



Pihlajalinna

**HALF YEAR FINANCIAL REPORT
1 January–30 June 2021**

Revenue increased, profitability improved substantially

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

A brief look at April–June:

- Revenue amounted to EUR 142.5 (114.7) million – an increase of EUR 27.9 million, or 24.3 per cent
- Adjusted EBITDA was EUR 15.2 (9.0) million – an increase of 68.7 per cent
- Adjusted EBIT was EUR 6.5 (0.6) million – an increase of 950.8 per cent
- IFRS 3 costs and amortisation related to M&A had a negative effect of EUR 1.5 (0.8) million on operating profit
- Earnings per share (EPS) was EUR 0.20 (-0.03)
- COVID-19 services* revenue amounted to EUR 8.1 million, or 5.7 per cent of the revenue for the quarter.
- Appointments at Pihlajalinna's private clinics grew by approximately 33 per cent year-on-year, with remote services representing 41 per cent of all appointments (excluding municipal outsourcings).
- Pihlajalinna won a public bidding competition for the sale of Työterveys Virta Oy's entire share capital and occupational healthcare services. The transaction was completed on 1 April 2021. The acquisition increased revenue by EUR 3.7 million, or 3.3 per cent.
- Pihlajalinna will acquire Pohjola Hospital Ltd. In connection with the acquisition, Pihlajalinna will also sign a new five-year service agreement with Pohjola Insurance. The acquisition will be implemented after the Finnish Competition and Consumer Authority's approval, and its estimated time of completion is at the turn of year 2021–2022.
- The service hours of Pihlajalinna's customer service and Nurse Telephone Service were extended to 24/7 in May. In addition, Pihlajalinna Health Application's remote consultation now serves customers around the clock.

A brief look at January–June:

- Revenue amounted to EUR 282.4 (247.6) million – an increase of EUR 34.8 million, or 14.1 per cent
- Adjusted EBITDA was EUR 30.4 (21.7) million – an increase of 40.3 per cent
- Adjusted EBIT was EUR 13.2 (4.8) million – an increase of 172.4 per cent
- IFRS 3 costs and amortisation related to M&A had a negative effect of EUR 2.2 (1.7) million on operating profit
- Earnings per share (EPS) was EUR 0.40 (0.03)
- COVID-19 services* revenue amounted to EUR 16.9 million, or 6.0 per cent of the revenue for the period.
- Appointments at Pihlajalinna's private clinics grew by approximately 6.4 per cent year-on-year, with remote services representing 40 per cent of all appointments (excluding municipal outsourcings).
- The acquisition of Työterveys Virta Oy increased revenue by EUR 3.7 million, or 1.5 per cent.

* COVID-19 services include COVID-19 testing, sample collection, vaccination and other potential services directly related to managing the COVID-19 epidemic.

	4–6/2021 3 months	4–6/2020 3 months	1–6/2021 6 months	1–6/2020 6 months	2020 12 months
INCOME STATEMENT					
Revenue, EUR million	142.5	114.7	282.4	247.6	508.7
EBITDA, EUR million	15.3	8.5	30.3	20.6	52.4
EBITDA, %	10.7	7.4	10.7	8.3	10.3
Adjusted EBITDA, EUR million*	15.2	9.0	30.4	21.7	54.6
Adjusted EBITDA, %*	10.7	7.9	10.8	8.8	10.7
IFRS 3 expenses*	-0.7	-0.1	-0.7	-0.1	-0.1
Adjusted EBITDA excluding IFRS 3 costs, EUR million*	15.9	9.1	31.1	21.8	54.8
Adjusted EBITDA excluding IFRS 3 costs, %*	11.1	7.9	11.0	8.8	10.8
Operating profit (EBIT), EUR million	6.7	0.1	13.2	3.4	18.2
Operating profit, %	4.7	0.1	4.7	1.4	3.6

Adjusted operating profit (EBIT), EUR million*	6.5	0.6	13.2	4.8	20.8
Adjusted operating profit, %*	4.5	0.5	4.7	2.0	4.1
PPA amortisation*	-0.8	-0.8	-1.5	-1.6	-3.1
Adjusted operating profit (EBIT) excluding IFRS 3 costs and PPA amortisation, EUR million*	7.9	1.4	15.3	6.5	24.0
Adjusted operating profit (EBIT) excluding IFRS 3 costs and PPA amortisation, %*	5.6	1.2	5.4	2.6	4.7
Profit before tax (EBT), EUR million	5.8	-0.9	11.4	1.1	13.8
SHARE-RELATED INFORMATION					
Earnings per share (EPS), EUR	0.20	-0.03	0.40	0.03	0.39
Equity per share, EUR			5.04	4.50	4.85
Dividend per share, EUR					0.20
OTHER KEY FIGURES					
Return on capital employed (ROCE), %			8.6	2.7	5.7
Return on equity (ROE), %			15.0	2.6	8.1
Equity ratio, %			25.8	25.0	26.1
Gearing, %			174.5	187.6	169.4
Interest-bearing net debt, EUR million			207.1	199.8	194.8
Net debt/adjusted EBITDA, 12 months*			3.3	3.7	3.6
Gross investments, EUR million**	24.2	7.0	28.5	17.2	25.7
Cash flow from operating activities, EUR million	12.9	10.1	23.7	31.5	47.2
Cash flow after investments, EUR million	-7.9	12.6	-0.3	30.7	42.8
Average number of personnel (FTE)			4,665	4,306	4,308
Personnel at the end of the period (NOE)			6,000	5,640	5,550

* 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. Starting from H1/2021, Pihlajalinna reports key figures adjusted EBITDA and adjusted operating profit also without IFRS 3 costs and PPA amortisation.

EBITDA adjustments amounted to EUR -0.1 (0.5) million for the quarter and EUR 0.1 (1.0) million for the review period. Adjustments to operating profit amounted to EUR -0.3 (0.5) million for the quarter and EUR -0.1 (1.4) million for the review period.

** 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 unchanged

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

The acquisition of Pohjola Hospital does not have an impact on Pihlajalinna's outlook for the year 2021. The Finnish Competition and Consumer Authority (FCCA) will be notified of the transaction. The acquisition will be implemented after the FCCA's approval, and its estimated time of completion is at the turn of year 2021–2022.

Joni Aaltonen, CEO of Pihlajalinna:

Pihlajalinna's revenue and profitability continued to strengthen in the second quarter. Revenue grew and profit performance improved substantially compared to the previous year. I am satisfied with the development of our operations. I expect the progress of our development projects focused on improving customer service and the working conditions of our professionals to further increase our competitiveness as well as our potential to improve profitability.

At the beginning of July, Pihlajalinna announced it will acquire the entire share capital of Pohjola Hospital Ltd. In connection with the acquisition, we will also sign a new five-year service agreement with Pohjola Insurance. The acquisition and service agreement represent a key strategic pillar with regard to our goal of expanding our network of locations and our range of specialised healthcare services in all regions, especially in areas with higher population density. We want to continue to work together with Finland's leading insurance companies to provide all Finns with high-quality services and quick access to care regardless of where they live. Care chains that include sports services and produce genuine health benefits, along with digital services and the prevention of illnesses, are the focus areas of our development efforts.

The renewal of the sales strategy is now reflected in concrete growth in revenue. We shifted the focus of public sector sales from the outsourcing market to the service sales market, which will only be affected to a minor extent by the planned reform of health and social services. The most significant new service sales agreements signed during the first half of the year included the extension of the COVID-19 sampling agreement with HUS, COVID-19 testing services for the City of Oulu, health advisory services for the ports of Helsinki, telephone services and the assessment of the need for treatment for the City of Vantaa, staffing services concerning COVID-19 vaccination personnel in the Turku region and for the City of Helsinki, remote doctor consultations for the City of Helsinki, healthcare services for the municipality of Hailuoto and medical specialist services for the City of Seinäjoki.

Occupational healthcare continues to grow and service demand has been strong in spite of the COVID-19 epidemic. The key drivers of growth include digital services and competitive pricing as well as successful acquisitions. The number of people within the scope of Pihlajalinna's occupational healthcare services was approximately 240,000 at the end of the review period. During the summer we have signed new multi-year agreement on occupational healthcare services for example with the forest industry company UPM.

Our digital services were strengthened further in June when we added Digiterveys to our service offering. Pihlajalinna acquired a stake in Digital Health Solutions Ltd and agreed on the future acquisition of the company's entire share capital from its current owners. The acquisition involves extensive cooperation with the company and its main shareholders. The Digiterveys service concept has been developed to support the wellbeing of the employees of companies and groups in various ways. It helps organisations look after individuals in times of change. The service concept is based on research and scientific data and it was developed by Pekko Vehviläinen, DSc (Technology), and Exercise Physiologist Minna Tervo, PhD (Sport Sciences). Vehviläinen and Tervo will continue to work on the development of the service concept after the transaction.

The global COVID-19 pandemic is not over. After a slower early summer, the number of infections has begun to rise again due to the rapid spread of virus variants, among other factors. However, it seems that the need for hospital treatment and the number of deaths have not increased at the same rate as the number of infections. In Finland, approximately two-thirds of people over the age of 12 have received at least one vaccine dose.

In my view, Pihlajalinna has two key competitive advantages. We have systematically developed our operations with the aim of offering a genuinely multichannel service to suit each customer's situation. We will continue to develop our offering broadly through new partnerships, for example.

The other key success factor is easy access to our services, both at our private clinics and through remote channels. In April 2021, approximately 4,300 people had waited for access to public primary care for more than three months. At the end of April, a total of 26,709 people had waited for public specialised care for more than three months. This situation can be characterised as exceptional. If the Finnish Government's planned tightening of the care guarantee to seven days is implemented, the situation will deteriorate further. Our job at Pihlajalinna is to provide consumers with a channel through which they can access the service they need without unnecessary waiting. I believe that by taking responsibility for the health of the individual as well as their quick and appropriate access to care – regardless of the actions taken by legislators and other parties – we will be able to continue to strengthen our position in the market.

Over the long term, the underlying drivers of our business will continue to grow stronger. The ageing of the population will have a significant impact on the demand for healthcare and wellbeing services in the 2020s. For example, the number of people over the age of 75 will grow by an estimated 250,000 in Finland during this decade. This is estimated to have a direct impact on service demand: the costs of social and healthcare service for the 75–84 age group, for example, are approximately three times higher than the population average. For people over the age of 85, these costs are nearly seven times higher than the population average.

This raises the question of how Finland will solve that the social and welfare funding will be sufficient for wellbeing services like the current ones in the future as well. I believe that private sector operators will play a key role in solving this challenge. In primary care in Sweden, the freedom of choice model has achieved good access to care with lower spending than in Finland. The per capita costs of primary care are lower than in Finland and 89 per cent of customers can get an appointment with a doctor within one week of initial contact. The corresponding figure in Finland is 56 per cent. In Sweden, private sector companies produce one-third of all services and the rate of service digitality is higher than in Finland, for instance. In my opinion, this model deserves more extensive examination in Finland.

In the coming years, Finnish healthcare will be subject to significant reforms. The national reform of health and social services is moving ahead and the private sector has developed new service models and care paths to ensure high-quality care and quick access to care in all circumstances. Our strong track record at Pihlajalinna proves that we are a pioneer in this transition. The COVID-19 epidemic has caused rapid changes in consumer behaviour and, for example, guided service users to digital channels. Some 41 per cent of all appointments at Pihlajalinna (excluding municipal outsourcings) took place in digital channels during the second quarter.

Digital services significantly improve the accessibility of services and bring more variety to the work of healthcare professionals. I expect the future development of digital services to continue to significantly improve Pihlajalinna's competitiveness, particularly as the national reform of health and social services begins. I also expect the payment models for services to become increasingly diverse, for example, with the introduction of healthcare service packages with monthly fees and various insurance packages. This would improve the opportunities of people in Finland to exercise their freedom of choice with regard to healthcare services.

Pihlajalinna's strategy 2021–2023

Strategic priorities

1. The renewal of private services

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

2. Cooperation in social and healthcare services

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

3. Enhancing digitalisation

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



Objectives for the strategy period

- Pihlajalinna offers the most attractive and diverse range of services.
- Pihlajalinna is the number one choice of consumers and professionals.
- Pihlajalinna's services are the smoothest in its industry and they are available without delay.
- Pihlajalinna ensures profitable growth.



Performance indicators

The achievement of goals is measured by, for example, financial indicators, the growth of appointment times available to customers and the number of procedures as well as the Net Promoter Score (NPS), which measures the customer experience and employee experience.

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.

April–June 2021

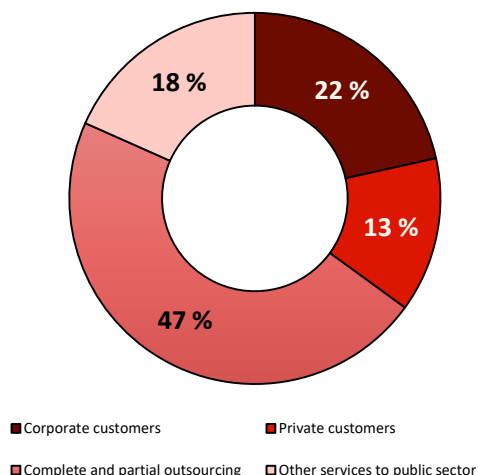
EUR million	4–6/2021	4–6/2020	change	change %	2020
Corporate customers	34.7	26.5	8.1	30.7%	123.8
of which insurance company customers	7.9	6.6	1.3	19.4%	29.8
Private customers	21.7	15.1	6.6	44.1%	80.4
Public sector	104.6	89.0	15.6	17.5%	370.0
of which complete and partial outsourcing agreements	75.1	70.0	5.0	7.2%	287.9
of which staffing	6.8	5.9	0.9	15.7%	22.9
of which occupational healthcare and other services	22.7	13.1	9.6	73.8%	59.2
Intra-Group sales	-18.4	-15.9	-2.5	15.8%	-65.6
Total consolidated revenue	142.5	114.7	27.9	24.3%	508.7

Revenue from **corporate customers** amounted to EUR 34.7 (26.5) million, an increase of EUR 8.1 million, or 30.7 per cent. Sales to insurance company customers increased by EUR 1.3 million, or 19.4 per cent. In the corporate customer group, COVID-19 services increased revenue by EUR 1.8 million. Appointments at Pihlajalinna's private clinics increased by 23 per cent year-on-year and were almost on a par with 2019.

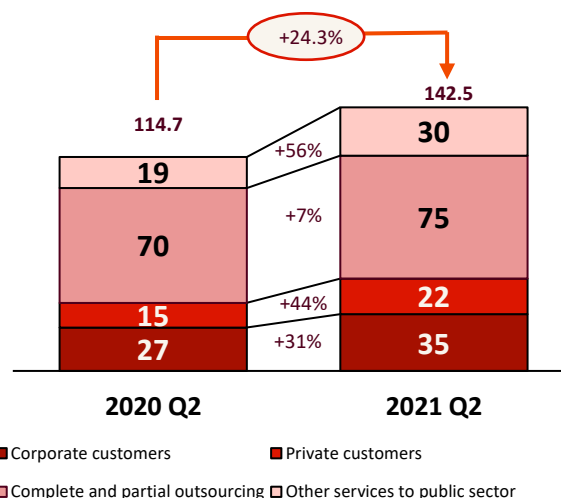
Revenue from **private customers** amounted to EUR 21.7 (15.1) million, an increase of EUR 6.6 million, or 44.1 per cent. Revenue from fitness centres increased by EUR 2.2 million in spite of the COVID-19 closure in April. In the private customer group, COVID-19 services increased revenue by EUR 0.5 million. Appointments at Pihlajalinna's private clinics increased by 18 per cent year-on-year but were 24 per cent lower than in 2019 still due to COVID-19 epidemic.

Revenue from the **public sector** amounted to EUR 104.6 (89.0) million, an increase of EUR 15.6 million, or 17.5 per cent. COVID-19 services to the public sector increased revenue by EUR 5.9 million. The partial outsourcing agreement with Kristiinankaupunki and the index adjustments to complete outsourcing agreements increased revenue by a total of EUR 4.3 million. The acquisition of Työterveys Virta increased revenue from the public sector by EUR 3.4 million. Appointments at Pihlajalinna's private clinics increased by 101 per cent year-on-year and were 77 per cent higher than in 2019. Without the acquisition of Työterveys Virta, appointments would have increased by 29 per cent year-on-year and by 14 per cent compared to 2019.

REVENUE BY CUSTOMER GROUP
Q2 2021, %



REVENUE BY CUSTOMER GROUP Q2
2021, EUR MILLION



January–June 2021

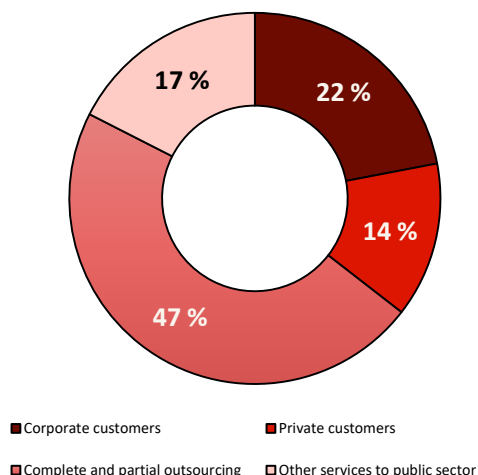
EUR million	1–6/2021	1–6/2020	change	change %	2020
Corporate customers	70.2	58.1	12.0	20.7%	123.8
of which insurance company customers	16.3	14.9	1.4	9.6%	29.8
Private customers	43.2	38.9	4.3	11.1%	80.4
Public sector	205.9	182.6	23.3	12.8%	370.0
of which complete and partial outsourcing agreements	150.0	143.0	7.0	4.9%	287.9
of which staffing	13.3	11.6	1.7	14.9%	22.9
of which occupational healthcare and other services	42.6	28.0	14.6	52.1%	59.2
Intra-Group sales	-36.8	-32.0	-4.8	15.1%	-65.6
Total consolidated revenue	282.4	247.6	34.8	14.1%	508.7

Revenue from **corporate customers** amounted to EUR 70.2 (58.1) million, an increase of EUR 12.0 million, or 20.7 per cent. Sales to insurance company customers increased by EUR 1.4 million, or 9.6 per cent. In the corporate customer group, COVID-19 services increased revenue by EUR 4.6 million. Appointments at Pihlajalinna's private clinics increased by 4 per cent year-on-year and were only slightly below the level of 2019.

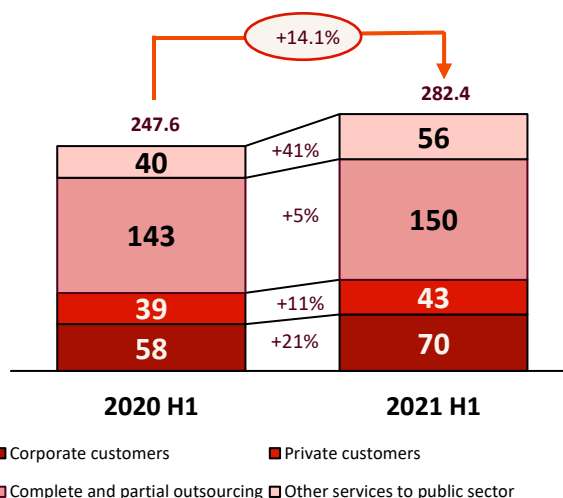
Revenue from **private customers** amounted to EUR 43.2 (38.9) million, an increase of EUR 4.3 million, or 11.1 per cent. Revenue from fitness centres increased by EUR 0.6 million. In the private customer group, COVID-19 services increased revenue by EUR 1.0 million. Appointments at Pihlajalinna's private clinics decreased by 4 per cent year-on-year and were 28 per cent lower than in 2019 still due to COVID-19 epidemic.

Revenue from the **public sector** amounted to EUR 205.9 (182.6) million, an increase of EUR 23.3 million, or 12.8 per cent. COVID-19 services to the public sector increased revenue by EUR 11.3 million. The partial outsourcing agreement with Kristiinankaupunki and the index adjustments to complete outsourcing agreements increased revenue by a total of EUR 7.0 million. The acquisition of Työterveys Virta increased revenue from the public sector by EUR 3.4 million. Appointments at Pihlajalinna's private clinics increased by 38 per cent year-on-year and were 45 per cent higher than in 2019. Without the acquisition of Työterveys Virta, appointments would have increased by 8 per cent year-on-year and by 13 per cent compared to 2019.

**REVENUE BY CUSTOMER GROUP
H1 2021, %**



**REVENUE BY CUSTOMER GROUP H1
2021, EUR MILLION**



Consolidated revenue and result

April–June 2021

Pihlajalinna's revenue totalled EUR 142.5 (114.7) million, an increase of EUR 27.9 million, or 24.3 per cent. M&A transactions accounted for EUR 3.7 million, or 3.3 per cent, of the growth in revenue. Organic revenue growth was EUR 24.1 million, or 21.1 per cent. The main factor contributing to the growth of revenue was weak comparison period: consumer demand fell sharply due to the COVID-19 epidemic in March 2020.

COVID-19 services increased revenue by EUR 8.1 million. Appointments at Pihlajalinna's private clinics increased by 33 per cent year-on-year and were on a par with 2019. Without the acquisition of Työterveys Virta, appointments would have increased by 23 per cent year-on-year and they would have been 7 per cent lower than in 2019 due to the decrease in private customer volumes. The figures do not take into account the number of customer appointments under Pihlajalinna's complete and partial outsourcing agreements. Revenue from fitness centres grew by EUR 2.2 million compared to the very weak reference period. This figure was still significantly lower than in 2019. Some 41 per cent of all customer appointments (excluding municipal outsourcings) took place via remote services during the quarter. The volume of surgical operations at Jokilaakso Hospital grew by 25 per cent. The number of freedom-of-choice patients in public healthcare at Jokilaakso Hospital increased by 113 per cent.

EBITDA was EUR 15.3 (8.5) million, an increase of EUR 6.8 million, or 79.6 per cent. Adjusted EBITDA was EUR 15.2 (9.0) million. EBITDA adjustments amounted to EUR -0.1 (0.5) million. The profitability of private clinic and occupational healthcare services improved due to COVID-19 services and higher volumes. The capacity utilisation rates and profitability of surgical operations improved. The profitability of fitness centres improved significantly compared to the very weak reference period.

Profitability was reduced by the increased costs of dental care services, health centre operations and specialised care under complete outsourcing agreements.

Depreciation, amortisation and impairment amounted to EUR 8.5 (8.4) million. Adjustments to depreciation, amortisation and impairment amounted to EUR -0.2 (0.0) million. Depreciation of intangible assets amounted to EUR 1.8 (1.6) million, of which depreciation related to purchase price allocations amounted to EUR 0.8 (0.8) million. Depreciation, amortisation and impairment of property, plant and equipment

amounted to EUR 2.3 (2.1) million, and depreciation and impairment of right-of-use assets totalled EUR 4.5 (4.7) million.

Pihlajalinna's operating profit (EBIT) amounted to EUR 6.7 (0.1) million, an increase of EUR 6.6 million. The EBIT-to-revenue ratio (EBIT margin) was 4.7 (0.1) per cent. Adjusted EBIT amounted to EUR 6.5 (0.6) million. The adjusted EBIT margin was 4.5 (0.5) per cent. Adjustments to EBIT amounted to EUR -0.3 (0.5) million.

The Group's net financial expenses amounted to EUR -0.9 (-1.0) million. Profit before taxes came to EUR 5.8 (-0.9) million. Taxes in the income statement amounted to EUR -1.1 (0.1) million. Profit came to EUR 4.6 (-0.8) million. Earnings per share (EPS) was EUR 0.20 (-0.03).

January–June 2021

Pihlajalinna's revenue totalled EUR 282.4 (247.6) million, an increase of EUR 34.8 million, or 14.1 per cent. M&A transactions accounted for EUR 3.7 million, or 1.5 per cent, of the growth in revenue. Organic revenue growth was EUR 31.1 million, or 12.5 per cent. The main factor contributing to the growth of revenue was weak comparison period: consumer demand fell sharply due to the COVID-19 epidemic in March 2020. Appointments at Pihlajalinna's private clinics increased by 6 per cent year-on-year but were 5 per cent lower than in 2019. Without the acquisition of Työterveys Virta, appointments would have increased by 2 per cent year-on-year and they would have been 9 per cent lower than in 2019 due to the decrease in private customer volumes. The figures do not take into account the number of customer appointments under Pihlajalinna's complete and partial outsourcing agreements. Some 40 per cent of all customer appointments (excluding municipal outsourcings) took place via remote services during the period under review. The capacity utilisation rates of surgical operations improved. The volume of surgical operations at Joki-laakso Hospital grew by 17 per cent. The number of freedom-of-choice patients in public healthcare at Joki-laakso Hospital increased by 65 per cent. The demand for fitness centres and dental care services improved, but revenue from these areas was still significantly below the level of 2019.

EBITDA was EUR 30.3 (20.6) million, an increase of EUR 9.7 million, or 46.9 per cent. Adjusted EBITDA was EUR 30.4 (21.7) million. EBITDA adjustments amounted to EUR 0.1 (1.0) million. The profitability of private clinic and occupational healthcare services improved due to COVID-19 services. The capacity utilisation rates and profitability of surgical operations improved. The profitability of fitness centres improved.

Profitability was significantly reduced by the increased costs of specialised care, social services and dental care services under complete outsourcing agreements.

Depreciation, amortisation and impairment amounted to EUR 17.1 (17.2) million. Adjustments to depreciation, amortisation and impairment amounted to EUR -0.2 (0.4) million. Depreciation of intangible assets amounted to EUR 3.4 (3.3) million, of which depreciation related to purchase price allocations amounted to EUR 1.5 (1.6) million. Depreciation, amortisation and impairment of property, plant and equipment amounted to EUR 4.5 (4.6) million, and depreciation and impairment of right-of-use assets totalled EUR 9.2 (9.4) million.

Pihlajalinna's operating profit (EBIT) amounted to EUR 13.2 (3.4) million, an increase of EUR 9.8 million, or 284.2 per cent. The EBIT-to-revenue ratio (EBIT margin) was 4.7 (1.4) per cent. Adjusted EBIT amounted to EUR 13.2 (4.8) million. The adjusted EBIT margin was 4.7 (2.0) per cent. Adjustments to EBIT amounted to EUR -0.1 (1.4) million.

The Group's net financial expenses amounted to EUR -1.8 (-2.4) million. In the comparison period, net financial expenses were increased on a non-recurring basis by a waiver expense associated with a financing arrangement. Profit before taxes came to EUR 11.4 (1.1) million. Taxes in the income statement amounted to EUR -2.3 (-0.5) million. Profit came to EUR 9.1 (0.6) million. Earnings per share (EPS) was EUR 0.40 (0.03).

The operating environment

On 29 June 2021, the President of the Republic of Finland confirmed the legislation on reforming healthcare, social welfare and rescue services. The reforms will see the responsibility for the organisation of healthcare, social welfare and rescue services 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. The Finnish Parliament voted in favour of passing the legislation on 23 June 2021. The acts will enter into force in stages, the first ones on 1 July 2021.

Following the confirmation of the legislation, the wellbeing services counties were established on 1 July 2021. Before the first county elections are held, interim preparatory bodies are in charge of the wellbeing services counties. Some of the acts related to the reforms will enter into force on 1 March 2022, when the new county councils will begin their operations.

Acts on the funding of wellbeing services counties, central government transfers to local government, the amendment of the Student Welfare Act, the amendment of the Health Care Act, the amendment of the Social Welfare Act, the amendment of the Act on the Municipal Guarantee Board, the income tax scale for 2023, the amendment of the Tax Remittance Act, the amendment of Section 30 of the Act on the Tax Administration, the amendment of the Competition Act and the Act on the National Audit Office will enter into force on 1 January 2023.

As a result of the reform of healthcare, social welfare and rescue services, the focus of services funded by tax revenue will shift to services provided by the public sector. The aim is to create equal services, speed up access to care and strengthen the proactive approach in healthcare. Even if public sector services are complemented by private sector services in the future, private operators in the field of social and healthcare services have expressed criticisms regarding the Government proposal. One of these criticisms is that, if implemented, the restriction on the use of purchased services would reduce public sector decision-makers' ability to control the rising costs of social and healthcare services. According to the Government's proposal, the wellbeing services counties would always be required to provide part of the counties' social and healthcare services themselves. Rising costs may also lead to increased inequality if the wellbeing services counties end up in a situation where they are forced to downscale their services and concentrate service provision in larger municipalities.

In the initial stages of the reforms, the funding of the wellbeing services counties will primarily consist of central government funding. The counties will receive funding based on needs criteria, which include, for example, population size, age structure, sickness rate, bilingualism and population growth.

It is difficult to anticipate the impacts of the reforms and there are significant differences between the assessments of various parties. If, for example, an outsourcing arrangement that has reduced waiting times for treatment and proved to be cost-effective needs to be terminated, it may lead to longer queues and the reduced availability of services, at least in the short term. The Finnish Association of Private Care Providers, which represents private healthcare companies and organisations, expects that the reforms will weaken the ability of the wellbeing services counties to use companies and organisations to provide care for their residents.

The number of voluntary medical expenses insurance policies has increased by more than 50 per cent between 2009 and 2020. Approximately 1.25 million Finns currently have voluntary medical expenses insurance. The fastest growth was seen in insurance policies taken out by adult individuals between 2014 and 2016 when cuts to Kela compensation were announced and implemented. The popularity of voluntary medical expenses insurance is certainly also influenced by the fact that in 2019, for example, only 56 per

cent of customers in public primary care in Finland had access to an appointment with a doctor within seven days of contacting them.

In spite of the progress made with COVID-19 vaccinations, the global pandemic has not yet been overcome. The number of COVID-19 infections began to increase again in Finland during the summer. As in many other countries, most of the new infections in Finland have been the Delta variant of the virus, and the virus has spread especially among young adults during the summer. According to the COVID-19 vaccination monitoring of the Finnish Institute for Health and Welfare, 66.2 per cent of the population had received the first dose and 35.1 per cent had received the second dose in Finland by 1 August 2021. Due to the increasing COVID-19 vaccination coverage, the need for hospital treatment is not growing as fast as it did earlier in the epidemic.

The distribution of COVID-19 vaccines is managed by Finnish municipalities. Pihlajalinna, for example, has vaccinated a large number of social services and healthcare personnel across Finland. Employer organisations have shown an interest in purchasing COVID-19 vaccination services from private sector service providers. This is an example of social responsibility by employer organisations, as participation in bearing the costs of COVID-19 vaccination is voluntary for companies.

In the public sector, queues for treatment have increased in general due to COVID-19. However, in the spring and summer, telephone consultations have accelerated access to care at public health centres. In April 2021, approximately 4,300 people had waited for access to primary care for more than three months. At the end of April, a total of 26,709 people had waited for specialised care for more than three months.

According to the interim economic forecast published by the Bank of Finland on 15 June 2021, the easing of the COVID-19 epidemic will accelerate economic growth on a broad front. The forecast suggests that the Finnish economy will be boosted by export demand and household consumption. The Finnish economy is expected to grow by 2.9 per cent in 2021, with the fastest growth taking place in the latter part of the year, with economic growth of 3.0 per cent expected in 2022. However, this rapid growth is expected to be temporary. The interim forecast underscores that the development of the epidemiological situation continues to create significant uncertainty in the forecast. Infection rates are high globally, and opening up the economy too quickly may lead to a rapid deterioration of the epidemiological situation and a new tightening of restrictions.

Consolidated statement of financial position and cash flow

Pihlajalinna Group's total statement of financial position amounted to EUR 461.6 (427.4) million. Consolidated cash and cash equivalents amounted to EUR 4.8 (14.6) million.

Net cash flow from operating activities in the quarter amounted to EUR 12.9 (10.1) million. Taxes paid amounted to EUR -0.8 (-0.9) million. The change in net working capital was EUR -1.6 (2.4) million.

Net cash flow from operating activities during the review period amounted to EUR 23.7 (31.5) million. Taxes paid amounted to EUR -3.1 (-2.1) million. The change in net working capital was EUR -3.6 (13.0) million. Working capital totalling EUR 10.0 (15.7) million was released from trade and other payables. Working capital amounting to EUR 12.7 (0.7) million was tied up in trade and other receivables and EUR 0.3 (1.1) million in inventories. Changes in provisions tied up EUR 0.6 (0.9) million in working capital.

Net cash flow from investing activities totalled EUR -20.8 (2.5) million during the quarter. The acquisition of Työterveys Virta had an impact of EUR -16.1 million on net cash flow from investing activities. Investments in NONNA Group Oy and Digital Health Solutions Oy amounted to EUR -1.4 million. Investments in tangible and intangible assets amounted to EUR -3.5 (-4.2) million, and the proceeds from the disposal of tangible

assets amounted to EUR 0.1 (6.6) million. Pihlajalinna sold and leased back two care properties in Laihia in May 2020.

Net cash flow from investing activities during the review period amounted to EUR -24.0 (-0.8) million. Acquisitions of subsidiaries had an impact of EUR -16.1 (-1.4) million on net cash flow from investing activities. Investments in tangible and intangible assets amounted to EUR -6.8 (-6.2) million, and the proceeds from the disposal of tangible assets amounted to EUR 0.2 (6.7) million.

The Group's cash flow after investments (free cash flow) was EUR -7.9 (12.6) million for the quarter and EUR -0.3 (30.7) million for the review period.

Net cash flow from financing activities totalled EUR -0.8 (-16.6) million for the quarter. The change in financial liabilities, including changes in credit limits, amounted to EUR 9.6 (-10.4) million. Payments for financial lease liabilities amounted to EUR -4.8 (-4.5) million, and interest paid and other financial expenses amounted to EUR -0.9 (-1.0) million. A total of EUR 0.2 (0.1) million in dividends was paid to non-controlling interests. Pihlajalinna Plc distributed dividends of EUR 4.5 (0.0) million for the financial year 2020 in accordance with the decision of the Annual General Meeting. The Group has acquired its own shares for its incentive scheme and the remuneration of the Board of Directors in the amount of EUR 0.0 (0.7) million.

Net cash flow from financing activities during the review period amounted to EUR -8.1 (-43.1) million. The change in financial liabilities, including changes in credit limits, amounted to EUR 9.2 (-11.4) million. Payments for financial lease liabilities amounted to EUR -9.8 (-10.2) million, and interest paid and other financial expenses amounted to EUR -2.0 (-2.4) million. The net effect of the change in non-controlling interests on cash flow was EUR 0.0 (-18.3) million. A total of EUR 0.4 (0.1) million in dividends was paid to non-controlling interests. Pihlajalinna Plc distributed dividends of EUR 4.5 (0.0) million for the financial year 2020 in accordance with the decision of the Annual General Meeting. The Group has acquired its own shares for its incentive scheme and the remuneration of the Board of Directors in the amount of EUR 0.6 (0.7) million.

The Group's gearing was 174.5 (187.6) per cent. Interest-bearing net debt amounted to EUR 207.1 (199.8) million.

Return on capital employed was 8.6 (2.7) per cent and return on equity was 15.0 (2.6) per cent.

Financing arrangements

Pihlajalinna has a five-year EUR 120 million unsecured financing arrangement with Danske Bank and Nordea. The agreement is valid until 9 March 2023. 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 30 June 2021.

Due to the changes in the operating environment caused by the COVID-19 epidemic, Pihlajalinna and the creditor banks agreed on a temporary adjustment to the covenants of the financing arrangement for the first two quarters of 2020 at the end of March 2020. 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 of 2020.

As part of the agreement, a permanent new margin ceiling was added to the financing arrangement. The margin ceiling will enter into effect if leverage exceeds 3.50. On 30 June 2021, leverage in accordance with the financing arrangement stood at 2.54 and gearing at 104 per cent.

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 45.0 million in unused committed credit limits. A further EUR 45.0 million of the additional credit limit, which is subject to a separate credit decision, remains unused.

Acquisitions and capital expenditure

Acquired entity	Month of acquisition	Industry	Domicile
Työterveys Virta Oy	4/2021	Occupational healthcare services	Oulu

Gross investments, including acquisitions, amounted to EUR 28.5 (17.2) 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 6.6 (6.1) million. Gross investments in right-of-use assets amounted to EUR 1.8 (10.8) million, including the opening of new units in Helsinki (Pihlajalinna Tavastia private clinic) and Riihimäki (Uniikki special needs residential services) in the comparison period.

Investment commitments for the Group's development, additional and replacement investments amounted to approximately EUR 2.3 (0.5) million. The investment commitments are related to additional and replacement investments in clinical equipment and information system projects.

Pihlajalinna Terveys Oy has made a commitment to carry out a share transaction with the municipality of Kuortane for 7.2 per cent of the shares in Kuusiolinna Terveys. The acquisition price, to be paid in cash, is EUR 3.0 million. After the transaction, Pihlajalinna's shareholding in Kuusiolinna Terveys Oy will increase to 97.2 per cent. The commitment is based on an approved memorandum of understanding dated 23 June 2021 and is in line with the interpretation protocol dated 16 December 2019, which the municipality of Kuortane will sign in connection with the share transaction. The share transaction is expected to take place in autumn 2021, when the decisions of the City Boards of Alavus and Ähtäri and the Municipal Boards of Soini and Kuortane pertaining to the agreed-upon matters are legally valid.

Pihlajalinna has agreed to acquire the business operations of Finla Työterveys Oy's Mänttä occupational healthcare centre. The transaction will take effect on 1 November 2021. Mänttä occupational healthcare centre has about 100 companies as its customers, comprising approximately 1,500 individual customers.

Complete and partial outsourcing agreements

Company	Pihlajalinna's holding, 31 December 2020	Pihlajalinna's holding, 30 June 2021	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
Bottenhavets Hälsa Ab - Selkämeren Terveys Oy	83%	75%	2021	15–20 years

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

Complete and partial outsourcing agreements	4– 6/2021 3 month s	4– 6/2020 3 month s	1– 6/2021 6 month s	1– 6/2020 6 month s	2020 12 month s	2019 12 month s
INCOME STATEMENT						
Revenue, EUR million	68.8	64.3	137.4	131.2	264.2	262.4
EBITDA, EUR million	2.6	2.7	3.3	4.4	11.0	15.3
EBITDA, %	3.7	4.2	2.4	3.4	4.2	5.8
Adjusted EBITDA, EUR million*	2.7	2.7	3.4	4.4	11.0	17.5
Adjusted EBITDA, %*	3.9	4.2	2.4	3.4	4.2	6.7
Operating profit (EBIT), EUR million	1.8	2.0	1.8	3.1	8.2	13.0
Operating profit, %	2.7	3.1	1.3	2.3	3.1	4.9
Adjusted operating profit (EBIT), EUR million*	1.9	2.0	1.9	3.1	8.2	15.1
Adjusted operating profit, %*	2.8	3.1	1.4	2.3	3.1	5.8
Profit before tax (EBT), EUR million	1.8	2.0	1.7	3.0	8.1	12.8

More information on the profitability of complete outsourcing agreements is presented in this half year financial report in the section *Items that may, according to the management's estimate, influence the profitability of complete outsourcing agreements with a delay.*

Changes in Group structure

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

Merged company	Target company	Month of acquisition
Pihlajalinna Seinäjoki Oy	Pihlajalinna Lääkärikeskukset Oy	9 April 2021
Terveyspalvelu Verso Oy	Pihlajalinna Lääkärikeskukset Oy	1 May 2021

Research and development

Increases to intangible assets totalled EUR 1.9 (2.1) million during the review period.

During the financial year 2021, the Group will develop preventive operating models that will be conceptualised to create service packages that combine wellbeing and healthcare on Pihlajalinna's website and health application. The personalisation of services will be developed through the targeted marketing of Pihlajalinna's and its partners' services. Opportunities for remote consultations will be expanded and harmonised. The range of partnership-based services and analytics offered to occupational healthcare customers via the Occupational Healthcare Portal will be developed and expanded. Situational awareness of the care chain will be developed for insurance customers. A professionals' mobile application will be developed for Pihlajalinna's employees and practitioners to enable them to carry out their duties efficiently and flexibly when they work remotely. The ERP system of fitness centres and the Group's procure-to-pay system will be replaced. In dental care, a new patient data system was fully deployed in May 2021.

Personnel

At the end of the review period, the number of personnel amounted to 6,000 (5,640), an increase of 361 persons or 6 per cent. The Group's personnel averaged 4,665 (4,306) persons as full-time equivalents, an increase of 358 persons or 8 per cent. The Group's employee benefit expenses totalled EUR 125.3 (108.7) million, an increase of EUR 16.7 million or 15.4 per cent. The growth in the number of personnel was attributable to COVID-19 services, the start of the partial outsourcing agreement with Kristiinankaupunki and

the acquisition of Työterveys Virta. The increase in employee expenses was also attributable to general increases, the elimination of the temporary reduction in statutory employment pension insurance contributions and personnel-related flexibility during the comparison period ie. COVID-19 spring of 2020.

Pihlajalinna's fitness centres held cooperation negotiations due to the impacts of the COVID-19 epidemic in March. The outcome of the negotiations made it possible to temporarily lay off all employees for 90 days if necessary. The part-time or full-time temporary layoffs of some of the employees began in the second half of March and lasted through the COVID-19 closure in April.

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 and Sales Director Juha-Pekka Halttunen. Antti-Jussi Aro, M.Sc. (Tech.), joined Pihlajalinna on 3 May 2021 as the new CIO and a member of the Group Management Team. Medical specialist Sari Riihijärvi, PhD, became Pihlajalinna's Medical Director and a member of the Management Team on 2 July 2021.

Board of Directors

The Annual General Meeting on 15 April 2021 resolved that the number of the members of the Board of Directors shall be six instead of the previous seven. 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:

- Juha Koponen, Group Director and Board member, LocalTapiola General Mutual Insurance Company and LocalTapiola Mutual Life Insurance Company
- Mikko Wirén, Managing Director, MWW Yhtiö Oy
- Antti Kuljukka, CEO, Fennia Mutual Insurance Company
- Hanna Hiidenpalo, Interim CEO, 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 2021:

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

People 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 of 15 April 2021 resolved that the remuneration of the members of the Board of Directors other than the Chairman of the Audit Committee will remain unchanged, and that the following annual remuneration will be paid to the members of the Board of Directors elected for the term of office ending at the 2022 Annual General Meeting: EUR 250,000 per year to the full-time Chairman of the

Board of Directors, EUR 36,000 per year to the Vice Chairman and to the Chairman of the Audit Committee, and EUR 24,000 per year to the other members.

The annual remuneration shall be paid in company shares and in cash, with approximately 40 per cent of the remuneration used to acquire shares in the name and on behalf of the members of the Board of Directors, and the remainder 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 half year financial report for the period of 1 January–30 June 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.

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 of 15 April 2021 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 number of shares. Own shares may be repurchased on the basis of the authorisation only by using unrestricted equity. Targeted share acquisition is possible. The authorisation is effective until the next Annual General Meeting, or until 30 June 2022 at the latest.

The Annual General Meeting also authorised the Board of Directors to decide on a share issue and other special rights conferring an entitlement to shares under Chapter 10, Section 1 of the Limited Liability Companies Act. The amount of shares to be issued cannot exceed 3,091,971 shares, which corresponds to approximately 14 per cent of all the shares in the Group. The authorisation concerns both the issuance of new shares and the sale or transfer of the Group's own shares. The authorisation permits a targeted share issue. The authorisation is effective until the next Annual General Meeting, or until 30 June 2022 at the latest.

Auditors and auditing

At Pihlajalinna's Annual General Meeting held on 15 April 2021, KPMG Oy Ab, a firm of authorised public accountants, was elected as the company's auditor for the financial year 1 January–31 December 2021. 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 22,594,235 were outstanding and 25,900 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 14,602 (11,887) 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	4– 6/2021	4– 6/2020	1– 6/2021	1– 6/2020	2020
No. of shares outstanding at the end of the period	22,594,235	22,572,736	22,594,235	22,572,736	22,617,841
Average no. of shares outstanding during the period	22,589,906	22,578,050	22,584,450	22,599,093	22,586,212
Highest price, EUR	11.98	15.15	11.98	15.66	15.66
Lowest price, EUR	10.84	13.40	9.26	11.58	8.72
Average price, EUR*	11.48	14.25	10.63	14.43	12.09
Closing price, EUR	11.30	14.05	11.30	14.05	9.38
Share turnover, 1,000 shares	1,234	1,357	4,356	2,720	6,620
Share turnover, %	5.5	6.0	19.3	12.0	29.3
Market capitalisation at the end of the period, EUR million	255.3	317.1	255.3	317.1	212.2

* average rate weighted by trading level

Risks and uncertainties in business operations

Pihlajalinna's risk management and risks related to the company's business operations are described in more detail in the Report by the Board of Directors 2020 and in the Financial Statements in Note 26 *Financial risk management*.

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. The fourth wave of COVID-19 began in the late summer and the number of cases may continue to grow in the autumn due to various strains of the virus. The Finnish Government's strategy with regard to COVID-19 restrictions remains an open issue.

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 services, material amendments to legislation, opening new locations, the success of acquisitions, digital service development and information system projects as well as risks related to taxation 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).

The reforms concerning the organisation of social, healthcare and rescue services, when implemented, may make some outsourcing agreements for social and healthcare services subject to a nullification or termination procedure. The termination of agreements subject to the termination procedure would require the wellbeing services counties to carry out an overall assessment of compatibility with the legislation governing the organisation of social and healthcare services. Under the proposal, the validity of such agreements would be terminated at the end of 2025. The nullification of outsourcing agreements 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 2021, 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 half year financial report.

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 3.1 million at the end of the review period. The District Court has postponed the hearing of the main case due to Jämsän Terveys 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 counterclaim that Jämsän Terveys has recognised as revenue and recorded in its receivables amounts to EUR 3.6 (3.1) 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 8.3 (5.2) million. The protocol on interpretation with the municipalities of Alavus, Ähtäri and Soini in conjunction with the share transactions carried out in 2019 was signed in order to agree on the principles of charging the variable elements of compensation in question. A share transaction will be carried out with Kuortane in autumn 2021, at which time a corresponding protocol on interpretation will be signed. In addition, a memorandum of understanding has been approved with all the clients on 23 June 2021, based on which the previous disagreements on the annual price and other separate charges have been settled. The decisions of the City Boards of Alavus and Ähtäri and the Municipal Boards of Soini and Kuortane pertaining to the agreed-upon matters are expected to be legally valid in August 2021.

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 3.3 (2.4) 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 based on the previously mentioned grounds amounted to approximately EUR 6 million according to the information available at the time of drawing up the financial statements of 31 December 2020.

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 (0.1) 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 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 based on the previously mentioned grounds amounted to approximately EUR 1.5 million according to the information available at the time of drawing up the financial statements of 31 December 2020.

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 District Court of Kanta-Häme issued a decision on the dispute between Pihlajalinna and the municipality of Hattula on 11 June 2021. The District Court found that Hattula did not have the right to terminate the agreement. Nevertheless, Pihlajalinna was ordered to pay compensation totalling EUR 123,175, including interest, to Hattula as contractual penalties and damages for breaches during the contract period. Pihlajalinna's counterclaim was approved with regard to its basis but rejected with regard to its amount. Each party was responsible for its legal costs.

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 188.6 (173.6) million. Pihlajalinna checks annually and, if necessary, quarterly, that the carrying amount of goodwill does not exceed the fair value. 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.

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 constitutes a five-year plan period. 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 review period, 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 was 56,583 shares. The net amount of 26,546 shares were paid to the participants on 25 February 2021. The shares are subject to the normal transfer restriction but not a restriction period.

The performance targets for the performance- and quality-based matching share plan for the performance period 2021 were approved by the Board of Directors on 6 May 2021. The performance targets are related to the achievement of the consolidated adjusted operating profit target for 2021, the development of the customer net promoter score (NPS), the development of the employee net promoter score (eNPS), the development of the share of internal production in specialised care, the promotion of digitalisation and items that, according to the management's estimate, may have a delayed impact on the profitability of complete outsourcing agreements.

Repurchase of own shares

During the period 15 January–21 January 2021, Pihlajalinna acquired a total of 60,000 of its own shares for an average price of EUR 9.70 per share.

Following the repurchase, Pihlajalinna held a total of 62,294 of its own shares, which was approximately 0.28 per cent of the total number of shares. On 25 February 2021, Pihlajalinna conveyed 26,546 shares held by the company to key employees in accordance with the incentive programme. On 11 May 2021, Pihlajalinna conveyed 9,848 shares held by the company as part of the fees of the Board of Directors in accordance with the decision of the Annual General Meeting. After the share transfers, the number of treasury shares held by the company was 25,900 shares at the end of the review period.

The treasury shares can be used for payments under the incentive scheme currently in effect.

Events after the review period

Pihlajalinna acquires Pohjola Hospital Ltd

On 2 July 2021, Pihlajalinna announced that its subsidiary Pihlajalinna Terveys Oy has agreed to acquire the entire share capital of Pohjola Hospital Ltd from Pohjola Insurance Ltd. The net debt-free purchase price, paid in cash, is EUR 31.8 million.

In connection with the acquisition, Pihlajalinna will also sign a new five-year service agreement with Pohjola Insurance. Pihlajalinna has previously partnered with Pohjola Insurance within the national multi-producer model. The service agreement to be signed in connection with the acquisition also covers a wide range of health services other than those offered by the acquired company.

The acquisition of Pohjola Hospital will strengthen Pihlajalinna's competitiveness in both the public and private health services market. Established in 2013, Pohjola Hospital is a chain of hospitals specialising in orthopaedics, i.e. the treatment of musculoskeletal disorders and accidents. The company's revenue was EUR 59.4 million in 2020 and EUR 74.2 million in 2019. The company's largest customer is Pohjola Insurance Ltd. Pohjola Hospital operates in five major cities with university hospitals: Helsinki, Tampere, Turku, Oulu and Kuopio. The company employs approximately 270 people and more than 300 private practitioners.

The Finnish Competition and Consumer Authority will be notified of the business acquisition arrangement. The acquisition will be implemented after the Finnish Competition and Consumer Authority's approval, and its estimated time of completion is at the turn of year 2021–2022. Therefore, the acquisition will have no impact on Pihlajalinna's outlook for the current year. The acquisition supports Pihlajalinna's long-term financial targets concerning operating profit (7%) and net gearing (under 3 x EBITDA). Pihlajalinna Group will publish more detailed information on the impact of the acquisition on its strategy and goals in early autumn.

Consolidated statement of comprehensive income

EUR million	4– 6/2021 3 month s	4– 6/2020 3 month s	1– 6/2021 6 month s	1– 6/2020 6 month s	202 0
Revenue	142.5	114.7	282.4	247.6	508.7
Other operating income	0.2	0.9	1.4	1.3	2.4
Materials and services	-50.7	-44.2	-103.9	-96.9	-198.0
Employee benefit expenses	-64.1	-52.3	-125.3	-108.7	-214.2
Other operating expenses	-12.7	-10.6	-24.2	-22.7	-46.4
Share of profit in associated companies and joint ventures	0.0	0.0	0.0	0.0	0.0
EBITDA	15.3	8.5	30.3	20.6	52.4
Depreciation, amortisation and impairment	-8.5	-8.4	-17.1	-17.2	-34.3
Operating profit (EBIT)	6.7	0.1	13.2	3.4	18.2
Financial income	0.1	0.1	0.1	0.1	0.2
Financial expenses	-1.0	-1.1	-2.0	-2.5	-4.6
Profit before taxes	5.8	-0.9	11.4	1.1	13.8
Income tax	-1.1	0.1	-2.3	-0.5	-4.8
Profit for the period*	4.6	-0.8	9.1	0.6	8.9
Total comprehensive income for the period	4.6	-0.8	9.1	0.6	8.9
Total comprehensive income for the period attributable:					
To the owners of the parent company	4.5	-0.6	9.1	0.7	8.7
To non-controlling interests	0.2	-0.3	0.1	-0.1	0.2
Earnings per share calculated on the basis of the result for the period attributable to the owners of the parent company (EUR)					
Basic	0.20	-0.03	0.40	0.03	0.39
Diluted	0.20	-0.03	0.40	0.03	0.39

* The Group has no other comprehensive income items

Consolidated statement of financial position

EUR million	30 June 2021	30 June 2020	2020
ASSETS			
Non-current assets			
Property, plant and equipment	44.2	46.4	44.0
Goodwill	188.6	173.6	173.6
Other intangible assets	17.0	17.9	16.3
Right-of-use assets	97.4	108.5	102.8
Interests in associates	0.0	0.0	0.0
Other investments	1.5	0.1	0.1
Other receivables	5.4	6.0	5.5
Deferred tax assets	6.1	7.5	5.4
Total non-current assets	360.2	360.0	347.8
Current assets			
Inventories	3.7	3.4	3.4
Trade and other receivables	90.5	48.2	75.8
Current tax assets	2.4	1.1	1.9
Cash and cash equivalents	4.8	14.6	13.3
Total current assets	101.4	67.4	94.4
Total assets	461.6	427.4	442.1
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	0.1	0.1	0.1
Reserve for invested unrestricted equity	116.5	116.5	116.5
Retained earnings	-11.9	-15.7	-15.6
Profit for the period	9.1	0.7	8.7
	113.8	101.6	109.8
Non-controlling interests	4.9	4.9	5.2
Total equity	118.7	106.5	115.0
Non-current liabilities			
Deferred tax liabilities	5.9	5.6	5.8
Provisions	0.0	0.0	0.1
Lease liabilities	89.9	101.0	95.5
Financial liabilities	102.1	93.4	92.5
Other non-current liabilities	1.1	1.2	1.2
Total non-current liabilities	199.0	201.2	195.0
Current liabilities			
Trade and other payables	121.0	98.0	109.4
Current tax liabilities	2.6	0.7	2.0
Provisions	0.4	0.9	0.6
Lease liabilities	18.6	18.9	18.7
Financial liabilities	1.3	1.2	1.4
Total current liabilities	143.9	119.6	132.1
Total liabilities	342.9	320.9	327.1
Total equity and liabilities	461.6	427.4	442.1

Consolidated statement of changes in equity

	Equity attributable to owners of the parent company				
EUR million	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			0.7	-0.1	0.6
Total comprehensive income for the period			0.7	-0.1	0.6
Dividends paid				-0.1	-0.1
Acquisition of own shares			-0.7		-0.7
Share-based benefits			1.0		1.0
Total transactions with owners			0.3	-0.1	0.2
Changes in NCI without a change in control			-0.5	0.2	-0.3
Total changes in subsidiary shareholdings			-0.5	0.2	-0.3
Total equity, 30 Jun. 2020	0.1	116.5	-15.0	4.9	106.5

	Equity attributable to owners of the parent				
EUR million	Share capital	Reserve for invested unrestricted equity	Retained earnings	Non-controlling interests	Equity Total
Total equity, 1 Jan. 2021	0.1	116.5	-6.8	5.2	115.0
Profit for the period			9.1	0.1	9.1
Total comprehensive income for the period			9.1	0.1	9.1
Dividends paid			-4.5	-0.3	-4.8
Acquisition of own shares			-0.6		-0.6
Share-based benefits			0.0		0.0
Total transactions with owners			-5.1	-0.3	-5.4
Changes in NCI without a change in control			0.1	-0.1	0.0
Total changes in subsidiary shareholdings			0.1	-0.1	0.0
Total equity, 30 Jun. 2021	0.1	116.5	-2.8	4.9	118.7

Consolidated statement of cash flows

EUR million	4–6/2021 3 months	4–6/2020 3 months	1–6/2021 6 months	1–6/2020 6 months	2020
Cash flow from operating activities					
Profit for the period	4.6	-0.8	9.1	0.6	8.9
Adjustments to cash flow from operating activities:					
Taxes	1.1	-0.1	2.3	0.5	4.8
Depreciation, amortisation and impairment	8.5	8.4	17.1	17.2	34.3
Financial income and expenses	0.9	1.0	1.8	2.4	4.4
Other	0.0	0.0	0.0	-0.1	-0.1
Net cash generated from operating activities before change in working capital	15.3	8.5	30.3	20.6	52.4
Change in working capital	-1.6	2.4	-3.6	13.0	-1.8
Interest received	0.1	0.1	0.1	0.1	0.2
Taxes paid	-0.8	-0.9	-3.1	-2.1	-3.6
Net cash flow from operating activities	12.9	10.1	23.7	31.5	47.2
Cash flow from investing activities					
Investments in tangible and intangible assets	-3.5	-4.2	-6.8	-6.2	-9.9
Proceeds from disposal of property, plant and equipment and intangible assets and prepayments	0.1	6.6	0.2	6.7	6.8
Changes in other receivables and investments	-1.4	0.0	-1.4	0.0	0.0
Dividends received	0.0	0.0	0.0	0.0	0.0
Acquisition of subsidiaries less cash and cash equivalents at date of acquisition	-16.1	0.0	-16.1	-1.4	-1.4
Net cash flow from investing activities	-20.8	2.5	-24.0	-0.8	-4.4
Cash flow from financing activities					
Changes in non-controlling interests	0.0	0.0	0.0	-18.3	-18.3
Acquisition of own shares		-0.7	-0.6	-0.7	-0.7
Proceeds from and repayment of borrowings	9.6	-10.4	9.2	-11.4	-12.2
Repayment of lease liabilities	-4.8	-4.5	-9.8	-10.2	-20.6
Interest and other operational financial expenses	-0.9	-1.0	-2.0	-2.4	-4.5
Dividends paid and other profit distribution	-4.7	-0.1	-4.9	-0.1	-0.2
Net cash flow from financing activities	-0.8	-16.6	-8.1	-43.1	-56.5
Changes in cash and cash equivalents	-8.8	-4.1	-8.5	-12.4	-13.7
Cash at beginning of period	13.6	18.7	13.3	27.0	27.0
Cash at end of period	4.8	14.6	4.8	14.6	13.3

Notes to the half year financial report

Accounting policies

This half year financial report has been prepared in compliance with IFRS standards and the provisions of IAS 34 (Interim Financial Reporting). The information published in this half year financial report 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 a half year financial report 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.

The impact of the coronavirus epidemic and the resulting exceptional circumstances on the company's business operations have been taken into account in the preparation of this half year financial report. The management has used various scenarios to analyse the impacts of the COVID-19 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 COVID-19 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 half year financial report under the going concern principle is justified and appropriate.

The half year financial report has been prepared in compliance with the IFRS standards that are currently in effect. The half year financial report 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 2021.

Impacts of new and revised IFRS standards

The amended standards published by IASB for adoption in 2021 do not have a material impact on Pihlajalinna's financial statements.

IFRS IC finalized in April 2021 its agenda decision Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38 Intangible Assets). In this agenda decision IFRS IC considered, whether, applying IAS 38, the customer recognises an intangible asset in relation to configuration or customisation of the application software, and if an intangible asset is not recognized, how the customer accounts for the configuration or customisation costs. IFRIC agenda decisions have no effective date, so they are expected to be applied as soon as possible. As the Group has cloud computing arrangements in place, it has started to analyse, if this agenda decision has an impact to the accounting policies applied to implementation costs in cloud computing arrangements. The Group will undertake this analysis under the fall 2021, and the possible impacts will be implemented retrospectively in the financial statements 2021 at the latest.

Contingent liabilities and commitments

EUR million	30 June 2021	30 June 2020	2020
Collateral given on own behalf			
Sureties	4.4	4.4	4.4
Lease deposits	0.7	1.1	0.6
Properties' VAT refund liability	0.1	0.1	0.1
Lease commitments for off-balance sheet leases	0.4	0.4	0.8

Investment commitments for the Group's development, additional and replacement investments amounted to approximately EUR 2.3 (0.5) million. The investment commitments are related to additional and replacement investments in clinical equipment and information system projects.

Pihlajalinna Terveys Oy has made a commitment to carry out a share transaction with the municipality of Kuortane for 7.2 per cent of the shares in Kuusiolinna Terveys. The acquisition price, to be paid in cash, is EUR 3.0 million. After the transaction, Pihlajalinna's shareholding in Kuusiolinna Terveys Oy will increase to 97.2 per cent. The commitment is based on an approved memorandum of understanding dated 23 June 2021 and is in line with the interpretation protocol dated 16 December 2019, which the municipality of Kuortane will sign in connection with the share transaction. The share transaction is expected to take place in autumn 2021, when the decisions of the City Boards of Alavus and Ähtäri and the Municipal Boards of Soini and Kuortane pertaining to the agreed-upon matters are legally valid.

Pihlajalinna has agreed to acquire the business operations of Finla Työterveys Oy's Mänttä occupational healthcare centre. The transaction will take effect on 1 November 2021. Mänttä occupational healthcare centre has about 100 companies as its customers, comprising approximately 1,500 individual customers.

Changes in intangible assets

EUR million	30 June 2021	30 June 2020	2020
Acquisition cost at beginning of period	228.0	224.8	224.8
Additions	1.9	2.1	3.9
Business combinations	17.2		
Transfers between items	0.0	0.0	-0.2
Disposals	0.0	-0.4	-0.4
Acquisition cost at end of period	247.1	226.4	228.0
Accumulated depreciation at beginning of period	-38.1	-32.1	-32.1
Depreciation and amortisation for the period	-3.4	-3.3	-6.5
Transfers between items		0.0	0.1
Accumulated depreciation on disposals		0.4	0.4
Accumulated depreciation at end of period	-41.5	-34.9	-38.1
Carrying amount at end of period	205.7	191.5	190.0

Changes in property, plant and equipment

EUR million	30 June 2021	30 June 2020	2020
Acquisition cost at beginning of period	94.2	97.4	97.4
Additions	4.8	4.4	7.2
Business combinations	0.0		
Transfers between items	-0.1	0.9	1.1
Disposals	-0.3	-10.3	-11.5
Acquisition cost at end of period	98.6	92.4	94.2
Accumulated depreciation at beginning of period	-50.2	-44.1	-44.1
Depreciation and amortisation for the period	-4.5	-4.6	-8.8
Transfers between items	0.1	-1.0	-1.0
Accumulated depreciation on disposals	0.1	3.7	3.7
Accumulated depreciation at end of period	-54.4	-46.0	-50.2
Carrying amount at end of period	44.2	46.4	44.0

Changes in right-of-use assets

EUR million	30 June 2021	30 June 2020	2020
Acquisition cost at beginning of period	182.9	172.7	172.7
Additions	1.8	10.4	14.6
Business combinations	2.8		
Disposals	-1.3	-2.9	-4.3
Acquisition cost at end of period	186.2	180.2	182.9
Accumulated depreciation at beginning of period	-80.1	-64.6	-64.6
Depreciation and amortisation for the period	-9.2	-9.4	-18.9
Accumulated depreciation on disposals	0.5	2.2	3.4
Accumulated depreciation at end of period	-88.8	-71.7	-80.1
Carrying amount at end of period	97.4	108.5	102.8

Right-of-use assets and lease liabilities

EUR million	Right-of-use asset items 30 June 2021	Lease liabilities 30 June 2021
Carrying amount at the beginning of the period	102.8	114.2
Changes	3.8	4.2
Depreciation and amortisation	-9.2	
Repayments of lease liabilities		-9.8
Carrying amount at end of period	97.4	108.5

On 30 June 2021, EUR 81.5 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.

EUR million	Right-of-use asset items 30 June 2020	Lease liabilities 30 June 2020
Carrying amount at the beginning of the period	108.1	114.2
Changes	9.7	16.0
Depreciation and amortisation	-9.4	
Repayments of lease liabilities		-10.2
Carrying amount at end of period	108.5	119.9

On 30 June 2020, EUR 89.2 million of the lease liabilities were the result of the adoption of IFRS 16 and EUR 30.7 million were financial lease liabilities in accordance with previous accounting standards.

Acquired business operations

Pihlajalinna completed the acquisition of Työterveys Virta Oy on 1 April 2021. Preliminary information on the acquisition is presented below:

EUR million	1–6/2021
Consideration transferred:	
Cash	17.6
Total acquisition cost	17.6
The preliminary values of the assets and liabilities acquired for consideration at the time of acquisition were as follows:	
Property, plant and equipment	0.0
Intangible assets	2.2
Right-of-use assets	2.8
Available-for-sale financial assets	0.0
Deferred tax assets	0.1
Inventories	
Trade and other receivables	1.6
Cash and cash equivalents	1.5
Total assets	8.2
Deferred tax liabilities	0.4
Restructuring provision	0.3
Interest-bearing financial liabilities	2.8
Other liabilities	2.0
Total liabilities	5.5
Preliminary net assets	2.6
Goodwill generated in the acquisition:	
Consideration transferred	17.6
Net identifiable assets of acquirees	-2.6
Preliminary goodwill	15.0
Transaction price paid in cash:	17.6
Cash and cash equivalents of acquirees	-1.5
Preliminary effect on cash flow	16.1

Expenses related to the acquisition presented above, amounting to EUR 0.3 million, have been recognised in other operating expenses (IFRS 3 costs).

Pro forma

Had Työterveys Virta Oy been consolidated since the beginning of the financial year, the consolidated revenue for the review period would have amounted to EUR 286.1 million and operating profit would have totalled EUR 12.9 million.

Quarterly information

EUR million	Q2/21	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q4/19	Q3/19
INCOME STATEMENT								
Revenue	142.5	139.9	137.2	123.9	114.7	133.0	133.8	122.7
EBITDA	15.3	15.0	15.1	16.7	8.5	12.1	12.3	12.9
EBITDA, %	10.7	10.8	11.0	13.5	7.4	9.1	9.2	10.5
Adjusted EBITDA	15.2	15.2	15.7	17.2	9.0	12.7	14.4	17.4
Adjusted EBITDA, %	10.7	10.9	11.5	13.9	7.9	9.5	10.8	14.2
Depreciation and amortisation	-8.5	-8.5	-8.4	-8.7	-8.4	-8.8	-8.6	-11.5
Operating profit (EBIT)	6.7	6.5	6.8	8.0	0.1	3.3	3.7	1.4
Operating profit, %	4.7	4.7	4.9	6.4	0.1	2.5	2.7	1.1
Adjusted operating profit (EBIT)	6.5	6.7	7.3	8.7	0.6	5.3	5.6	9.3
Adjusted operating profit (EBIT), %	4.5	4.8	5.3	7.0	0.5	4.0	4.2	7.5
Financial income	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Financial expenses	-1.0	-1.0	-1.1	-1.1	-1.1	-1.4	-1.0	-1.0
Profit before taxes	5.8	5.6	5.7	7.0	-0.9	2.0	2.7	0.4
Income tax	-1.1	-1.1	-2.8	-1.5	0.1	-0.6	-0.6	-0.3
Profit for the period	4.6	4.5	3.0	5.4	-0.8	1.4	2.1	0.1
Share of the result for the period attributable to owners of the parent company	4.5	4.6	3.4	4.6	-0.6	1.3	3.7	-1.3
Share of the result for the period attributable to non-controlling interests	0.2	-0.1	-0.4	0.8	-0.3	0.1	-1.6	1.4
EPS	0.20	0.20	0.15	0.20	-0.03	0.06	0.16	-0.06
Average number of personnel (FTE)	4,665	4,444	4,308	4,303	4,306	4,350	4,649	4,713
Change in personnel during the quarter	221	136	5	-4	-44	-299	-64	47

Trade and other receivables

Due to the COVID-19 epidemic, Pihlajalinna has reviewed the credit risk of receivables and the procedures used to estimate the credit risk. No significant changes have been observed in customers' payment behaviour. The collection of trade receivables has been enhanced. The amount of receivables more than 90 days past due is significantly increased by withheld payments concerning trade receivables and trade payables between Jämsän Terveys and the City of Jämsä. As described under *Risks and uncertainties in business operations*, if the negotiation obligation does not lead to payment, the receivables will be collected through legal action. This may further delay the collection of items presented in current receivables in the financial statements.

The Group has recognised impairment losses of EUR 0.2 (0.2) million on trade receivables for the review period.

EUR million	30 June 2021	2020
Trade receivables	76.7	59.1
Prepayments and accrued income	12.6	15.7
Current subleases	0.7	0.5
Other receivables	0.5	0.4
Total	90.5	75.8

Age distribution of trade receivables

EUR million	30 June 2021	of which written down	Net 30 June 2021	31 December 2020	of which written down	Net 30 December 2020
Not yet due	23.2	0.0	23.2	23.6	0.0	23.6
Past due						
Less than 30 days	4.4	0.0	4.4	3.8	0.0	3.8
30–60 days	2.7	-0.1	2.6	1.9	-0.1	1.8
61–90 days	2.3	-0.1	2.2	2.2	-0.1	2.1
More than 90 days	44.8	-0.5	44.3	28.3	-0.5	27.8
Total	77.4	-0.7	76.7	59.8	-0.7	59.1

Tax footprint

EUR million	30 June 2021	30 June 2020	2020
Direct tax payable for the period			
Income tax (business income tax)	3.5	2.2	4.2
Employer's pension contributions	17.1	14.4	27.0
Social security contributions	1.5	1.2	2.5
Employer's unemployment insurance contributions	1.7	1.3	2.5
Contribution to accident insurance and group life insurance	0.8	0.6	1.3
Employer contributions, total	21.1	17.4	33.3
Property taxes	0.1	1.8	0.1
Transfer taxes	0.3	0.4	0.4
Direct tax payable for the period, total	24.9	21.7	37.9
Value added tax of acquisitions payable by the company			
Value added taxes, estimate	6.9	5.7	11.3
Tax for the period			
Withholding taxes	22.4	19.7	43.3
Employee pension contributions	7.2	6.6	13.7
Employee unemployment insurance contributions	1.3	1.1	2.2
Payroll tax, total	31.0	27.4	59.2
Net value-added tax	1.1	0.5	1.9
Total tax for the period	32.1	27.9	61.1
Tax footprint	63.8	55.3	110.4
Revenue	282.4	247.6	508.7
Profit before taxes	11.4	1.1	13.8
Average number of personnel (FTE)	4,665	4,306	4,308
Public subsidies	0.1	0.8	1.4

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, %*	$\frac{\text{Operating profit + depreciation, amortisation and impairment + adjustment items}}{\text{Revenue}} \times 100$
Adjusted EBITDA excluding IFRS 3 costs*	Operating profit + depreciation, amortisation and impairment + adjustment items + IFRS 3 costs (expert fees and transfer taxes related to acquisitions)
Adjusted EBITDA excluding IFRS 3 costs, %*	$\frac{\text{Adjusted EBITDA excluding IFRS 3 costs}}{\text{Revenue}} \times 100$
Net debt/Adjusted EBITDA*, rolling 12 months	$\frac{\text{Interest-bearing net debt - cash and cash equivalents}}{\text{Adjusted EBITDA (rolling 12 months)}}$
Cash flow after investments	Net cash flow from operating activities + net cash flow from investing activities
Adjusted operating profit (EBIT)*	Operating profit + adjustment items
Adjusted operating profit, %*	$\frac{\text{Adjusted operating profit (EBIT)}}{\text{Revenue}} \times 100$
Adjusted operating profit (EBIT) excluding IFRS 3 costs and PPA amortisation*	Operating profit + adjustment items + IFRS 3 costs + PPA amortisation (amortisation of intangible assets related to purchase price allocation)
Adjusted operating profit (EBIT) excluding IFRS 3 costs and PPA amortisation, %*	$\frac{\text{Adjusted operating profit (EBIT) excluding IFRS 3 costs and PPA amortisation}}{\text{Revenue}} \times 100$
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	4–6/2021 3 months	4–6/2020 3 months	1–6/2021 6 months	1–6/2020 6 months	2020
Return on equity (ROE), %					
Profit for the period (rolling 12 months)/			17.5	2.8	8.9
Equity at beginning of period			115.0	106.1	106.1
Equity at end of period			118.7	106.5	115.0
Equity (average) x 100			116.8	106.3	110.5
Return on equity (ROE), %			15.0	2.6	8.1

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) +			24.1	4.2	13.8
Financial expenses (rolling 12 months)			4.1	4.5	4.6
/			28.2	8.7	18.4
Total statement of financial position at beginning of period -			442.1	438.4	438.4
non-interest-bearing liabilities at beginning of period			119.0	112.7	112.7
			323.1	325.8	325.8
Total statement of financial position at end of period -			461.6	427.4	442.1
Non-interest-bearing liabilities at end of period			130.9	106.4	119.0
			330.6	321.0	323.1
Average x 100			326.9	323.4	324.4
Return on capital employed (ROCE), %			8.6	2.7	5.7

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/			118.7	106.5	115.0
Total statement of financial position -			461.6	427.4	442.1
Advances received x 100			1.1	1.1	1.2
Equity ratio, %			25.8	25.0	26.1

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 –			211.9	214.5	208.1
Cash and cash equivalents/			4.8	14.6	13.3
Equity x 100			118.7	106.5	115.0
Gearing, %			174.5	187.6	169.4

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 -			211.9	214.5	208.1
Cash and cash equivalents			4.8	14.6	13.3
Net debt/			207.1	199.8	194.8
Adjusted EBITDA (rolling 12 months)			63.4	53.5	54.6
Net debt/adjusted EBITDA, rolling 12 months			3.3	3.7	3.6

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.

	4–6/2021 3 months	4–6/2020 3 months	1–6/2021 6 months	1–6/2020 6 months	2019
EBITDA and Adjusted EBITDA					
Profit for the period	4.6	-0.8	9.1	0.6	8.9
Income tax	-1.1	0.1	-2.3	-0.5	-4.8
Financial expenses	-1.0	-1.1	-2.0	-2.5	-4.6
Financial income	0.1	0.1	0.1	0.1	0.2
Depreciation, amortisation and impairment	-8.5	-8.4	-17.1	-17.2	-34.3
EBITDA	15.3	8.5	30.3	20.6	52.4
Total EBITDA adjustments	-0.1	0.5	0.1	1.0	2.2
Adjusted EBITDA	15.2	9.0	30.4	21.7	54.6
IFRS 3 costs –	-0.7	-0.1	-0.7	-0.1	-0.1
Adjusted EBITDA excluding IFRS 3 costs	15.9	9.1	31.1	21.8	54.8

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/	15.3	8.5	30.3	20.6	52.4
Revenue x 100	142.5	114.7	282.4	247.6	508.7
EBITDA, %	10.7	7.4	10.7	8.3	10.3
Adjusted EBITDA, %					
Adjusted EBITDA/	15.2	9.0	30.4	21.7	54.6
Revenue x 100	142.5	114.7	282.4	247.6	508.7
Adjusted EBITDA, %	10.7	7.9	10.8	8.8	10.7
Operating profit (EBIT) and Adjusted operating profit (EBIT)					
Profit for the period	4.6	-0.8	9.1	0.6	8.9
Income tax	-1.1	0.1	-2.3	-0.5	-4.8
Financial expenses	-1.0	-1.1	-2.0	-2.5	-4.6

Financial income	0.1	0.1	0.1	0.1	0.2
Operating profit (EBIT)	6.7	0.1	13.2	3.4	18.2
Total adjustments to depreciation, amortisation and impairment	-0.2	0.0	-0.2	0.4	0.4
Total EBITDA adjustments	-0.1	0.5	0.1	1.0	2.2
Total operating profit (EBIT) adjustments	-0.3	0.5	-0.1	1.4	2.6
Adjusted operating profit (EBIT)	6.5	0.6	13.2	4.8	20.8
IFRS 3 costs –	-0.7	-0.1	-0.7	-0.1	-0.1
PPA amortisation –	-0.8	-0.8	-1.5	-1.6	-3.1
Adjusted operating profit (EBIT) excluding IFRS 3 costs and PPA amortisation	7.9	1.4	15.3	6.5	24.0

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	6.7	0.1	13.2	3.4	18.2
Operating profit (EBIT), %	4.7	0.1	4.7	1.4	3.6
Adjusted operating profit (EBIT), %					
Adjusted operating profit/ Revenue x 100	6.5	0.6	13.2	4.8	20.8
Adjusted operating profit (EBIT), %	4.5	0.5	4.7	2.0	4.1
Cash flow after investments					
Net cash flow from operating activities	12.9	10.1	23.7	31.5	47.2
Net cash flow from investing activities	-20.8	2.5	-24.0	-0.8	-4.4
Cash flow after investments	-7.9	12.6	-0.3	30.7	42.8

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	4.6	-0.8	9.1	0.6	8.9
Income tax	-1.1	0.1	-2.3	-0.5	-4.8
Profit before taxes	5.8	-0.9	11.4	1.1	13.8
Gross investments					
Property, plant and equipment at the end of the period	44.2	46.4	44.2	46.4	44.0
Right-of-use assets at the end of the period	97.4	108.5	97.4	108.5	102.8
Other intangible assets at end of period	17.0	17.9	17.0	17.9	16.3
Goodwill at end of period	188.6	173.6	188.6	173.6	173.6
Depreciation, amortisation and impairment for the period are added	8.5	8.4	17.1	17.2	34.3
-					

Property, plant and equipment at the start of the period	44.2	53.1	44.0	53.2	53.2
Right-of-use assets at the start of the period	98.5	108.3	102.8	108.1	108.1
Other intangible assets at beginning of period	15.5	18.6	16.3	19.1	19.1
Goodwill at beginning of period	173.6	173.6	173.6	173.6	173.6
Proceeds from the sale of property, plant and equipment during the period	-0.2	-5.9	-0.9	-7.7	-8.7
Gross investments	24.2	7.0	28.5	17.2	25.7
Organic revenue growth, %					
Revenue for the period -	142.5	114.7	282.4	247.6	508.7
Revenue from M&A transactions during the period (rolling 12 months) -	3.7	0.3	3.7	1.1	1.4
Revenue for the previous period	114.7	129.7	247.6	262.2	518.6
Organic revenue growth/	24.1	-15.3	31.1	-15.7	-11.3
Revenue for the previous period x 100	114.7	129.7	247.6	262.2	518.6
Organic revenue growth, %	21.1	-11.8	12.5	-6.0	-2.2
Revenue growth due to M&A transactions, %	3.3	0.2	1.5	0.4	0.3
Revenue growth	27.9	-15.1	34.8	-14.5	-9.9
Revenue growth, %	24.3	-11.6	14.1	-5.5	-1.9

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 profit

EUR million	4–6/2021 3 months	4–6/2020 3 months	1–6/2021 6 months	1–6/2020 6 months	2020
EBITDA	15.3	8.5	30.3	20.6	52.4
Adjustments to EBITDA					
Dismissal-related expenses	0.1	0.0	0.3	-0.1	-0.1
Compensation under the share-based incentive scheme		0.4		0.7	1.5
Onerous contracts	-0.2		-0.2		
Other		0.2		0.4	0.7
Adjustments to EBITDA in total	-0.1	0.5	0.1	1.0	2.2
Adjusted EBITDA	15.2	9.0	30.4	21.7	54.6
Depreciation, amortisation and impairment	-8.5	-8.4	-17.1	-17.2	-34.3
Adjustments to depreciation, amortisation and impairment					
Double depreciation arising from a merger with no cash flow effect				0.4	0.4
Closure of operating locations	-0.2		-0.2		
Adjustments to depreciation, amortisation and impairment in total	-0.2	0.0	-0.2	0.4	0.4
Adjusted operating profit (EBIT)	6.5	0.6	13.2	4.8	20.8
Operating profit (EBIT)	6.7	0.1	13.2	3.4	18.2

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

EUR million	4–6/2021 3 months	4–6/2020 3 months	1–6/2021 6 months	1–6/2020 6 months	2020
Employee benefit expenses	0.1	0.3	0.3	0.6	1.5
Other operating expenses	-0.2	0.2	-0.2	0.4	0.7
EBITDA adjustment items total	-0.1	0.5	0.1	1.0	2.2
Depreciation, amortisation and impairment	-0.2		-0.2	0.4	0.4
Operating profit adjustment items total	-0.3	0.5	-0.1	1.4	2.6

Pihlajalinna's financial reporting in 2021

Interim report January–September: Thursday 4 November 2021

Briefing

Pihlajalinna will hold a briefing for analysts and the media on Friday, 13 August 2021 at 10:00 a.m. The event will be held remotely.

Helsinki, 12 August 2021

The Board of Directors of Pihlajalinna Plc

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Pihlajalinna in brief

20-year-old Pihlajalinna is one 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, occupational healthcare and dental care services, residential services and wellbeing services, for example. 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.