

Pihlajalinna

FINANCIAL STATEMENTS RELEASE

1 January–31 December 2020



Profitability and revenue developed favourably

The figures in this financial statements release are unaudited. The comparison figures in brackets refer to the corresponding period in the previous year.

A brief look at October–December:

- Revenue amounted to EUR 137.2 (133.8) million – an increase of 2.6%
- Adjusted EBITDA was EUR 15.7 (14.4) million – an increase of 9.0%
- Adjusted EBIT was EUR 7.3 (5.6) million – an increase of 31.2%
- IFRS 3 costs and amortisation related to M&A had a negative effect of EUR 0.8 (1.4) million on operating profit
- Earnings per share (EPS) was EUR 0.15 (0.16)
- Although the demand for healthcare services is returning to normal, the customer volumes of Pihlajalinna's private clinic locations were approximately 10 per cent lower than in the comparison period.
- COVID-19 testing volumes increased by 67 per cent compared to the previous quarter as the second wave of COVID-19 continued.

A brief look at January–December:

- Revenue amounted to EUR 508.7 (518.6) million – a decrease of 1.9%
- Adjusted EBITDA was EUR 54.6 (55.1) million – a decrease of 0.9%
- Adjusted EBIT was EUR 20.8 (20.8) million – a decrease of 0.2%
- IFRS 3 costs and amortisation related to M&A had a negative effect of EUR 3.2 (5.2) million on operating profit
- Earnings per share (EPS) was EUR 0.39 (0.15)
- Pihlajalinna won a public bidding competition for the sale of Työterveys Virta Oy's entire share capital and occupational healthcare services. Pihlajalinna's position in North Ostrobothnia will be significantly strengthened by the acquisition. The municipalities in the region will make decisions on selling the shares in January–February 2021.
- In early 2021, the company won a significant proportion of a competitive bidding process for the outpatient clinic, surgery and inpatient services of the Northern Ostrobothnia Hospital District.
- Pihlajalinna is the public sector's largest partner in the early stages of COVID-19 vaccinations.

	10– 12/2020 3 months	10– 12/2019 3 months	2020 12 months	2019 12 months
INCOME STATEMENT				
Revenue, EUR million	137.2	133.8	508.7	518.6
EBITDA, EUR million	15.1	12.3	52.4	47.8
EBITDA, %	11.0	9.2	10.3	9.2
Adjusted EBITDA, EUR million*	15.7	14.4	54.6	55.1
Adjusted EBITDA, %*	11.5	10.8	10.7	10.6
Operating profit (EBIT), EUR million	6.8	3.7	18.2	10.2
Operating profit, %	4.9	2.7	3.6	2.0
Adjusted operating profit (EBIT), EUR million*	7.3	5.6	20.8	20.8
Adjusted operating profit, %*	5.3	4.2	4.1	4.0
Profit before tax (EBT), EUR million	5.7	2.7	13.8	6.3
SHARE-RELATED INFORMATION				
Earnings per share (EPS), EUR	0.15	0.16	0.39	0.15
Equity per share, EUR			4.85	4.47
Dividend per share, EUR (the Board of Directors' proposal)			0.20	
OTHER KEY FIGURES				
Return on capital employed (ROCE), %			5.7	3.1

Return on equity (ROE), %			8.1	3.8
Equity ratio, %			26.1	24.3
Gearing, %			169.4	181.7
Interest-bearing net debt, EUR million			194.8	192.7
Net debt/adjusted EBITDA, 12 months*			3.6	3.5
Gross investments, EUR million**	5.6	13.1	25.7	44.1
Cash flow from operating activities, EUR million	18.6	19.8	47.2	36.8
Cash flow after investments, EUR million	16.7	15.4	42.8	17.4
Average number of personnel (FTE)			4,308	4,515
Personnel at the end of the period (NOE)			5,995	5,815

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

EBITDA adjustments amounted to EUR 0.6 (2.1) million for the quarter and EUR 2.2 (7.3) million for the financial year. Adjustments to operating profit amounted to EUR 0.5 (1.9) million for the quarter and EUR 2.6 (10.6) million for the financial year.

** Assets acquired via leases are regarded as equal to assets acquired by the Group itself, meaning that right-of-use assets pursuant to IFRS 16 are included in gross investments.

Pihlajalinna's outlook for 2021

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

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

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

Joni Aaltonen, CEO of Pihlajalinna:

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

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

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

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

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

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

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

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

Revenue by 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 2020

EUR million	10–12/2020	%	10–12/2019	%	change	change %
Southern Finland	34.1	22	31.1	21	3.0	9.7
Mid-Finland	83.6	54	82.5	56	1.1	1.3
Ostrobothnia	29.9	19	30.0	20	-0.1	-0.5
Northern Finland	5.1	3	3.9	3	1.2	31.2
Other operations	2.8	2	1.9	1	0.9	46.7
Intra-Group sales	-18.4		-15.8		-2.6	
Total consolidated revenue	137.2	100	133.8	101	3.4	2.6

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

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

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

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

January–December 2020

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

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

caused by the COVID-19 epidemic. Revenue from occupational healthcare services grew by 16 per cent thanks to COVID-19 testing, the growth of the customer base and the higher share of fixed-price agreements. The total revenue from COVID-19 testing in the area came to EUR 6.2 million.

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

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

Revenue for Northern Finland amounted to EUR 16.2 (14.7) million, an increase of EUR 1.5 million, or 10.0 per cent. Revenue from occupational healthcare services grew by 15 per cent due to COVID-19 testing and the growth of the customer base. The revenue of dental care services decreased by 25 per cent due to the reduction in demand caused by the COVID-19 epidemic. The total revenue from COVID-19 testing in the area came to EUR 1.4 million.

Revenue by customer group

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

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

October–December 2020

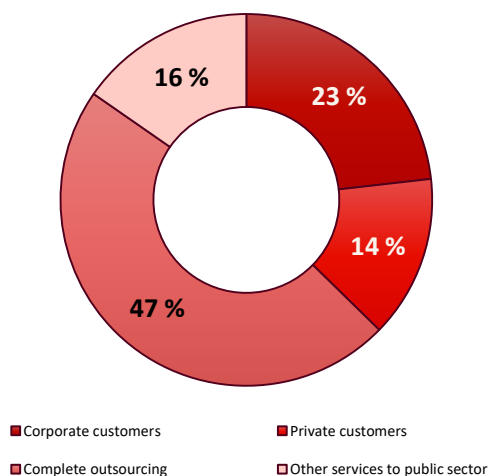
EUR million	10– 12/2020	%	10– 12/2019	%	change	change %
Corporate customers	36.1	23	31.9	21	4.2	13.0
of which insurance company customers	8.6	6	7.9	5	0.7	8.2
Private customers	22.0	14	24.9	17	-2.9	-11.8
Public sector	97.5	63	92.7	62	4.8	5.2
of which complete outsourcing	73.7	47	72.5	48	1.2	1.6
of which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

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

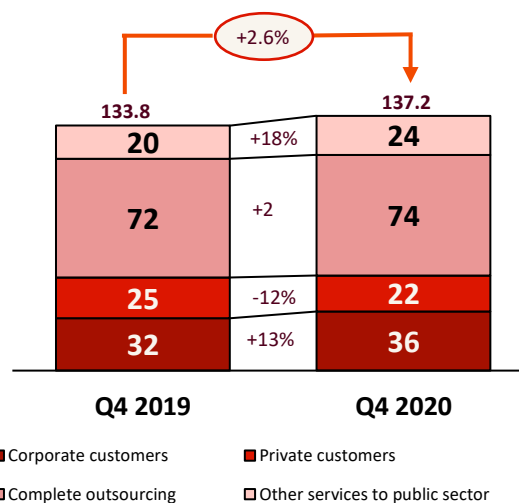
Revenue from private customers was EUR 22.0 (24.9) million, a decrease of EUR 2.9 million, or 11.8 per cent. The decline in customer volumes caused by the COVID-19 epidemic reduced the revenue of fitness centres by 26 per cent, or EUR 1.1 million. Among private customers, the demand for private clinic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

Revenue from the public sector amounted to EUR 97.5 (92.7) million, an increase of EUR 4.8 million, or 5.2 per cent. COVID-19 testing as a partner to the public sector increased revenue by EUR 3.5 million. The annual price adjustments of complete outsourcing agreements increased revenue. Demand increased for public sector occupational healthcare services, responsible doctor services and special housing services. The expiration of the healthcare service agreement with Hattula as well as agreements concerning reception centre operations contributed to the decrease in revenue. The COVID-19-related costs, like COVID-19 testing, of complete outsourcing agreements for social and healthcare services do not increase Pihlajalinna's revenue, as they are treated as cost compensation under the agreements.

REVENUE BY CUSTOMER GROUP
Q4 2020, %



REVENUE BY CUSTOMER GROUP,
EUR MILLION



January–December 2020

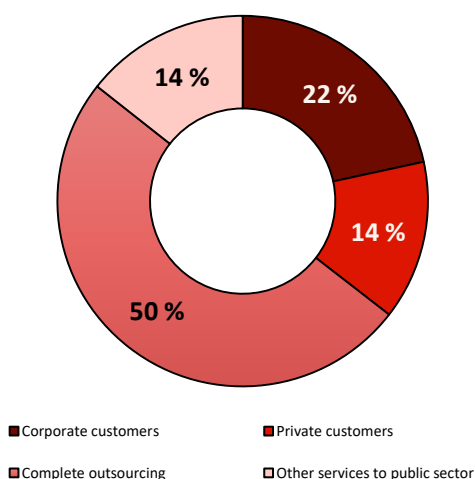
EUR million	2020	%	2019	%	change	change %
Corporate customers	124.0	22	118.8	20	5.3	4.4
of which insurance company customers	29.8	5	27.6	5	2.2	8.1
Private customers	79.8	14	97.8	17	-18.0	-18.4
Public sector	370.5	65	363.8	63	6.6	1.8
of which complete outsourcing	287.9	50	285.5	49	2.4	0.8
of which staffing	22.9	4	23.6	4	-0.7	-3.0
of which occupational healthcare and other services	59.7	10	54.7	9	5.0	9.1
Intra-Group sales	-65.6		-61.8		-3.8	
Total consolidated revenue	508.7	100	518.6	100	-9.8	-1.9

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

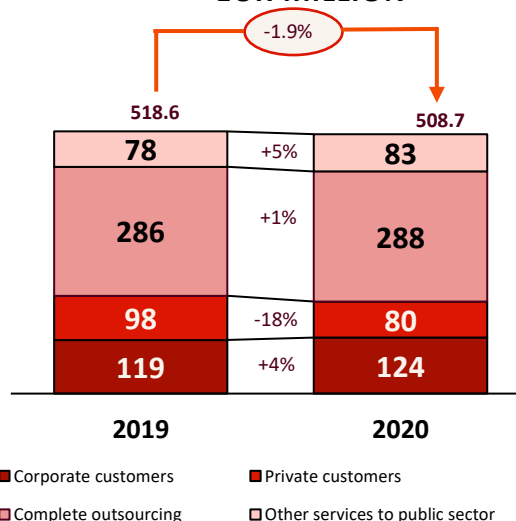
Revenue from private customers was EUR 79.8 (97.8) million, a decrease of EUR 18.0 million, or 18.4 per cent. The demand for private clinic services by self-paying private customers declined due to the coronavirus epidemic by EUR 7.0 million, or 15 per cent. Pihlajalinna's Forever fitness centres were closed entirely for six weeks in mid-March in accordance with the recommendations of the Finnish Government. Operations continued on a very limited basis at the beginning of May. All group exercise activities, for example, were suspended entirely until 31 July 2020. The opening hours of fitness centres only returned to normal on 1 August 2020 and service production was restricted until the end of the year. Fitness centre revenue declined by EUR 6.7 million, or 36 per cent. The demand for dental care services declined by EUR 4.0 million, or 21 per cent. The volume of surgical services for private customers declined due to the COVID-19 restrictions and the COVID-19 situation by EUR 0.8 million, or 12 per cent. Revenue from COVID-19 testing came to EUR 1.0 million. Demand for fertility treatments and remote consultations grew.

Revenue from the public sector amounted to EUR 370.5 (363.8) million, an increase of EUR 6.6 million, or 1.8 per cent. COVID-19 testing as a partner to the public sector increased revenue by EUR 4.6 million. The demand for public sector occupational healthcare services grew by EUR 2.0 million, or 16 per cent. Demand grew by 8 per cent for responsible doctor services and by 35 per cent for public surgical operations. The expiration of the healthcare service agreement with Hattula as well as agreements concerning reception centre operations contributed to the decrease in revenue. The demand for staffing services decreased. Complete outsourcing agreements for social and healthcare services account for approximately half of Pihlajalinna's total revenue. Revenue remained stable in spite of the coronavirus situation thanks to the steady recognition of revenue from complete outsourcing agreements and annual price adjustments. The COVID-19-related costs, like COVID-19 testing, of complete outsourcing agreements for social and healthcare services do not increase Pihlajalinna's revenue, as they are treated as cost compensation under the agreements.

**REVENUE BY CUSTOMER GROUP
2020, %**



**REVENUE BY CUSTOMER GROUP,
EUR MILLION**



Seasonal variation

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

Consolidated revenue and result

October–December 2020

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

COVID-19 testing increased revenue by EUR 7.3 million. COVID-19 vaccinations as a partner to the public sector began. Revenue from remote services grew particularly in chat and video appointments. Revenue

was reduced by the expiration of agreements in staffing services, healthcare services in Hattula and reception centre operations. The member volumes of fitness centres and the demand for private clinic services and dental care services by private customers have not recovered to the levels seen before the COVID-19 epidemic.

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

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

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

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

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

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

January–December 2020

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

Pihlajalinna's Forever fitness centres were closed entirely for six weeks in mid-March in accordance with the recommendations of the Finnish Government. The opening hours of fitness centres only returned to

normal on 1 August 2020 and service production was restricted until the end of the year. Fitness centre revenue declined by EUR 6.7 million, or 36 per cent. The COVID-19 epidemic and the related restrictions also significantly reduced the demand for dental care services and private clinic services. In addition, revenue was reduced by the expiration of agreements in staffing services, healthcare services in Hattula and reception centre operations. COVID-19 testing increased the revenue by EUR 11.4 million. In the year 2020, approximately 44 percent of all customer appointments took place in remote services. The figure does not take into account the total number of customer appointments in Pihlajalinna's outsourcings.

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

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

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

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

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

Pihlajalinna's revenue from public specialised care included in fixed-term complete outsourcings of social and healthcare services was EUR 89.6 (88.2) million. The EBITDA of public specialised care amounted to EUR 0.2 (3.7) million and the operating result amounted to EUR 0.0 (3.5) million. The cost accumulation of public specialised care involves random fluctuation. Individual cases falling within the scope of the hospital

districts' pooling system for high-cost care and possible variable elements of compensation may influence the costs of specialised care considerably during the financial year, and between financial periods, in Pihlajalinna's municipal companies.

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

The operating environment

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

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

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

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

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

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

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

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

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

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

Consolidated statement of financial position and cash flow

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

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

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

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

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

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

Net cash flow from financing activities during the financial year totalled EUR -56.5 (-26.7) million. The change in financial liabilities, including changes in credit limits, amounted to EUR -12.2 (7.7) million. Payments for financial lease liabilities amounted to EUR -20.6 (-22.7) million, and interest paid and other financial expenses amounted to EUR -4.5 (-3.8) million. The net effect of the change in non-controlling interests on cash flow was EUR -18.3 (-1.3) million. In January 2020, Pihlajalinna paid EUR 16.3 million in total for shares in KuusioLinna Terveys to the municipalities of Alavus, Ähtäri and Soini as well as EUR 2.0 million to the city of Mänttä-Vilppula for shares in Mäntänvuoren Terveys. A total of EUR 0.2 (4.4) million in dividends was paid to non-controlling interests. Pihlajalinna Plc did not pay dividends for the financial year 2019. The Group has acquired its own shares for its incentive scheme in the amount of EUR 0.7 (0.0) million.

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

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

Financing arrangements

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

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

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

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

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

Capital expenditure

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

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

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

Complete and partial outsourcing agreements

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

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

Complete and partial outsourcing	10-12/2020 3 months	10-12/2019 3 months	2020 12 months	2019 12 months
INCOME STATEMENT				
Revenue, EUR million	66.9	66.5	264.2	262.4
EBITDA, EUR million	1.4	2.1	11.0	15.3
EBITDA, %	2.0	3.1	4.2	5.8
Adjusted EBITDA, EUR million*	1.4	3.9	11.0	17.5
Adjusted EBITDA, %*	11.5	10.8	10.7	10.6
Operating profit (EBIT), EUR million	0.7	1.5	8.2	13.0
Operating profit, %	1.0	2.2	3.1	4.9
Adjusted operating profit (EBIT), EUR million*	0.7	3.3	8.2	15.1
Adjusted operating profit, %*	5.3	4.2	4.1	4.0
Profit before tax (EBT), EUR million	0.6	1.5	8.1	12.8

Changes in Group structure

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

Research and development

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

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

Personnel

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

Management Team

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

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

Board of Directors

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

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

Shareholders' Nomination Board

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

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

Committees nominated by the Board

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

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

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

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

Remuneration of the members of the Board of Directors

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

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

Board authorisations

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

The Annual General Meeting also authorised the Board of Directors to decide on a share issue and other special rights conferring an entitlement to shares under Chapter 10, Section 1 of the Limited Liability Companies Act. The amount of shares to be issued cannot exceed 3,091,971 shares, which corresponds to 14% of all the shares in the group. The authorisation concerns both the issuance of new shares and the sale or transfer of the Group's own shares. The authorisation permits a targeted share issue. The authorisation is effective until the next Annual General Meeting, or until 30 June 2021 at the latest.

Auditors and auditing

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

Shares and shareholders

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

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

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

* average rate weighted by trading level

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

On 5 November 2019, Mehiläinen Yhtiöt Oy and Pihlajalinna Plc entered into a combination agreement, pursuant to which Mehiläinen made a voluntary recommended public cash tender offer for all issued and outstanding shares in Pihlajalinna. The offer period commenced on 9 January 2020 at 9:30 a.m. (Finnish time) and it expired on 20 November 2020 at 4:00 p.m. (Finnish time).

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

Risk management

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

Pihlajalinna sharpened its management system in response to the coronavirus epidemic. The Group Management Team actively monitors the epidemiological situation and operational indicators and assesses what measures are necessary. The Medical Management Team meets weekly and issues instructions to the Group's units in accordance with the guidelines and policies issued by the national and regional authorities.

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

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

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

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

Operational risks are risks that are caused by external factors, technology, actions of employees, the operations of the organisation or the functionality of processes. These risks are managed by, for instance, monitoring the competitive situation systematically and reacting to its changes.

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

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

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

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

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

Risks and uncertainties in business operations

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

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

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

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

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

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

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

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

The City of Jämsä has taken legal action against Jämsän Terveys Oy regarding a matter concerning the price adjustment provision in the service agreement. The difference in views regarding whether the fixed annual price for social and healthcare services can decrease due to price adjustments amounted to approximately EUR 2.6 million at the end of the financial year. The District Court has postponed the hearing of the main case due to Jämsän Terveys possibly being in the process of bringing an additional counterclaim against the City of Jämsä. The additional counterclaim concerns the effect of changes in the services under the service agreement on price and the service provider's liability for financing investments by the Pirkanmaa Hospital District insofar as such investments serve operations after the term of the service agreement. The service provider is entitled to price adjustments corresponding to increases in costs and the contractual parties are under an obligation to negotiate and try to reach an agreement. In its counterclaim, Jämsän Terveys claims a total of approximately EUR 15 million from the City of Jämsä. The total amount of variable compensation under the potential counterclaim that Jämsän Terveys has recognised as revenue and recorded in its receivables amounts to EUR 3.4 (3.2) million.

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

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

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

Pending legal processes:

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

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

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

Impairment testing of goodwill

At the end of the review period, goodwill on Pihlajalinna's statement of financial position amounted to EUR 173.6 (173.6) million. Pihlajalinna checks annually and, if necessary, quarterly, that the carrying amount of

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

Flagging notifications

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

Current incentive schemes

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

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

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

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

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

Repurchasing own shares for the incentive programme

The Board of Directors of Pihlajalinna Plc decided on 20 March 2020 to start repurchasing the company's own shares on the basis of the authorisation given by the Annual General Meeting on 4 April 2019. The shares were acquired for use as part of the company's incentive programme in public trading on Nasdaq Helsinki Ltd at the market price prevailing at the time of purchase.

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

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

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

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

Calculation of the parent company's distributable funds:

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

On the balance sheet date, the number of shares entitling their holder to dividend was 22,617,841, and consequently, the total dividend amount would be EUR 4,523,568.20. No material changes have taken place in the company's financial position after the end of the financial year. The company's liquidity position is good and, in the view of the Board of Directors, the proposed distribution does not jeopardise the company's ability to fulfil its obligations. While determining the proposal for profit distribution, The Board of Directors has also taken into consideration the impact of the repurchase of own shares after the financial year on the distributable funds.

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

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

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

Events after the financial year

Acquisition of Työterveys Virta Oy

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

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

Repurchase of own shares

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

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

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

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

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

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

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

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

Remuneration of the members of the Board of Directors

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

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

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

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

Consolidated statement of comprehensive income

EUR million	10– 12/2020 3 months	10– 12/2019 3 months	2020	2019
Revenue	137.2	133.8	508.7	518.6
Other operating income	0.5	0.7	2.4	1.6
Materials and services	-53.5	-53.9	-198.0	-200.2
Employee benefit expenses	-55.5	-55.0	-214.2	-222.0
Other operating expenses	-13.5	-13.3	-46.4	-50.2
Share of profit in associated companies and joint ventures	0.0	0.0	0.0	0.0
EBITDA	15.1	12.3	52.4	47.8
Depreciation, amortisation and impairment	-8.4	-8.6	-34.3	-37.7
Operating profit (EBIT)	6.8	3.7	18.2	10.2
Financial income	0.1	0.0	0.2	0.1
Financial expenses	-1.1	-1.0	-4.6	-4.0
Profit before taxes	5.7	2.7	13.8	6.3
Income tax	-2.8	-0.6	-4.8	-1.8
Profit for the period*	3.0	2.1	8.9	4.5
Total comprehensive income for the period	3.0	2.1	8.9	4.5
Total comprehensive income for the period attributable:				
To the owners of the parent company	3.4	3.7	8.7	3.4
To non-controlling interests	-0.4	-1.6	0.2	1.1
Earnings per share calculated on the basis of the result for the period attributable to the owners of the parent company (EUR)				
Basic	0.15	0.16	0.39	0.15
Diluted	0.15	0.16	0.39	0.15

* The Group has no other comprehensive income items

Consolidated statement of financial position

EUR million	2020	2019
ASSETS		
Non-current assets		
Property, plant and equipment	44.0	53.2
Goodwill	173.6	173.6
Other intangible assets	16.3	19.1
Right-of-use assets	102.8	108.1
Interests in associates	0.0	0.0
Other investments	0.1	0.1
Other receivables	5.5	2.0
Deferred tax assets	5.4	6.0
Total non-current assets	347.8	362.2
Current assets		
Inventories	3.4	2.3
Trade and other receivables	75.8	46.1
Current tax assets	1.9	0.9
Cash and cash equivalents	13.3	27.0
Total current assets	94.4	76.3
Total assets	442.1	438.4
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	0.1	0.1
Reserve for invested unrestricted equity	116.5	116.5
Retained earnings	-15.6	-18.8
Profit for the period	8.7	3.4
	109.8	101.1
Non-controlling interests	5.2	5.0
Total equity	115.0	106.1
Non-current liabilities		
Deferred tax liabilities	5.8	5.7
Provisions	0.1	0.2
Lease liabilities	95.5	96.4
Financial liabilities	92.5	103.9
Other non-current liabilities	1.2	1.3
Total non-current liabilities	195.0	207.5
Current liabilities		
Trade and other payables	109.4	102.0
Current tax liabilities	2.0	0.4
Provisions	0.6	1.6
Lease liabilities	18.7	17.7
Financial liabilities	1.4	3.1
Total current liabilities	132.1	124.9
Total liabilities	327.1	332.4
Total equity and liabilities	442.1	438.4

Consolidated statement of changes in equity

EUR million	Equity attributable to owners of the parent company				
	Share capital	Reserve for invested unrestricted equity	Retained earnings	Non-controlling interests	Equity Total
Total equity, 1 Jan. 2019	0.1	116.5	4.6	9.2	130.3
Profit for the period			3.4	1.1	4.5
Total comprehensive income for the period			3.4	1.1	4.5
Dividends paid			-2.3	-4.9	-7.2
Investments in Group companies			0.1	-0.1	0.0
Total transactions with owners			-2.2	-5.0	-7.2
Changes in NCI without a change in control			-21.2	-0.3	-21.5
Total changes in subsidiary shareholdings			-21.2	-0.3	-21.5
Total equity, 31 Dec. 2019	0.1	116.5	-15.5	5.0	106.1

EUR million	Equity attributable to owners of the parent				
	Share capital	Reserve for invested unrestricted equity	Retained earnings	Non-controlling interests	Equity Total
Total equity, 1 Jan. 2020	0.1	116.5	-15.5	5.0	106.1
Profit for the period			8.7	0.2	8.9
Total comprehensive income for the period			8.7	0.2	8.9
Dividends paid				-0.3	-0.3
Acquisition of own shares			-0.7		-0.7
Share-based benefits			1.3		1.3
Total transactions with owners			0.6	-0.3	0.3
Changes in NCI without a change in control			-0.7	0.4	-0.3
Total changes in subsidiary shareholdings			-0.7	0.4	-0.3
Total equity, 31 Dec. 2020	0.1	116.5	-6.8	5.2	115.0

Consolidated statement of cash flows

EUR million	10– 12/2020 3 months	10– 12/2019 3 months	2020	2019
Cash flow from operating activities				
Profit for the period attributable to the owners of the parent company	3.4	3.7	8.7	3.4
Cash flow adjustments for business operations:				
Taxes	2.8	0.6	4.8	1.8
Depreciation, amortisation and impairment	8.4	8.6	34.3	37.7
Financial income and expenses	1.0	1.0	4.4	3.9
Other	-0.4	-1.6	0.2	1.0
Net cash generated from operating activities before change in working capital	15.1	12.2	52.4	47.7
Change in working capital	4.0	8.6	-1.8	-6.2
Interest received	0.0	0.0	0.2	0.1
Taxes paid	-0.6	-1.1	-3.6	-4.7
Net cash flow from operating activities	18.6	19.8	47.2	36.8
Cash flows from investing activities				
Investments in tangible and intangible assets	-2.0	-4.6	-9.9	-15.4
Proceeds from disposal of property, plant and equipment and intangible assets and prepayments	0.1	0.3	6.8	0.8
Changes in other receivables and investments	0.0	0.0	0.0	0.0
Dividends received	0.0	0.0	0.0	0.0
Acquisition of subsidiaries less cash and cash equivalents at date of acquisition	0.0	0.0	-1.4	-4.9
Net cash flow from investing activities	-2.0	-4.3	-4.4	-19.5
Cash flows from financing activities				
Changes in non-controlling interests	0.0	0.0	-18.3	-1.3
Acquisition of own shares	0.0	0.0	-0.7	0.0
Proceeds from and repayment of borrowings	-3.2	-1.5	-12.2	7.7
Repayment of lease liabilities	-5.4	-6.1	-20.6	-22.7
Interest and other operational financial expenses	-0.9	-0.8	-4.5	-3.8
Dividends paid and other profit distribution	0.0	-4.4	-0.2	-6.7
Net cash flow from financing activities	-9.5	-12.9	-56.5	-26.7
Changes in cash and cash equivalents	7.1	2.6	-13.7	-9.3
Cash at beginning of period	6.2	24.4	27.0	36.3
Cash at end of review period	13.3	27.0	13.3	27.0

Notes to the Financial Statements Release

Accounting policies

This financial statements release has been prepared in compliance with IFRS standards and the provisions of IAS 34 (Interim Financial Reporting). The information published in this financial statements release has not been audited. All figures have been rounded, due to which the actual total of individual figures may differ from the total presented. Key figures and figures reflecting changes have been calculated using the exact figures.

The preparation of the financial statements release in accordance with IFRS requires the management to make estimates and assumptions that affect the valuation of the reported assets and liabilities and contingent assets and liabilities on the statement of financial position, and recognition of the amount of income and expenses. Although the estimates are based on the management's best knowledge of current events and actions, the actual results may differ from the estimates provided in this financial statements release.

The impact of the COVID-19 epidemic and the resulting exceptional circumstances on the company's business operations have been taken into account in the preparation of this financial statements release. The management has used various scenarios to analyse the impacts of the coronavirus epidemic on various regions and customer groups, demand and profitability. The company has initiated measures to maintain and promote profitability and sales. The adequacy of financing, liquidity, credit risks and the covenants of the financing arrangement are continuously monitored. The impact of the coronavirus epidemic on items subject to management judgment as well as the basis and underlying assumptions of the management's estimates has been evaluated and taken into consideration. In the view of the management, preparing the financial statements release under the going concern principle is justified and appropriate.

The financial statements release has been prepared in compliance with the IFRS standards that are currently in effect. The financial statements release has been prepared according to the accounting policies applied in the financial statements of 31 December 2020, taking into account the new and amended standards and interpretations that became effective on 1 January 2020.

Impacts of new and revised IFRS standards

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

Amendments to **IFRS 3 Business Combinations** (effective for financial periods beginning on or after 1 January 2020). The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing inputs or processes, specify the definitions of business and outputs and provide additional guidance to assist entities in assessing whether the object of an acquisition is an independent process. The amendments also introduce an optional fair value concentration test.

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

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

Amendments to **IFRS 16 Leases** Covid-19-Related Rent Concessions (effective for financial periods beginning on or after 1 June 2020). The amendment gives lessees the opportunity to apply a practical expedient that simplifies the accounting treatment of rent concessions that are the direct result of COVID-19. Lessees that apply the practical expedient are not required to assess whether rent concessions constitute changes in leases if the criteria presented in the amendment to the standard are fulfilled. The expedient was not applied to the financial statements for 2020.

Contingent liabilities and commitments

EUR million	2020	2019
Collateral given on own behalf		
Sureties	4.4	3.7
Lease deposits	0.6	1.8
Properties’ VAT refund liability	0.1	1.7
Lease commitments for off-balance sheet leases	0.8	0.7

The investment commitments for the Group’s development, supplementary and replacement investments are approximately EUR 2.5 million.

Changes in intangible assets

EUR million	31 December 2020	31 December 2019
Acquisition cost at beginning of period	224.8	217.4
Additions	3.9	3.6
Business combinations		3.7
Transfers between items	-0.2	0.2
Disposals	-0.4	-0.1
Acquisition cost at end of period	228.0	224.8
Accumulated depreciation at beginning of period	-32.1	-24.5
Depreciation and amortisation for the period	-6.5	-7.4
Transfers between items	0.1	-0.2
Accumulated depreciation on disposals	0.4	0.1
Accumulated depreciation at end of period	-38.1	-32.1
Carrying amount at end of period	190.0	192.7

Changes in property, plant and equipment

EUR million	31 December 2020	31 December 2019
Acquisition cost at beginning of period	97.4	79.7
Additions	7.2	18.4
Business combinations		0.0
Transfers between items	1.1	1.5
Disposals	-11.5	-2.3
Acquisition cost at end of period	94.2	97.4
Accumulated depreciation at beginning of period	-44.1	-36.4
Depreciation and amortisation for the period	-8.8	-7.7
Transfers between items	-1.0	-1.5
Accumulated depreciation on disposals	3.7	1.5
Accumulated depreciation at end of period	-50.2	-44.1
Carrying amount at end of period	44.0	53.2

Changes in right-of-use assets

EUR million	31 December 2020	31 December 2019
Acquisition cost at beginning of period	172.7	162.5
Additions	14.6	14.5
Disposals	-4.3	-8.1
Business combinations		3.8
Acquisition cost at end of period	182.9	172.7
Accumulated depreciation at beginning of period	-64.6	-46.5
Depreciation and amortisation for the period	-18.9	-22.5
Accumulated depreciation on disposals	3.4	4.5
Accumulated depreciation at end of period	-80.1	-64.6
Carrying amount at end of period	102.8	108.1

Right-of-use assets and lease liabilities

EUR million	Right-of-use asset items 31 December 2020	Lease liabilities 31 December 2020
Carrying amount at the beginning of the period	108.1	114.2
Changes	13.6	20.7
Depreciation and amortisation	-18.9	
Repayments of lease liabilities		-20.6
Carrying amount at end of period	102.8	114.2

On 31 December 2020, EUR 85.4 million of the lease liabilities were the result of the adoption of IFRS 16 and EUR 28.8 million were financial lease liabilities in accordance with previous accounting standards.

EUR million	Right-of-use asset items 31 December 2019	Lease liabilities 31 December 2019
Carrying amount at the beginning of the period	116.0	118.5
Changes	14.7	18.3
Depreciation and amortisation	-22.5	

Repayments of lease liabilities		-22.7
Carrying amount at end of period	108.1	114.2

On 31 December 2019, EUR 87.0 million of the lease liabilities were the result of the adoption of IFRS 16 and EUR 27.1 million were financial lease liabilities in accordance with previous accounting standards.

Quarterly information

EUR million	Q4/20	Q3/20	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19
INCOME STATEMENT								
Revenue	137.2	123.9	114.7	133.0	133.8	122.7	129.7	132.5
EBITDA	15.1	16.7	8.5	12.1	12.3	12.9	10.4	12.2
EBITDA, %	11.0	13.5	7.4	9.1	9.2	10.5	8.1	9.2
Adjusted EBITDA	15.7	17.2	9.0	12.7	14.4	17.4	10.8	12.6
Adjusted EBITDA, %	11.5	13.9	7.9	9.5	10.8	14.2	8.3	9.5
Depreciation and amortisation	-8.4	-8.7	-8.4	-8.8	-8.6	-11.5	-8.8	-8.6
Operating profit (EBIT)	6.8	8.0	0.1	3.3	3.7	1.4	1.6	3.5
Operating profit, %	4.9	6.4	0.1	2.5	2.7	1.1	1.2	2.7
Adjusted operating profit (EBIT)	7.3	8.7	0.6	5.3	5.6	9.3	2.1	3.9
Adjusted operating profit (EBIT), %	5.3	7.0	0.5	4.0	4.2	7.5	1.6	3.0
Financial income	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Financial expenses	-1.1	-1.1	-1.1	-1.4	-1.0	-1.0	-1.0	-1.0
Profit before taxes	5.7	7.0	-0.9	2.0	2.7	0.4	0.6	2.5
Income tax	-2.8	-1.5	0.1	-0.6	-0.6	-0.3	-0.3	-0.7
Profit for the period	3.0	5.4	-0.8	1.4	2.1	0.1	0.4	1.9
Share of the result for the period attributable to owners of the parent company	3.4	4.6	-0.6	1.3	3.7	-1.3	-0.5	1.4
Share of the result for the period attributable to non-controlling interests	-0.4	0.8	-0.3	0.1	-1.6	1.4	0.9	0.4
EPS	0.15	0.20	-0.03	0.06	0.16	-0.06	-0.02	0.06
Personnel at the end of the period (NOE)	5,995	5,882	5,640	5,865	5,815	5,936	6,100	5,871
Change in personnel during the quarter	113	243	-226	50	-121	-164	230	21

Trade and other receivables

Due to the coronavirus epidemic, Pihlajalinna has reviewed the credit risk of receivables and the procedures used to estimate the credit risk. No significant changes have been observed in customers' payment behaviour. The collection of trade receivables has been enhanced. The amount of receivables more than 90 days past due is significantly increased by withheld payments concerning trade receivables and trade payables between Jämsän Terveys and the City of Jämsä. As described under *Risks and uncertainties in business operations*, if the negotiation obligation does not lead to payment, the receivables will be collected through legal action. This may further delay the collection of items presented in current receivables in the financial statements.

The Group recognised impairment losses of EUR 0.2 (0.3) million on trade receivables during the financial year.

EUR million	2020	2019
Trade receivables	59.1	30.5
Prepayments and accrued income	15.7	13.3
Current subleases	0.5	0.1
Other receivables	0.4	2.2
Total	75.8	46.1

Age distribution of trade receivables

EUR million	31 Decem- ber 2020	of which written down	Net 30 De- cember 2020	31 Decem- ber 2019	of which written down	Net 31 De- cember 2019
Not yet due	23.6	0.0	23.6	18.1	0.0	18.1
Past due			0.0			
Less than 30 days	3.8	0.0	3.8	3.1	0.0	3.1
30–60 days	1.9	-0.1	1.8	1.8	-0.1	1.7
61–90 days	2.2	-0.1	2.1	0.6	-0.1	0.5
More than 90 days	28.3	-0.5	27.8	7.5	-0.5	7.1
Total	59.8	-0.7	59.1	31.2	-0.7	30.5

Tax footprint

EUR million	2020	2019
Direct tax payable for the period		
Income tax (business income tax)	4.2	4.1
Employer's pension contributions	27.0	31.0
Social security contributions	2.5	1.4
Employer's unemployment insurance contributions	2.5	3.1
Contribution to accident insurance and group life insurance	1.3	1.0
Employer contributions, total	33.3	36.4
Property taxes	0.1	0.1
Transfer taxes	0.4	0.2
Direct tax payable for the period, total	37.9	40.8
Value added tax of acquisitions payable by the company		
Value added taxes, estimate	11.3	12.3
Tax for the period		
Withholding taxes	43.3	45.1
Employee pension contributions, notional	13.7	13.0
Employee unemployment insurance contributions, notional	2.2	2.7
Payroll tax, total	59.2	60.8
Net value-added tax	1.9	0.9
Total tax for the period	61.1	61.7
Tax footprint	110.4	114.7
Revenue	508.7	518.6
Profit before taxes	13.8	6.3
Average number of personnel (FTE)	4,308	4,515
Public subsidies	1.4	0.7

Calculation of key financial figures and alternative performance measures

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

Net debt/Adjusted EBITDA*, rolling 12 months	$\frac{\text{Interest-bearing net debt - cash and cash equivalents}}{\text{Adjusted EBITDA (rolling 12 months)}}$	
Cash flow after investments	Net cash flow from operating activities + net cash flow from investing activities	
Adjusted operating profit (EBIT)*	Operating profit + adjustment items	
Adjusted operating profit, %*	$\frac{\text{Adjusted operating profit (EBIT)}}{\text{Revenue}} \times 100$	
Profit before taxes	Profit for the financial year + income tax	
Gross investments	Increase in tangible and intangible assets and in right-of-use assets	
Organic revenue growth, %	$\frac{\text{Revenue for the period - revenue from M\&A transactions for the period - revenue for the previous period}}{\text{Revenue for the previous period}} \times 100$	

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

Reconciliations with alternative key figures and ratios

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

Reading notes:

/	divide by the following number(s)
-	deduct the following number(s)
+	add the following number(s)

EUR million, unless otherwise stated	10–12/2020 3 months	10–12/2019 3 months	2020	2019
Return on equity (ROE), %				
Profit for the period (rolling 12 months)/			8.9	4.5
Equity at beginning of period			106.1	130.3
Equity at end of period			115.0	106.1
Equity (average) x 100			110.5	118.2
Return on equity (ROE), %			8.1	3.8

Return on equity is one of the most important indicators of a company's **profitability** used by shareholders and investors. The indicator illustrates the company's ability to look after the capital invested by shareholders in the company. The figure indicates how much return was accumulated on equity during the financial year.

Return on capital employed (ROCE), %				
Profit before taxes (rolling 12 months) +			13.8	6.3
Financial expenses (rolling 12 months)			4.6	4.0

/			18.4	10.3
Total statement of financial position at beginning of period -			438.4	436.8
non-interest-bearing liabilities at beginning of period			112.7	92.1
			325.8	344.7
Total statement of financial position at end of period -			442.1	438.4
Non-interest-bearing liabilities at end of period			119.0	112.7
			323.1	325.8
Average x 100			324.4	335.2
Return on capital employed (ROCE), %			5.7	3.1

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

Equity ratio, %				
Equity /			115.0	106.1
Total statement of financial position -			442.1	438.4
Advances received x 100			1.2	1.1
Equity ratio, %			26.1	24.3

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

Gearing, %				
Interest-bearing financial liabilities -			208.1	219.7
Cash and cash equivalents /			13.3	27.0
Equity x 100			115.0	106.1
Gearing, %			169.4	181.7

Gearing illustrates the company's **indebtedness**. The figure reveals the ratio between the equity invested in the company by shareholders and the interest-bearing debt borrowed from lenders.

Net debt/adjusted EBITDA, rolling 12 months				
Interest-bearing financial liabilities -			208.1	219.7
Cash and cash equivalents			13.3	27.0
Net debt /			194.8	192.7
Adjusted EBITDA (rolling 12 months)			54.6	55.1
Net debt/adjusted EBITDA, rolling 12 months			3.6	3.5

This figure illustrates how quickly, at the current profit rate, the company would have paid off its debts if the EBITDA were to be used in full to repay the debts, if the company does not, for example, invest or distribute any dividend.

EBITDA and Adjusted EBITDA				
Profit for the period	3.0	2.1	8.9	4.5
Income tax	-2.8	-0.6	-4.8	-1.8
Financial expenses	-1.1	-1.0	-4.6	-4.0
Financial income	0.1	0.0	0.2	0.1

Depreciation, amortisation and impairment	-8.4	-8.6	-34.3	-37.7
EBITDA	15.1	12.3	52.4	47.8
Total EBITDA adjustments	0.6	2.1	2.2	7.3
Adjusted EBITDA	15.7	14.4	54.6	55.1

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/ Revenue x 100	15.1	12.3	52.4	47.8
EBITDA, %	11.0	9.2	10.3	9.2
Adjusted EBITDA, %				
Adjusted EBITDA/ Revenue x 100	15.7	14.4	54.6	55.1
Adjusted EBITDA, %	11.5	10.8	10.7	10.6
Operating profit (EBIT) and Adjusted operating profit (EBIT)				
Profit for the period	3.0	2.1	8.9	4.5
Income tax	-2.8	-0.6	-4.8	-1.8
Financial expenses	-1.1	-1.0	-4.6	-4.0
Financial income	0.1	0.0	0.2	0.1
Operating profit (EBIT)	6.8	3.7	18.2	10.2
Total adjustments to depreciation, amortisation and impairment	-0.1	-0.2	0.4	3.3
Total EBITDA adjustments	0.6	2.1	2.2	7.3
Total operating profit (EBIT) adjustments	0.5	1.9	2.6	10.6
Adjusted operating profit (EBIT)	7.3	5.6	20.8	20.8

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

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

Operating profit (EBIT), %				
Operating profit/ Revenue x 100	6.8	3.7	18.2	10.2
Operating profit (EBIT), %	4.9	2.7	3.6	2.0
Adjusted operating profit (EBIT), %				
Adjusted operating profit (EBIT)/ Revenue x 100	7.3	5.6	20.8	20.8
Adjusted operating profit (EBIT), %	5.3	4.2	4.1	4.0

Cash flow after investments				
Net cash flow from operating activities	18.6	19.8	47.2	36.8
Net cash flow from investing activities	-2.0	-4.3	-4.4	-19.5
Cash flow after investments	16.7	15.4	42.8	17.4

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				
Profit for the period	3.0	2.1	8.9	4.5
Income tax	-2.8	-0.6	-4.8	-1.8
Profit before taxes	5.7	2.7	13.8	6.3
Gross investments				
Property, plant and equipment at the end of the period	44.0	53.2	44.0	53.2
Right-of-use assets at the end of the period	102.8	108.1	102.8	108.1
Other intangible assets at end of period	16.3	19.1	16.3	19.1
Goodwill at end of period	173.6	173.6	173.6	173.6
Depreciation, amortisation and impairment for the period are added	8.4	8.6	34.3	37.7
-				
Property, plant and equipment at the start of the period	45.4	47.6	53.2	43.3
Right-of-use assets at the start of the period	104.9	110.5	108.1	116.0
Other intangible assets at beginning of period	17.0	19.9	19.1	22.9
Goodwill at beginning of period	173.6	173.6	173.6	169.9
Proceeds from the sale of property, plant and equipment during the period	-1.3	-2.1	-8.7	-4.5
Gross investments	5.6	13.1	25.7	44.1
Organic revenue growth, %				
Revenue for the period -	137.2	133.8	508.7	518.6
Revenue from M&A transactions during the period (rolling 12 months) -	0.2	2.0	1.4	17.4
Revenue for the previous period	133.8	127.0	518.6	487.8
Organic revenue growth/	3.2	4.8	-11.3	13.4
Revenue for the previous period x 100	133.8	127.0	518.6	487.8
Organic revenue growth, %	2.4	3.8	-2.2	2.8
Revenue growth due to M&A transactions, %	0.2	1.6	0.3	3.6
Revenue growth	3.4	6.8	-9.9	30.8
Revenue growth, %	2.6	5.4	-1.9	6.3

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

Description of adjustment items applied to adjusted EBITDA and adjusted operating result

EUR million	10–12/2020 3 months	10–12/2019 3 months	2020	2019
EBITDA	15.1	12.3	52.4	47.8
Adjustments to EBITDA				
Dismissal-related expenses		0.0	-0.1	3.0
Compensation under the share-based incentive scheme in relation to the expired tender offer	0.3	0.3	1.5	0.3
Change in fair value of contingent consideration				0.3
Onerous contracts				1.8
IAS 37, contingent assets		1.8		1.8
Other	0.3		0.7	0.0
Adjustments to EBITDA in total	0.6	2.1	2.2	7.3
Adjusted EBITDA	15.7	14.4	54.6	55.1
Depreciation, amortisation and impairment	-8.4	-8.6	-34.3	-37.7
Adjustments to depreciation, amortisation and impairment				
Double depreciation arising from a merger with no cash flow effect			0.4	
Closure of operating locations	-0.1	-0.2	0.0	3.3
Adjustments to depreciation, amortisation and impairment in total	-0.1	-0.2	0.4	3.3
Adjusted operating profit (EBIT)	7.3	5.6	20.8	20.8
Operating profit (EBIT)	6.8	3.7	18.2	10.2

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

EUR million	10–12/2020 3 months	10–12/2019 3 months	2020	2019
Revenue		1.8		1.8
Employee benefit expenses	0.3	0.3	1.5	3.3
Other operating expenses	0.3		0.7	2.2
EBITDA adjustment items total	0.6	2.1	2.2	7.3
Depreciation, amortisation and impairment	-0.1	-0.2	0.4	3.3
Operating profit adjustment items total	0.5	1.9	2.6	10.6

Pihlajalinna's financial reporting in 2021

Financial statements and Board of Directors' report: no later than in week 13

Interim report January–March: Friday, 7 May 2021

Half-year financial report January–June: Friday, 13 August 2021

Interim report January–September: Thursday 4 November 2021

Briefing

Pihlajalinna will hold a briefing for analysts and the media on Friday, 19 February 2021 at 10:00 a.m. The event will be held remotely.

Helsinki, 18 February 2021

The Board of Directors of Pihlajalinna Plc

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Pihlajalinna in brief

Pihlajalinna is one of Finland's leading private providers of social, healthcare and wellbeing services. The Group provides services to private individuals, companies, insurance companies and public sector entities, such as municipalities and joint municipal authorities, across Finland. The Group provides general practitioner and specialised care services, including emergency and on-call services, a wide range of surgical services, occupational healthcare and dental care services, in private clinics and hospitals. The Group, in cooperation with the public sector, offers social and healthcare service provision models to public sector entities with the aim of providing high-quality services for public pay healthcare customers.