

Pihlajalinna

FINANCIAL STATEMENTS RELEASE
1 January–31 December 2018



Pihlajalinna Financial Statements Release 1 Jan–31 Dec 2018 (12 months)

Pihlajalinna's revenue for the financial year increased substantially, actions to improve profitability continue

Review period October–December:

- Revenue amounted to EUR 127.0 (107.9) million – an increase of 17.6 per cent
- EBITDA amounted to EUR 10.6 (8.1) million
- Adjusted EBITDA was EUR 11.1 (8.5) million – an increase of 30.2 per cent
- Operating profit (EBIT) was EUR 6.0 (4.6) million
- Adjusted operating profit (EBIT) was EUR 6.5 (4.9) million – an increase of 32.2 per cent
- IFRS 3 costs related to M&A transactions had a negative effect of EUR 0.1 (0.3) million on operating profit
- Earnings per share (EPS) was EUR 0.12 (0.12)

Review period January–December:

- Revenue amounted to EUR 487.8 (424.0) million – an increase of 15.0 per cent
- EBITDA amounted to EUR 31.2 (33.3) million
- Adjusted EBITDA was EUR 32.3 (34.1) million – a decrease of 5.2 per cent
- Operating profit (EBIT) was EUR 12.8 (19.1) million
- Adjusted operating profit (EBIT) was EUR 14.0 (20.0) million – a decrease of 29.9 per cent
- IFRS 3 costs related to M&A transactions had a negative effect of EUR 1.6 (0.9) million on operating profit
- The number of personnel at the end of the financial year was 5,850 (4,753)
- Earnings per share (EPS) was EUR 0.17 (0.46)

KEY FIGURES	10–12/2018 3 months	10–12/2017 3 months	2018 12 months	2017 12 months
INCOME STATEMENT				
Revenue, EUR million	127.0	107.9	487.8	424.0
EBITDA, EUR million	10.6	8.1	31.2	33.3
EBITDA, %	8.4	7.5	6.4	7.9
Adjusted EBITDA, EUR million*	11.1	8.5	32.3	34.1
Adjusted EBITDA, %*	8.7	7.9	6.6	8.0
Operating profit (EBIT), EUR million	6.0	4.6	12.8	19.1
Operating profit, %	4.7	4.2	2.6	4.5
Adjusted operating profit (EBIT), EUR million*	6.5	4.9	14.0	20.0
Adjusted operating profit, %*	5.1	4.6	2.9	4.7
Profit before tax (EBT), EUR million	5.2	4.1	10.0	17.4
SHARE-RELATED INFORMATION				
Earnings per share (EPS), EUR	0.12	0.12	0.17	0.46
Equity per share, EUR			5.39	4.87
Dividend per share, EUR (the Board of Directors' proposal)			0.10	0.16
OTHER KEY FIGURES				
Return on capital employed (ROCE), %			5.8	11.8
Return on equity (ROE), %			6.0	13.6
Equity ratio, %			37.6	41.8
Gearing, %			68.7	32.3
Interest-bearing net debt, EUR million			90.1	34.2
Net debt/adjusted EBITDA, 12 months*			2.8	1.0
Gross investments, EUR million**	13.8	9.8	101.7	30.4

Cash flow from operating activities, EUR million	20.6	16.4	27.4	34.9
Cash flow after investments, EUR million	8.3	12.6	-32.7	16.4
Average number of personnel (FTE)			4,868	3,879
Personnel at the end of the period (NOE)			5,850	4,753

* 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.

Adjustments to EBITDA totalled EUR 0.4 (0.4) million for the quarter and EUR 1.1 (0.7) million for the financial year. Adjustments to operating profit totalled EUR 0.6 (0.4) million for the quarter and EUR 1.2 (0.9) million for the financial year.

** Finance leases are not included in the gross investments

Pihlajalinna's outlook for 2019

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

Joni Aaltonen, CEO of Pihlajalinna:

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

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

Fiscal year 2018 was a year of business development for Pihlajalinna. In addition to changing our organizational structure, we expanded geographically, developed new services and invested in creating a stronger brand and digital services. Even if all this development work eroded our profitability, we now enter the year 2019 in a good position. The major changes have now been completed—for the time being—and we can focus on the continued improvement of our profitability.

We are now a genuinely national operator. In line with our strategy, we have expanded our operations to new regional capitals through acquisitions. We opened new full-service private clinics- hospitals in Oulu, Seinäjoki and Turku. Complementing the national network supports especially the expansion of occupational healthcare services. We provided occupational healthcare to approximately 60,000 end customers in 2015, the amount of end customers has risen over 170,000 at the end of the year 2018. In addition, the acquisition of Doctagon during the review period strengthens our presence in the Swedish-speaking areas. In areas where we do not have medical specialists comprehensively available, for example, we can provide medical specialist services from another location using digital channels. The use of remote services enables

us to balance regional differences in demand and supply. In the fourth quarter, we acquired the entire share capital of Terveyspalvelu Verso Oy. This transaction saw Verso's 17 clinics in Pohjois-Savo become part of the chain of Pihlajalinna's private clinics.

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

The growth of the municipal business was weakened in 2018 by the effect of uncertainty around health and social services reform on municipal decision-making. In spite of the prevailing uncertainty, our joint venture in Laihia began its operations on 1 September 2018, while in Hattula, a partial outsourcing arrangement for social and healthcare services started at the beginning of 2019.

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

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

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

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

Revenue by business area

Pihlajalinna's geographical business areas are Southern Finland, Mid-Finland, Ostrobothnia and Northern Finland.

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

October–December 2018

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

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

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

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

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

January–December 2018

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

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

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

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

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

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

Revenue by customer group

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

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

October–December 2018

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

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

occupational health nurse telephone service in particular, has increased in corporate customer relationships.

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

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

January–December 2018

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

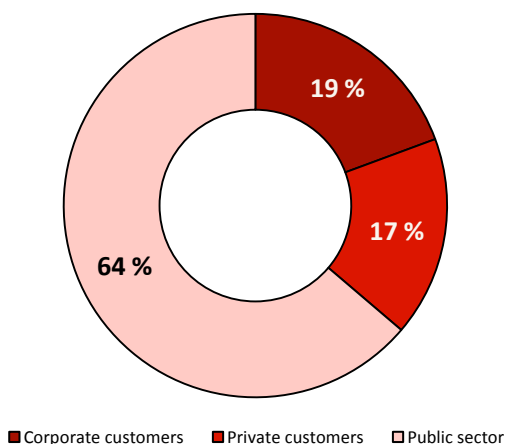
Revenue from corporate customers during the financial year amounted to EUR 105.6 (82.6) million, an increase of EUR 23.0 million, or 28 per cent. Sales to insurance company customers declined by EUR 1.4 million, or 5 per cent. The revenue was increased by the start-up of new clinics, Doctagon's staffing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

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

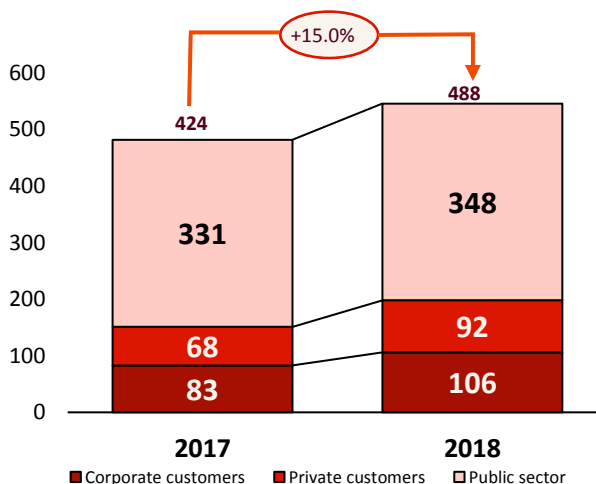
Revenue from public sector customers amounted to EUR 347.7 (330.5) million, an increase of EUR 17.2 million, or 5 per cent. The majority of the growth was attributable to the acquisitions of Doctagon and Kymijoen Työterveys. The cost-based price adjustments of social and healthcare outsourcings and the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

Revenue by customer group 2018

REVENUE BY CUSTOMER GROUP, %



REVENUE BY CUSTOMER GROUP, EUR MILLION



Consolidated revenue and result

October–December 2018

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

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

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

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

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

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

Pihlajalinna's public specialized care revenue included in complete social and healthcare outsourcings amounted to EUR 21.8 (20.8) million. The EBITDA of public specialized care amounted to EUR 2.4 (0.0) million and the operating profit was EUR 2.3 (0.0) million. Profitability was significantly improved by service provider refunds from hospital districts for public sector specialized care cost accruals. The cost accumulation of public specialized care involves random fluctuation. Individual cases falling within the scope of the hospital districts' pooling system for high-cost care and operational economy surplus refunds may influence the costs of specialized care considerably during the financial year, and between financial periods, in Pihlajalinna's municipal companies.

The Group's net financial expenses amounted to EUR -0.8 (-0.4) million. Profit before tax amounted to EUR 5.2 (4.1) million, an increase of EUR 1.1 million, or 25.9 per cent. Taxes in the income statement amounted to EUR -1.4 (-0.6) million. The profit was EUR 3.8 (3.5) million. Earnings per share (EPS) was EUR 0.12 (0.12).

January–December 2018

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

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

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

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

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

Adjusted EBITDA was EUR 32.3 (34.1) million, a decrease of EUR 1.8 million, or 5.2 per cent. EBITDA adjustments for the financial year totaled EUR 1.1 (0.7) million.

Depreciations, amortizations and impairment amounted to EUR 18.4 (14.2) million. Amortizations and impairment of intangible assets amounted to EUR 7.1 (5.2) million, of which purchase price allocation (PPA)

amortization was EUR 5.1 (3.8) million. Depreciations, amortizations and impairment of property, plant and equipment amounted to EUR 11.3 (9.0) million.

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

Pihlajalinna's public specialized care revenue included in complete social and healthcare outsourcings amounted to EUR 86.4 (84.3) million. The EBITDA of public specialized care amounted to EUR 2.5 (0.9) million and the operating profit was EUR 2.2 (0.7) million. Profitability was significantly improved by service provider refunds from hospital districts for public sector specialized care cost accruals. However, public specialized care costs increased significantly during the first half of the year. The cost accumulation of public specialized care involves random fluctuation. Individual cases falling within the scope of the hospital districts' pooling system for high-cost care may influence the costs of specialized care considerably during the financial year, and between financial periods, in Pihlajalinna's municipal companies.

The Group's net financial expenses totaled EUR -2.8 (-1.7) million. The profit before tax amounted to EUR 10.0 (17.4) million, a decrease of EUR 7.5 million, or 42.9 per cent. Taxes in the income statement amounted to EUR -2.8 (-3.4) million. Profit was EUR 7.1 (14.1) million. Earnings per share (EPS) was EUR 0.17 (0.46).

Market and legislation review

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

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

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

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

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

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

Consolidated statement of financial position and cash flow

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

The Group's net cash flow from operating activities during the financial year amounted to EUR 27.4 (34.9) million. Taxes paid amounted to EUR -5.5 (-4.6) million. The change in net working capital was EUR 1.5 (6.6) million. Cash flow from operating activities was reduced by the lower EBITDA and improved by higher trade payables and other liabilities.

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

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

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

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

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

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

Financing arrangements

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

The financing arrangement includes the customary leverage (ratio of net debt to pro forma EBITDA) and gearing financial covenants. The Group met the set covenants on 31 December 2018.

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

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

Acquisitions, divestments and capital expenditure

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

A summary of the acquisitions is presented in the tables section of the financial statements release.

Gross investments, including acquisitions, totaled EUR 101.7 (30.4) million. The Group's gross investments in property, plant and equipment and intangible assets, which consisted of development investments, additional investments and replacement investments required for growth, amounted to EUR 9.9 (8.3) million. Capital expenditure relating to the opening of new units totaled EUR 12.4 (5.1) million. Gross investments associated with M&A transactions totaled EUR 79.3 (17.0) million.

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

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

Pihlajalinna's expansion will continue regardless the postponement of the potential reform of health and social services. During the 2017 financial year, Pihlajalinna announced it plans to open new units in 10 new locations by 2020. Future expansion will be primarily achieved by acquisitions and municipal projects. No new surgical units will be opened in 2019.

Acquisitions of non-controlling interests

Pihlajalinna increased its holdings in municipal joint ventures in June 2018 and, at the end of the financial year, Pihlajalinna owned 81 per cent of the shares of Mäntänvuoren Terveys Oy and Kolmostien Terveys Oy

as well as 90 per cent of the shares of Jokilaakson Terveys Oy. In addition, the company signed a conditional agreement with the Kuusiokunnat municipalities according to which it will increase its holding in Kuusiolinna Terveys Oy to 97 per cent by the end of 2018. The validity of the agreement has, however, been extended until 15 March 2019.

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

TEKSTEJÄ PUUTTUU TAULUKOSTA

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

Changes in Group structure

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

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

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

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

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

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

Research and development

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

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

Personnel

At the end of the financial year, the number of personnel was 5,850 (4,753), an increase of 1,097 persons or 23 per cent. The Group's personnel averaged 4,868 (3,879) persons as full-time equivalents, an increase

of 989 persons or 26 per cent. The Group's employee benefit expenses totaled EUR 208.4 (175.4) million for the period, an increase of EUR 33.0 million or 19 per cent.

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

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

Management changes and Management Team

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

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

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

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

Board of Directors

The Annual General Meeting held on 5 April 2018 decided that the Board of Directors will be composed of eight (8) members. Timo Everi, Leena Niemistö, Jari Sundström, Seija Turunen and Mikko Wirén were re-elected and Matti Bergendahl, Kati Sulin and Gunvor Kronman were elected as new members of the Board of Directors for a term of office ending at the conclusion of the next Annual General Meeting.

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

Committees nominated by the Board

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

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

Shareholders' Nomination Board

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

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

- Mikko Wirén, Managing Director, MWW Yhtiö Oy
- Antti Kuljukka, CEO, Fennia Mutual Insurance Company
- Hanna Hiidenpalo, Director, Chief Investment Officer, Elo Mutual Pension Insurance Company

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

Remuneration of the members of the Board of Directors

The Annual General Meeting of 5 April 2018 decided that the remuneration of Board members shall remain unchanged as follows: the full-time Chairman EUR 250,000, the Deputy Chairman EUR 48,000 and the other members EUR 24,000 per year.

In addition, the AGM decided that each Board member shall be paid a meeting fee of EUR 500 for each Board and Committee meeting. In addition, reasonable travelling expenses would be paid according to the Company travel rules.

Auditors and auditing

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

Shares and shareholders

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

At the end of the financial year, Pihlajalinna Plc's share capital entered in the Trade Register amounted to EUR 80,000 and the total number of shares outstanding was 22,620,135. The company has one share series, with each share entitling its holder to one vote at the Annual General Meeting. All shares bestow their holders with equal rights to dividends and other distribution of the company's assets. At the end of the financial year, the company had 13,372 (12,489) shareholders. The company does not hold any treasury shares. A list of the largest shareholders is available on the company's investor website at investors.pihlajalinna.fi.

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

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

* average share price weighted by trading volume

Board authorisations

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

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

Risks and uncertainties in business operations

Pihlajalinna monitors risks annually and the objective is the minimization and better anticipation of risks.

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

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

Determining the annual profitability of the Group's complete social and healthcare services outsourcing agreements may become accurate with a delay. The Group may not always be aware of the actual costs of the agreements at the time of preparing the financial statements.

In addition, the most essential risks and uncertainties affecting the Group's operations are connected to the success of opening new locations, acquisitions and information system projects, tax-related risks and the commitment and recruitment of competent management.

A tax audit of the Group's main companies began in spring 2017. For income taxation (the Act on the Taxation of Business Profits and Income from Professional Activity) has been completed without sanctions. The other aspects of the tax audit are still incomplete.

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

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

At the end of the 2018 financial year, goodwill on Pihlajalinna's statement of financial position amounted to EUR 169.9 (103.9) million. Pihlajalinna checks annually, and if necessary quarterly, the potential impairment, that the carrying amount of goodwill does not exceed the fair value. During the financial year, Pihlajalinna observed no indications of the carrying amount of goodwill being greater than its estimated recoverable amount. If negative changes were to occur in the development of Pihlajalinna's profit and growth, this could lead to an impairment of goodwill which, in turn, could have an unfavorable impact on Pihlajalinna's operating result and equity.

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

Risk management

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

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

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

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

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

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

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

A factor that links all risk categories together is the reputational risk that may affect the reputation of the Group's brands or the entire Group.

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

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

Flagging notifications

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

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

Incentive schemes

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

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

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

Seasonality

Pihlajalinna's business operations are affected by seasonality to some extent. Revenue from Pihlajalinna's complete social and healthcare outsourcings and other fixed-price services is recognized evenly over time.

During the summer holidays, especially in July, the personnel costs are lower and profitability is improved mainly due to personnel cost accruals. However, service demand by Pihlajalinna's private and corporate customers is lower, and profitability weaker, during the holiday seasons, especially in July–August and December. Quarterly seasonality has historically had a favorable impact on profitability in the third quarter.

The Board of Directors' proposal for profit distribution

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

Calculation of the parent company's distributable funds:

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

On the balance sheet date, the number of shares entitling their holder to dividend was 22,620,135, and consequently, the total dividend amount would be EUR 2,262,013.50. No material changes have taken place in the company's financial position after the end of the financial year. The company's liquidity position is good and, in the view of the Board of Directors, the proposed distribution does not jeopardize the company's ability to fulfil its obligations.

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

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

The annual report for 2018, including the Board of Directors' report and the financial statements, will be published on the company's investor website at investors.pihlajalinna.fi in week 11.

Events after the balance sheet date

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

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

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

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

Mika Manninen (b. 1975, Master of Science in Economics and Business Administration) is a member of Fennia Group's Management Team and is currently the Group CFO. Prior to this, he worked as the Fennia

Group's Risk Management Director from 2015 to 2017. Manninen has over 10 years of experience in various positions in banking from 2001 to 2015.

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

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

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

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

Remuneration of the Board of Directors

The Shareholders' Nomination Board proposes that the remuneration of the Board of Directors be kept otherwise unchanged, except for a reduction in the remuneration of the Vice-Chairman, and that the following annual remuneration be paid to the members of the Board of Directors to be elected at the Annual General Meeting for the term of office ending at the close of the Annual General Meeting 2020: to the full-time Chairman of the Board of Directors EUR 250,000 per year, to the Vice-Chairman EUR 36,000 per year, and to the other members of the Board of Directors EUR 24,000 per year.

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

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

Acquisitions of non-controlling interests

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

Accounting policies

This financial statements release has been prepared in compliance with IFRS standards and the provisions of IAS 34 (Interim Financial Reporting). The information published in this financial statements release is

based on the audited financial statements for 2018. All figures have been rounded, due to which the actual total of individual figures may differ from the total presented. Key figures and figures reflecting changes have been calculated using the exact figures.

The preparation of the financial statements 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.

Pihlajalinna has implemented changes to its segment reporting as a result of structural reforms. Effective from the beginning of 2018, Pihlajalinna's operating segments are the Group's geographical business areas, which are combined into one reportable segment.

Pihlajalinna reports its Group-level results as its segment data in 2018, with the Group-level results for 2017 presented as comparison figures. Pihlajalinna also reports its revenue in 2018 based on business areas and customer groups according to the IFRS 15 requirements regarding the disaggregation of revenue.

The financial statements release has been prepared in compliance with the IFRS standards currently endorsed for application in the European Union. The financial statements release has been prepared according to the accounting policies applied in the financial statements of 31 December 2018, taking into account the new and amended standards and interpretations that became effective on 1 January 2018.

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

The calculation formulas for key financial figures and alternative performance measures as well as the justifications for their presentation are provided in the tables section of the financial statements release.

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

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

Impacts of future IFRS standards

IFRS 16 Leases

Nature of changes

IFRS 16 enters into effect on 1 January 2019 and it replaces IAS 17 Leases and related interpretations. Under the new standard, nearly all leases are recognized in the lessee's statement of financial position, as operating leases and finance leases are no longer separated. A right-of-use asset is recognized along with a

financial liability representing lease payments. The only exceptions are short-term leases and leases for which the underlying asset is of low value.

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

During the latter part of 2018, Pihlajalinna has reviewed all of its lease arrangements in relation to the new accounting regulations pursuant to IFRS 16. The review indicated that the majority of Pihlajalinna's lease arrangements are leases for business premises. The other reviewed lease arrangements concern land areas, machinery and equipment (exercise equipment, clinical equipment, cars and other equipment).

Pihlajalinna applies the IFRS 16 exemption that allows lessees to elect not to recognize a right-of-use asset and corresponding lease liability for assets with a lease term of 12 months or less as well as assets of low value. Assets of low value include, for example, IT equipment and office furniture. Furthermore, to make the accounting of leases easier, Pihlajalinna elects not to separate service components from leases, instead treating the entire agreement as a lease in its consolidated financial statements.

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

The adoption of the standard will not affect the covenant calculations of the Group's external financing arrangement. The calculation of covenants will continue with the creditor banks in accordance with the accounting principles confirmed for the original financing arrangement.

Transition plan

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

Preliminary information on the quantitative effects of IFRS 16 adoption

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

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

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

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

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

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

Tables

1.1.–31.12.2018

This financial statements release is based on the audited financial statements for the year 2018.

Consolidated statement of comprehensive income

EUR million	10– 12/2018 3 months	10– 12/2017 3 months	2018 12 months	2017 12 months
Revenue	127.0	107.9	487.8	424.0
Other operating income	1.9	1.2	4.3	2.3
Materials and services	-48.1	-43.4	-189.2	-175.5
Employee benefit expenses	-53.3	-44.9	-208.4	-175.4
Other operating expenses	-16.8	-12.7	-63.4	-42.3
Share of profit in associated companies and joint ventures	0.0	0.1	0.0	0.3
EBITDA	10.6	8.1	31.2	33.3
Depreciation, amortisation and impairment	-4.7	-3.6	-18.4	-14.2
Operating profit (EBIT)	6.0	4.6	12.8	19.1
Financial income	0.0	0.0	0.1	0.2
Financial expenses	-0.8	-0.5	-3.0	-1.9
Profit before taxes	5.2	4.1	10.0	17.4
Income tax	-1.4	-0.6	-2.8	-3.4
Profit for the period*	3.8	3.5	7.1	14.1
Total comprehensive income for the period	3.8	3.5	7.1	14.1
Total comprehensive income for the period attributable:				
To the owners of the parent company	2.7	2.4	3.8	9.5
To non-controlling interests	1.1	1.1	3.3	4.6
Earnings per share calculated on the basis of the result for the period attributable to the owners of the parent company (EUR)				
Basic and diluted	0.12	0.12	0.17	0.46

* The Group has no other comprehensive income items

Consolidated statement of financial position

EUR million	31 December 2018	31 December 2017
ASSETS		
Non-current assets		
Property, plant and equipment	72.6	61.9
Goodwill	169.9	103.9
Other intangible assets	22.9	16.6
Interests in associates	0.0	3.0
Other investments	0.1	0.1
Other receivables	1.8	1.6
Deferred tax assets	3.7	2.2
Total non-current assets	271.1	189.3
Current assets		
Inventories	2.5	2.2
Trade and other receivables	37.9	24.0
Current tax assets	1.7	1.1
Cash and cash equivalents	36.3	37.1
Total current assets	78.4	64.3
Total assets	349.5	253.6
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	0.1	0.1
Reserve for invested unrestricted equity	116.5	87.9
Retained earnings	1.5	2.8
Profit for the period	3.8	9.5
	121.9	100.3
Non-controlling interests	9.3	5.6
Total equity	131.2	105.9
Non-current liabilities		
Deferred tax liabilities	6.0	5.5
Financial liabilities	122.8	66.3
Other non-current liabilities	1.5	1.7
Provisions	0.3	0.8
Total non-current liabilities	130.6	74.3
Current liabilities		
Trade and other payables	79.5	61.8
Current tax liabilities	1.9	1.3
Financial liabilities	6.4	10.3
Total current liabilities	87.8	73.4
Total liabilities	218.4	147.7
Total equity and liabilities	349.5	253.6

Consolidated statement of changes in equity

EUR million	Equity attributable to owners of the parent company			Non-controlling interests	Equity Total
	Share capital	Reserve for invested unrestricted equity	Retained earnings		
Total equity, 1 Jan. 2017	0.1	87.9	9.7	3.2	101.0
Profit for the period			9.5	4.6	14.1
Total comprehensive income for the period			9.5	4.6	14.1
Dividends paid			-3.2	-1.7	-4.8
Total transactions with owners			-3.2	-1.7	-4.8
Changes in NCI without a change in control			-3.8	-0.2	-4.0
Changes in non-controlling interests that have resulted in a change in control				-0.4	-0.4
Total changes in ownership interests			-3.8	-0.6	-4.4
Total equity, 31 Dec. 2017	0.1	87.9	12.3	5.6	105.9

Total equity, 31 Dec. 2017	0.1	87.9	12.3	5.6	105.9
IFRS 15 adoption			0.0		0.0
IFRS 9 adoption			0.0		0.0
Total equity, 1 Jan. 2018	0.1	87.9	12.3	5.6	105.9
Profit for the period			3.8	3.3	7.1
Total comprehensive income for the period			3.8	3.3	7.1
Directed share issue		28.6			28.6
Dividends paid			-3.6	-1.2	-4.8
Investments in Group companies				2.4	2.4
Total transactions with owners		28.6	-3.6	1.2	26.1
Changes in NCI without a change in control			-7.2	-0.8	-8.0
Total changes in ownership interests			-7.2	-0.8	-8.0
Total equity, 31 Dec. 2018	0.1	116.5	5.3	9.3	131.2

Consolidated statement of cash flows

EUR million	10–12/2018 3 months	10–12/2017 3 months	2018 12 months	2017 12 months
Cash flow from operating activities				
Cash receipts from sales	126.0	105.4	486.1	423.8
Cash receipts from other operating income	0.7	0.8	1.9	1.5
Operating expenses paid	-104.5	-89.0	-455.2	-386.0
Operating cash flow before financial items and taxes	22.2	17.3	32.8	39.3
Interest received	0.0	0.0	0.1	0.2
Taxes paid	-1.6	-0.8	-5.5	-4.6
Net cash flow from operating activities	20.6	16.5	27.4	34.9
Cash flows from investing activities				
Investments in tangible and intangible assets	-5.1	-4.2	-19.6	-10.1
Proceeds from disposal of property, plant and equipment and intangible assets and prepayments	0.0	0.1	0.4	0.2
Changes in other investments	0.0	-0.1	0.0	-0.1
Changes in loan receivables		0.3		0.3
Dividends received	0.0		0.0	0.1
Acquisition of subsidiaries less cash and cash equivalents at date of acquisition	-7.2	0.1	-41.0	-8.9
Disposal of subsidiaries less cash and cash equivalents at date of disposal			0.1	
Net cash flow from investing activities	-12.3	-3.8	-60.1	-18.5
Cash flows from financing activities				
Changes in non-controlling interests	0.0	-1.1	-6.4	-4.0
Proceeds from borrowings	10.0		121.5	14.5
Repayment of borrowings	-7.1	-1.1	-72.1	-6.4
Repayment of financial lease liabilities	-0.9	-0.8	-3.4	-3.2
Interest and other operational financial expenses	-0.7	-0.4	-2.6	-1.8
Dividends paid and other profit distribution	-0.9		-5.0	-5.9
Net cash flow from financing activities	0.4	-3.4	31.9	-6.9
Changes in cash and cash equivalents	8.7	9.3	-0.8	9.5
Cash at the beginning of the period	27.6	27.8	37.1	27.5
Cash at the end of the period	36.3	37.1	36.3	37.1

Contingent liabilities and commitments

EUR million	31 December 2018	31 December 2017
Collateral given on own behalf		
Pledged collateral notes	1.3	1.3
Sureties	0.3	3.1
Lease deposits	1.8	1.6
Other contingent liabilities		
Lease commitments	86.5	50.1

Pihlajalinna has signed a conditional agreement with the Kuusiokunnat municipalities according to which it will increase its ownership holdings in Kuusiolinna Terveys Oy to 97%. According to the conditional agreement, the transaction price for the acquisition of Kuusiolinna Terveys shares is EUR 18.4 million. The validity of the agreement has been extended until 15 March 2019.

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

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

Related party transactions

EUR million	2018	2017
Key management personnel		
Rents paid	1.0	1.1
Services procured	1.2	1.3
Trade payables	0.1	0.1
Associated companies and joint ventures		
Services sold		0.0
Services procured	0.0	1.0
Rents received	0.0	0.2
Interest and commissions received		0.1
Dividends received		0.1
Trade payables		0.1

Changes in property, plant and equipment

EUR million	31 December 2018	31 December 2017
Acquisition cost at the beginning of the period	93.1	69.6
Additions	17.0	22.8
Business combinations	5.2	2.9
Transfers between items	0.4	0.3
Disposals	-1.0	-2.4
Acquisition cost at the end of the period	114.6	93.1
Accumulated depreciation at the beginning of the period	-31.2	-24.1
Depreciation and amortization for the financial year	-11.3	-9.0
Transfers between items	-0.3	-0.3
Accumulated depreciation on disposals	0.7	2.1
Accumulated depreciation at the end of the period	-42.1	-31.2
Carrying amount at the end of the period	72.6	61.9

Changes in intangible assets

EUR million	31 December 2018	31 December 2017
Acquisition cost at the beginning of the period	137.8	120.7
Additions	5.4	3.0
Business combinations	74.2	14.1
Transfers between items	0.1	
Acquisition cost at the end of the period	217.4	137.8
Accumulated depreciation at the beginning of the period	-17.3	-12.1
Depreciation and amortization for the financial year	-7.1	-5.2
Transfers between items	-0.1	
Accumulated depreciation at the end of the period	-24.5	-17.3
Carrying amount at the end of the period	192.8	120.5

Acquired business operations, total

The acquisitions made during the financial year (Salon Lääkintälaboratorio Oy, Someron Lääkäriasema Oy, Kymijoen Työterveys Oy, Linnan Klinikka Oy, Röntgentutka Oy, approximately 70% of the Forever fitness centre chain, Doctagon Ab, approximately 51% of SYH group, Leaf Areena Oy, Anula Oy and Terveyspalvelu Verso Oy) and the update of acquisition costs previously presented as preliminary as well as the divestment of Hammashannu Oy are presented in total in the table below as they are not material in terms of individual review.

EUR million	1–12/2018
Consideration transferred:	
Cash	43.0
Value of issued shares	28.6
Contingent consideration	0.1
Total acquisition cost	71.7
At the date of acquisition, the preliminary values of assets acquired and liabilities assumed were as follows:	
Property, plant and equipment	5.2
Intangible assets	8.1
Other investments	0.1
Deferred tax assets	0.3
Inventories	0.3
Trade and other receivables	8.4
Cash and cash equivalents	6.2
Total assets	28.5
Deferred tax liabilities	-1.5
Interest-bearing financial liabilities	-4.8
Other liabilities	-11.6
Total liabilities	-17.9
Preliminary net assets	10.6
Goodwill generated in the acquisition:	
Consideration transferred	71.7
Previous holding measured at fair value	4.0
Share of the acquisition allocated to non-controlling interests	0.9
Net identifiable assets of acquirees	-10.6
Preliminary goodwill	66.0
Transaction price paid in cash:	43.0
Cash and cash equivalents of acquirees	-6.2

Preliminary effect on cash flow*	36.9
*The line item Acquisition of subsidiaries less cash and cash equivalents on date of acquisition in the consolidated statement of cash flows presents the following items as a net amount:	
Acquisitions in the financial year, effect on cash flow	36.9
Contingent consideration paid during the financial year	4.0
Total	40.9

The expenses related to the aforementioned acquisitions, a total of EUR 1.3 million, have been recorded under other operating expenses.

The revenue and profits for the acquired business operations beginning from the date of acquisition (total revenue EUR 54.6 million and total operating profit of EUR 3.7 million) are included in the consolidated statement of comprehensive income.

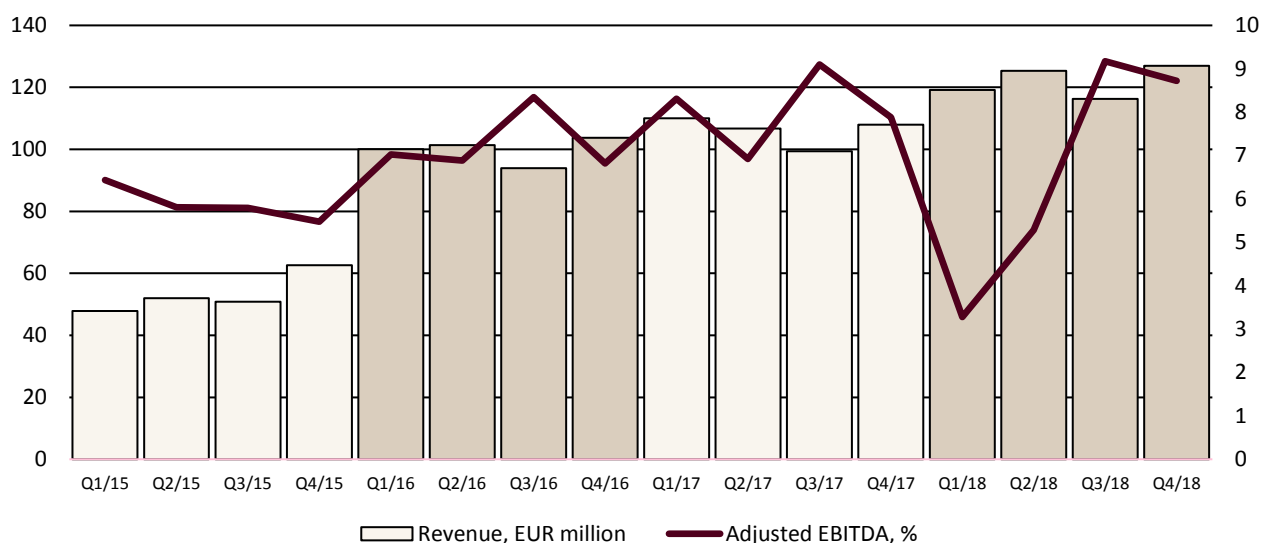
Pro forma

Had the acquisitions of 2018 been consolidated since the beginning of the financial year 2018, the consolidated revenue for the financial year would have amounted to EUR 502.7 million and operating profit would have totalled EUR 14.6 million.

Quarterly information

EUR million	Q4/18	Q3/18	Q2/18	Q1/18	Q4/17	Q3/17	Q2/17	Q1/17
INCOME STATEMENT								
Revenue	127.0	116.3	125.3	119.2	107.9	99.4	106.7	110.0
EBITDA	10.6	10.7	5.6	4.3	8.1	9.1	7.1	8.9
Adjusted EBITDA	11.1	10.7	6.6	3.9	8.5	9.0	7.4	9.1
Adjusted EBITDA, %	8.7	9.2	5.3	3.3	7.9	9.1	6.9	8.3
Depreciation and amortization	-4.7	-4.7	-4.8	-4.2	-3.6	-3.7	-3.4	-3.5
Operating profit (EBIT)	6.0	5.9	0.8	0.1	4.6	5.5	3.7	5.4
Adjusted operating result (EBIT)	6.5	5.9	1.9	-0.3	4.9	5.4	4.0	5.7
Adjusted operating result (EBIT), %	5.1	5.1	1.5	-0.3	4.6	5.4	3.7	5.2
Financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Financial expenses	-0.8	-0.8	-0.7	-0.7	-0.5	-0.5	-0.4	-0.4
Profit before taxes	5.2	5.2	0.2	-0.6	4.1	5.0	3.3	5.0
Income tax	-1.4	-1.2	-0.3	0.0	-0.6	-1.0	-0.7	-1.1
Profit for the period	3.8	4.0	-0.1	-0.7	3.5	4.0	2.7	3.9
Share of the result for the financial year attributable to owners of the parent company	2.7	2.3	0.0	-1.3	2.4	1.9	2.0	3.2
Share of the result for the financial year attributable to non-controlling interests	1.1	1.7	-0.1	0.6	1.1	2.1	0.7	0.7
EPS	0.12	0.11	0.00	-0.06	0.12	0.09	0.10	0.15
Personnel at the end of the period (NOE)	5,850	5,867	5,918	5,638	4,753	4,767	4,898	4,519
Change in personnel during the quarter	-17	-51	280	885	-14	-131	380	112

Revenue and adjusted EBITDA margin by quarter



Tax footprint

EUR million	2018	2017
Direct tax payable for the period		
Income tax (business income tax)	5.1	4.3
Employer's pension contribution	29.4	25.7
Social security contributions	1.5	1.6
Employer's unemployment insurance contribution	4.3	4.0
Contribution to accident insurance and group life insurance	0.9	0.9
Employer contributions, total	36.1	32.1
Property taxes	0.1	0.1
Transfer taxes	1.2	0.4
Direct tax payable for the period, total	42.4	36.8
Value added tax of acquisitions payable by the company		
Value added taxes, estimate	12.4	9.0
Tax for the period		
Withholding taxes	44.7	35.3
Employee's pension contributions, notional	11.7	9.5
Employee's unemployment insurance contributions, notional	3.3	2.3
Payroll tax, total	59.7	47.1
Net value added tax	0.6	1.8
Total tax for the period	60.3	48.9
Revenue	487.8	424.0
Profit before taxes	10.0	17.4
Average number of personnel (FTE)	4,868	3,879
Public subsidies	1.3	0.8

Calculation of key financial figures and alternative performance measures

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

Cash flow after investments	Net cash flow from operating activities + net cash flow from investing activities	
Adjusted operating profit (EBIT)*	Operating profit + adjustment items	
Adjusted operating profit, %*	$\frac{\text{Adjusted operating profit (EBIT)}}{\text{Revenue}} \times 100$	
Profit before taxes	Profit for the financial year + income tax	
Gross investments	Increase in property, plant and equipment and intangible assets excluding finance leases	
Organic revenue growth, %	$\frac{\text{Revenue for the period} - \text{revenue from M\&A transactions for the period} - \text{revenue for the previous period}}{\text{Revenue for the previous period}} \times 100$	

* 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 of alternative performance measures

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

Symbols used:

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

EUR million, unless otherwise specified			2018	2017
Return on equity (ROE), %				
Result for the period (rolling 12 mths) /			7.1	14.1
Equity at the start of the period			105.9	101.0
Equity at the end of the period			131.2	105.9
Equity (average) x 100			118.6	103.4
Return on equity (ROE), %			6.0	13.6

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

			2018	2017
Return on capital employed (ROCE), %				
Profit before taxes (rolling 12 mths) +			10.0	17.4
Financial expenses (rolling 12 mths)			3.0	1.9
/			12.9	19.3
Total statement of financial position at the start of the period -			253.6	217.7

non-interest-bearing liabilities at the start of the period			76.5	67.1
			177.1	150.7
Total statement of financial position at the end of the period -			349.5	253.6
Non-interest-bearing liabilities at the end of the period			78.1	76.5
			271.4	177.1
Average x 100			224.3	163.9
Return on capital employed (ROCE), %			5.8	11.8

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

			2018	2017
Equity ratio, %				
Equity /			131.2	105.9
Total statement of financial position -			349.5	253.6
Advances received x 100			0.9	0.4
Equity ratio, %			37.6	41.8

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

			2018	2017
Gearing, %				
Interest-bearing financial liabilities -			126.4	71.2
Cash and cash equivalents /			36.3	37.1
Equity x 100			131.2	105.9
Gearing, %			68.7	32.3

Gearing illustrates the company's **indebtedness**. The figure reveals the ratio between the equity invested in the company by shareholders and the interest-bearing debt borrowed from lenders. The second financial covenant of the Group's financing arrangements is the gearing ratio. The maximum value is 115 %.

			2018	2017
Net debt / adjusted EBITDA, rolling 12 mths				
Interest-bearing financial liabilities -			126.4	71.2
Cash and cash equivalents			36.3	37.1
Net debt /			90.1	34.2
Adjusted EBITDA (rolling 12 mths)			32.3	34.1
Net debt / adjusted EBITDA, rolling 12 mths			2.8	1.0

This figure indicates how quickly the company could pay back its debt at the current level of profits, if it were to use its entire EBITDA to pay back debt and no investments would be made and no dividends paid, for example. The second financial covenant linked to the Group's financing arrangement is based on the ratio of the Group's net debt to pro forma EBITDA. The maximum value of the covenant linked to the financing arrangement is 3.75. The closer the value of the covenant is to the maximum value, the higher the loan margin. The Group's management and Board of Directors monitor the fulfilment of the covenant on a monthly basis and the covenant is reported to the lenders on a quarterly basis. The covenant calculations are also updated with forecasts whenever the Group is about to carry out a significant acquisition.

	10– 12/2018 3 months	10– 12/2017 3 months	2018	2017
EBITDA and Adjusted EBITDA				
Result for the period	3.8	3.5	7.1	14.1
Income tax	-1.4	-0.6	-2.8	-3.4

Financial expenses	-0.8	-0.5	-3.0	-1.9
Financial income	0.0	0.0	0.1	0.2
Depreciation, amortisation and impairment	-4.7	-3.6	-18.4	-14.2
EBITDA	10.6	8.1	31.2	33.3
Total EBITDA adjustments	0.4	0.4	1.1	0.7
Adjusted EBITDA	11.1	8.5	32.3	34.1

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

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

	10– 12/2018 3 months	10– 12/2017 3 months	2018	2017
EBITDA, %				
EBITDA /	10.6	8.1	31.2	33.3
Revenue x 100	127.0	107.9	487.8	424.0
EBITDA, %	8.4	7.5	6.4	7.9
Adjusted EBITDA, %				
Adjusted EBITDA /	11.1	8.5	32.3	34.1
Revenue x 100	127.0	107.9	487.8	424.0
Adjusted EBITDA, %	8.7	7.9	6.6	8.0
Operating profit (EBIT) and Adjusted operating profit (EBIT)				
Result for the period	3.8	3.5	7.1	14.1
Income tax	-1.4	-0.6	-2.8	-3.4
Financial expenses	-0.8	-0.5	-3.0	-1.9
Financial income	0.0	0.0	0.1	0.2
Operating profit (EBIT)	6.0	4.6	12.8	19.1
Total adjustments of depreciation, amortization and impairment	0.1	0.0	0.1	0.1
Total EBITDA adjustments	0.4	0.4	1.1	0.7
Total adjustments of operating profit	0.6	0.4	1.2	0.9
Adjusted operating profit (EBIT)	6.5	4.9	14.0	20.0

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.

	10– 12/2018 3 months	10– 12/2017 3 months	2018	2017
Operating profit (EBIT), %				
Operating profit /	6.0	4.6	12.8	19.1
Revenue x 100	127.0	107.9	487.8	424.0
Operating profit (EBIT), %	4.7	4.2	2.6	4.5

Adjusted operating profit (EBIT), %				
Adjusted operating profit /	6.5	4.9	14.0	20.0
Revenue x 100	127.0	107.9	487.8	424.0
Adjusted operating profit (EBIT), %	5.1	4.6	2.9	4.7
Cash flow after investments				
Net cash flow from operating activities	20.6	16.4	27.4	34.9
Net cash flow from investing activities	-12.3	-3.8	-60.1	-18.5
Cash flow after investments	8.3	12.6	-32.7	16.4

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

	10– 12/2018 3 months	10– 12/2017 3 months	2018	2017
Profit before taxes				
Result for the period	3.8	3.5	7.1	14.1
Income tax	-1.4	-0.6	-2.8	-3.4
Profit before taxes	5.2	4.1	10.0	17.4
Gross investments				
Property, plant and equipment at the end of the period	72.6	61.9	72.6	61.9
Other intangible assets at the end of the period	22.9	16.6	22.9	16.6
Goodwill at the end of the period	169.9	103.9	169.9	103.9
Add depreciation, amortization and impairment	4.7	3.6	18.4	14.2
-				
Property, plant and equipment at the start of the period	71.2	57.7	61.9	45.5
Other intangible assets at the start of the period	22.1	16.7	16.6	16.3
Goodwill at the beginning of the period	163.0	101.9	103.9	92.3
Change in financial leases during the period				12.5
Proceeds from the sale of property, plant and equipment during the period	0.1	-0.2	-0.3	-0.3
Gross investments	13.8	9.8	101.7	30.4

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

	10– 12/2018 3 months	10– 12/2017 3 months	2018	2017
Organic revenue growth, %				
Revenue for the period -	127.0	107.9	487.8	424.0
Revenue from M&A transactions during the period (rolling 12 mths) -	17.6	3.6	65.7	14.8
Revenue for the previous period	107.9	103.7	424.0	399.1
Organic revenue growth /	1.4	0.5	-2.0	10.1
Revenue for the previous period x 100	107.9	103.7	424.0	399.1
Organic revenue growth, %	1.3	0.5	-0.5	2.5
Revenue growth attributable to M&A transactions, %	16.3	3.5	15.5	3.7
Revenue growth	19.0	4.2	63.8	24.9
Revenue growth, %	17.6	4.0	15.0	6.2

Organic revenue growth is the growth of existing business, not achieved through M&A transactions. Organic growth can be achieved through increasing the service offering, new customer acquisition, growth in the number of visits by existing customers, price increases and digitalization. Social and healthcare outsourcing contracts won through public competitive bidding and new business locations established by the Group itself are included in organic growth.

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

EUR million	10– 12/2018 3 months	10– 12/2017 3 months	2018 12 months	2017 12 months
EBITDA	10.6	8.1	31.2	33.3
Adjustments to EBITDA				
Closure of operating locations	0.0	0.4	0.0	0.4
Subsidiary's previous holding at fair value		-0.2	-1.0	-0.3
Conciliation agreement concerning the Group's facility expenses				0.2
Dismissal-related expenses		0.2	0.6	0.4
Gain on the disposal of business	0.0		0.0	
Change in fair value of contingent consideration	0.1		1.2	
Other	0.3		0.3	
Adjustments to EBITDA in total	0.4	0.4	1.1	0.7
Adjusted EBITDA	11.1	8.5	32.3	34.1
Depreciation, amortization and impairment	-4.7	-3.6	-18.4	-14.2
Adjustments to depreciation, amortisation and impairment				
Closure of operating locations	0.1		0.1	0.1
Adjustments to depreciation, amortisation and impairment in total	0.1	0.0	0.1	0.1
Adjusted operating result (EBIT)	6.5	4.9	14.0	20.0
Operating profit (EBIT)	6.0	4.6	12.8	19.1

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

EUR million	10–12/2018 3 months	10–12/2017 3 months	2018 12 months	2017 12 months
Other operating income	0.0	-0.2	-1.0	-0.3
Employee benefit expenses		0.2	0.6	0.4
Other operating expenses	0.4	0.4	1.5	0.7
EBITDA adjustment items total	0.4	0.4	1.1	0.7
Depreciation, amortization and impairment	0.1		0.1	0.1
Operating profit adjustment items total	0.6	0.4	1.2	0.9

Pihlajalinna's financial reporting and Annual General Meeting in 2019

Financial Statements and Board of Directors' report: no later than in week 11

Interim Report January–March: Friday, 3 May 2019

Interim Report January–June: Thursday, 15 August 2019

Interim Report January–September: Tuesday, 5 November 2019

Pihlajalinna Plc's Annual General Meeting is scheduled for Thursday, 4 April 2019, in Tampere, Finland. The notice of the General Meeting will be published as a separate release.

Briefing

Pihlajalinna Plc will hold a briefing for analysts and the media on Friday, 15 February 2019 at 10:00 a.m. in the Paavo Nurmi room at Hotel Kämp, Pohjoisesplanadi 29, 00100 Helsinki, Finland.

Helsinki, 14 February 2019
Pihlajalinna Plc's Board of Directors

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Pihlajalinna in brief

Pihlajalinna is one of the leading private social and healthcare services providers in Finland. The company provides social and healthcare services as well as wellbeing services for households, companies, insurance companies and public sector entities in private clinics, health centres, dental clinics, hospitals and fitness centres around Finland. Pihlajalinna provides general practitioner and specialized care services, including emergency and on-call services, a wide range of surgical services, occupational healthcare and dental care services, in private clinics and hospitals. The company, 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.