Chamber of Commerce. The Annual General Meeting of 2016 elected KPMG Oy Ab, a firm of authorised public accountants, as the Company's auditor, with Lotta Nurminen, APA, as the principal auditor.

The auditors will annually provide an auditor's report to Pihlajalinna's Annual General Meeting. When the Company's Board of Directors reviews the financial statements, the principal auditor provides a statement on the implementation of the audit and on their audit observations. In determining the scope and content of the audit, the fact that the Company does not have its own internal audit organisation has been taken into account.

During the financial year 2016, Group companies' auditors have included in addition to KPMG Oy Ab BDO and PwC. The following fees have been paid to the auditors (thousand euros):

Auditor's fees, 1,000€	2016	2015
Auditing, BDO ja PwC	127	94
Auditing, KPMG Oy Ab	142	222
Other services, KPMG Oy Ab	26	341
Total	294	657

VI REMUNERATION REPORT

Pihlajalinna's Annual General Meeting decides the remuneration paid to the members of the Board of Directors. The proposal for the remuneration of the Board members is prepared by largest shareholders. In 2016, Sentica, LocalTapiola Group and MWW Yhtiö Oy (Mikko Wirén) participated in the preparation of the proposal for the remuneration of the Board of Directors. The shareholders who participated in the preparation of the proposal for the remuneration of the Board of Directors represented approximately 38 percent of the shares in the Company.

Assisting the Board of Directors, the Nomination and Remuneration Committee prepares the principles applied to the remuneration of the CEO and the Company's other executives.

REMUNERATION OF THE BOARD OF DIRECTORS

Pihlajalinna's Annual General Meeting of 4 April 2016 decided that the following fees shall be paid to the Chairman and other members of the Board of Directors:

Chairman	EUR 3,500/month
Vice Chairman	EUR 2,500/month
Members	EUR 2,000/month

In addition, the Chairman and other members shall be paid a meeting fee of EUR 500 for each Board meeting. The Chairmen and members of the Board Committees shall be paid a meeting fee of EUR 500 for each Committee meeting. For travel in Finland and abroad, per diem allowances are paid in accordance with the State Travel Regulations. In 2016, the fees paid to Pihlajalinna Plc's Board members for Board and Committee work totalled EUR 320,500 (2015: EUR 220,500). This amount consists of monthly and meeting fees related to Pihlajalinna Plc's Board of Directors and its Committees.

The Company does not use any share-based incentive schemes for members of the Board of Directors.

After the termination of their employment/service, Mikko Wirén, the Chairman of the Board of Directors, and Leena Niemistö, the Vice-Chairman of the Board of Directors, have acted as the Company's advisers. The fees paid for this in the financial year 2016 amount to EUR 116,061 for Mikko Wirén and EUR 123,765 for Leena Niemistö. Leena Niemistö has also been paid EUR 63,318.10 for her work as Deputy CEO and EVP of Private Clinics and Specialized Care segment for the time period of 1 January–29 April 2016.

REMUNERATION OF THE CEO

The Company's Board of Directors elects the CEO and Deputy CEO and decides on the terms and conditions of their service.

The CEO's salary and other taxable benefits paid to Mikko Wirén (CEO until 8 August 2016) for the financial year 2016 were EUR 194,652 on 31 December 2016 (EUR 294,616), consisting entirely of

Remunerations paid to the Board of Directors in 2016, EUR

Name	Position	Board Members fixed monthly remuneration fees	Board Members meeting remuneration fees	Audit Committee remuneration fees	Nomination and Remuneration Committee remuneration fees	Total
Martti Ala-Härkönen*	Member	6,000	12,000	1,500		19,500
Heikki Dunder*	Member	6,000	12,000			18,000
Veli-Matti Qvintus*	Member	6,000	11,000		1,000	18,000
Marjatta Rytömaa*	Member	6,000	11,000	1,500	1,000	19,500
Mika Uotila*	Chairman until 4 April 2016	6,000	11,000	1,500		18,500
Aarne Aktan**	Member	14,000	14,000	2,000	0	30,000
Leena Niemistö***	Vice Chairman (Chairman 4 April–8 August 2016)	32,500	19,000	1,500		53,000
Jari Sundström***	Member (Vice Chairman 4 April–8 August 2016)	26,000	16,000		1,000	43,000
Jari Eklund	Member	18,000	7,000	2,000		27,000
Timo Everi	Member	18,000	7,000		1,000	26,000
Seija Turunen	Member	18,000	6,500	2,000		26,500
Mikko Wirén	Chairman	17,500	4,000		0	21,500
Yhteensä		174,000	130,500	12,000	4,000	320,500

* Board member until 4 April 2016

** Board member until 8 August 2016. Aarne Aktan has also been paid for his work as Pihlajalinna's Business Director and CEO.

* ** *** Board of Directors' monthly and meeting fees also include the Q4/2015 fees.

a fixed monthly salary. Mikko Wirén does not participate in any effective share-based option schemes or other incentive schemes.

In 2016, the Management Team's statutory and additional pension costs were EUR 251,708.

The CEO's salary and other taxable benefits paid to Aarne Aktan (CEO as of 8 August 2016) for the financial year 2016 were EUR 126,835 on 31 December 2016.

In addition to the overall monthly salary, the CEO participates in a long-term share-based incentive scheme for the years 2016–2018. There are three earnings periods in the incentive scheme, each equivalent to one full calendar year: 1 January 2016–31 December 2016, 1 January 2017–31 December 2017 and 1 January 2018–31 December 2018. The earnings criteria of the share-based incentive scheme have been connected to the profitability development of the Company's business operations. The amount of any share compensation paid to the CEO is conditional on achieving the targets set on the earnings criteria.

The maximum total incentive paid to the CEO consists of Company shares and a monetary contribution. Based on the incentive scheme, the CEO can be granted a maximum of 37,500 shares (gross amount before applicable taxes) as a compensation. The possible share compensation will be paid to the CEO after the financial statements of each earnings period (financial year) have been confirmed, in 2017, 2018 and 2019. A transfer restriction applies to incentive scheme shares during the commitment period. The commitment period begins when the compensation is paid and ends two years after the compensation payment date. The CEO did not earn any share-based incentive compensation for 2016.

CEO Aarne Aktan's director agreement can be terminated by each party with a six-month (6) notice period. During the notice period, the CEO is entitled to the salary or, upon the Company's discretion, to a corresponding one-time monetary compensation, including holiday pay; however, he or she is not entitled to any share-based incentive compensation for the financial year during which the termination comes into effect. If the service terminates due to the Company's change of control, the CEO shall be paid, in addition to the salary for

the notice period, a one-time payment EUR 400,000 related to the termination of the service contract.

Aarne Aktan is committed to a fifteen-month (15) non-competition and non-solicitation period, and in case it is breached, the CEO shall be obligated to pay the Company a compensation corresponding to his salary for twelve (12) months. If the loss or damage caused to the Company exceeds the contractual penalty mentioned above, the CEO must compensate for the loss or damage in its entirety. The agreement will expire at the latest when Aarne Aktan retires. The CEO's retirement age is decreed by the law.

REMUNERATION OF THE MANAGEMENT TEAM

The Board of Directors confirms the salaries and other benefits of the members of the Management Team on the basis of the CEO's proposal and decides on the remuneration principles for other executives.

The notice period for the members of the Management Team is three or six months, and they are entitled to the salary for the notice period. In addition, the members of the Management Team have non-competition and non-solicitation commitments for certain periods, during which a compensation may be paid. With the exception of the CEO, the Company has no effective share-based option schemes or other incentive schemes for other management.

The salary and other taxable benefits paid to the other Management Team for the financial year that ended on 31 December 2016 were approximately EUR 1,142,964 (2015: EUR 910,801). The remuneration paid consists of a fixed monthly salary and fringe benefits.