



Pihlajajalinnna

INTERIM REPORT

1 January–31 March 2019



Revenue grew and operating profit improved in the first quarter

Pihlajalinna adopted the new IFRS 16 Leases standard fully retrospectively on 1 January 2019. Restated comparable financial figures were published on 18 April 2019 for each reporting period in 2018.

Review period January–March:

- Revenue amounted to EUR 132.5 (119.2) million – an increase of 11.2 per cent, organic growth 2.8 %
- Adjusted EBITDA was EUR 12.6 (6.9) million – an increase of 81.6 per cent
- Adjusted operating result (EBIT) was EUR 3.9 (-0.1) million
- IFRS 3 costs related to M&A transactions had a negative effect of EUR 0.1 (1.2) million on operating profit
- Earnings per share (EPS) was EUR 0.06 (-0.06)

KEY FIGURES	1–3/2019 3 months	1–3/2018 3 months	2018 12 months
INCOME STATEMENT			
Revenue, EUR million	132.5	119.2	487.8
EBITDA, EUR million	12.2	7.3	44.8
EBITDA, %	9.2	6.1	9.2
Adjusted EBITDA, EUR million*	12.6	6.9	45.9
Adjusted EBITDA, %*	9.5	5.8	9.4
Operating profit (EBIT), EUR million	3.5	0.3	13.2
Operating profit, %	2.7	0.2	2.7
Adjusted operating profit (EBIT), EUR million*	3.9	-0.1	14.4
Adjusted operating profit, %*	3.0	-0.1	3.0
Profit before tax (EBT), EUR million	2.5	-0.6	9.5
SHARE-RELATED INFORMATION			
Earnings per share (EPS), EUR	0.06	-0.06	0.16
Equity per share, EUR	5.38	5.63	5.36
OTHER KEY FIGURES			
Return on capital employed (ROCE), %	4.7	5.2	4.6
Return on equity (ROE), %	7.1	8.0	5.7
Equity ratio, %	29.6	31.9	29.9
Gearing, %	145.5	117.9	136.6
Interest-bearing net debt, EUR million	190.5	161.2	178.0
Net debt/adjusted EBITDA, 12 months*	3.7	4.3	3.9
Gross investments, EUR million**	14.0	126.2	160.1
Cash flow from operating activities, EUR million	3.4	5.6	41.2
Cash flow after investments, EUR million	-1.1	-34.7	-18.8
Average number of personnel (FTE)	4,799	4,138	4,868
Personnel at the end of the period (NOE)	5,871	5,638	5,850

* 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. Pihlaja 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 and operating profit totalled EUR 0.4 (-0.4) million for the quarter.

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

Pihlajalinna's outlook for 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 first quarter, the Group's revenue growth remained strong, operating profit increased substantially and organic growth improved. The investments made last year in new private clinics and hospitals are starting to bear fruit and the revenues of the private clinic-hospitals in Turku, Oulu and Seinäjoki increased substantially both year-on-year and compared to the preceding quarter. Revenue growth was supported by new customer relationships in occupational healthcare and the insurance company partnership with Fennia. Our expanded network of private clinics serves as a foundation for growing our market share in occupational healthcare.

In the first quarter, we focused on improving business location-specific profitability, expanding our offering and deepening our insurance company cooperation. The integration of Terveyspalvelu Verso proceeded according to plan. In public services, the focus remained on developing the service portfolio and improving value added. During the review period, we introduced the responsible doctor model as well as social and healthcare nurse telephone service in municipal outsourcings and started a new partial outsourcing arrangement for social and healthcare services in Hattula. During early May, Pihlajalinna will launch a health application mobile service for primary care customers in Mäntänvuoren Terveys and Kolmostien Terveys. Application provides immediate access to the reception of a healthcare professional.

Health and social services reform collapsed, but the need for change remains. The finances of Finnish municipalities have continued to deteriorate. Social and healthcare service costs already represent more than half of municipal expenses and as many as two out of three municipalities reported a deficit for the financial year 2018. Following the collapse of the health and social services reform, municipalities now need to find solutions for social and healthcare service challenges and balance their finances. Municipalities have also faced difficulties in recruiting physicians and other healthcare professionals, which makes it harder for municipalities to organise social and healthcare services themselves. There is a clear need for Pihlajalinna's service models in the current municipal sector in Finland.

In cooperation with municipalities, Pihlajalinna is interested in broader service solutions in which Pihlajalinna's operating models are more effective in creating value for society and the comprehensive service offering enables high quality and appropriate care. Bringing services close to people provides faster access to basic-level care while also improving service quality. Our aim is to engage in cooperation with municipalities to build new service models for maintaining services for local residents, keeping costs under control and producing the services in an ethically sustainable manner.

Our financial result for the first quarter still reflects the major structural changes implemented last year: our new organisational structure and other efficiency improvement measures have already had a positive effect on our financial performance, but we need to improve further to achieve our targets. Our focus is

now on the continuous improvement of our operating result. It is important for us to ensure that our efforts to improve profitability will not have a negative effect on service quality. We want to provide good care for our customers, operate ethically and develop Finnish healthcare with an open mind.

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.

January–March 2019

EUR million	1–3/2019	%	1–3/2018	%	2018	%
Southern Finland	31.1	21	23.7	18	107.6	20
Mid-Finland	83.0	56	79.0	59	311.9	57
Ostrobothnia	27.9	19	26.4	20	108.8	20
Northern Finland	3.7	2	3.3	2	12.3	2
Other operations	1.7	1	0.9	1	4.8	1
Intra-Group sales	-14.9		-14.2		-57.6	
Total consolidated revenue	132.5	100	119.2	100	487.8	100

The quarterly revenue of the Southern Finland business area amounted to EUR 31.1 (23.7) million, an increase of EUR 7.4 million, or 31 per cent. The revenue of the Southern Finland business area grew mainly due to the acquisitions of Doctagon and the Forever fitness centre chain in the previous year as well as the growth of customer volumes at Pihlajalinna Turku.

The revenue of the Mid-Finland business area amounted to EUR 83.0 (79.0) million, an increase of EUR 4.0 million, or 5 per cent. Revenue was increased by the acquisition of the occupational health service provider Terveyspalvelu Verso, price adjustments implemented in accordance with the service agreements of social and healthcare outsourcing arrangements and the acquisition of Linnan Klinikka.

The revenue of the Ostrobothnia business area amounted to EUR 27.9 (26.4) million, an increase of EUR 1.6 million, or 6 per cent. The business area's revenue was increased by the provision of residential services for senior and disabled citizens in Laihia and the start of operations of Pihlajalinna Seinäjoki in March 2018.

The revenue of the Northern Finland business area amounted to EUR 3.7 (3.3) million, an increase of EUR 0.4 million, or 11 per cent. The business area's revenue was increased by the start of operations at Pihlajalinna Oulu in January 2018.

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.

January–March 2019

EUR million	1–3/2019	%	1–3/2018	%	2018	%
Corporate customers	31.6	21	27.7	21	105.6	19
of which insurance company customers	7.1	5	6.6	5	25.2	5
Private customers	26.5	18	22.2	17	92.0	17
Public sector	89.3	61	83.5	63	347.7	64
Intra-Group sales	-14.9		-14.2		-57.6	
Total consolidated revenue	132.5	100	119.2	100	487.8	100

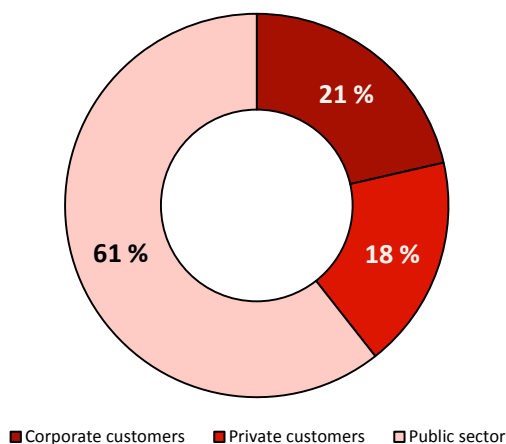
Revenue from corporate customers amounted to EUR 31.6 (27.7) million, an increase of EUR 3.9 million, or 14 per cent. Sales to insurance company customers increased by EUR 0.5 million, or 8 per cent. The revenue for the quarter was increased by the acquisition of Terveyspalvelu Verso at the end of 2018 and the new private clinics opened last year in Turku, Seinäjoki and Oulu.

Revenue from private customers amounted to EUR 26.5 (22.2) million, an increase of EUR 4.3 million, or 20 per cent. The acquisition of the Forever fitness centre chain contributed significantly to the increase in revenue from private customers. Revenue was also increased by the expansion of the dental care network and the start-up of new private clinics.

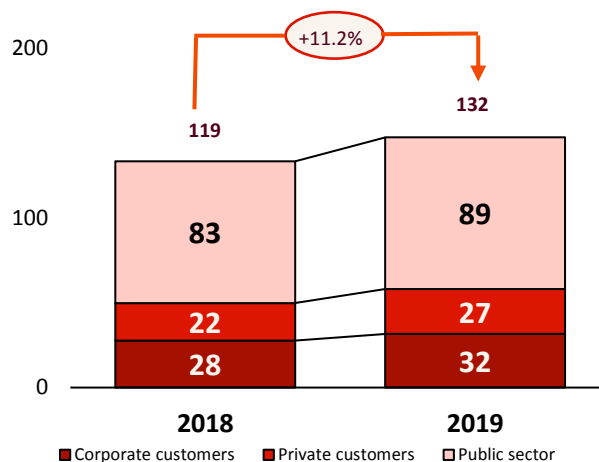
Revenue from public sector customers totalled EUR 89.3 (83.5) million, an increase of EUR 5.8 million, or 7 per cent. Revenue was increased by the start of the production of residential services in Laihia in September 2018, price adjustments implemented in accordance with the service agreements of social and healthcare outsourcing arrangements and the acquisition of Doctagon in March 2018 (responsible doctor services).

Revenue by customer group January–March 2019

REVENUE BY CUSTOMER GROUP, %



REVENUE BY CUSTOMER GROUP, EUR MILLION



Consolidated revenue and result

January–March 2019

Pihlajalinna's revenue for the quarter amounted to EUR 132.5 (119.2) million, representing a year-on-year increase of EUR 13.3 million, or 11.2 per cent. Growth in revenue due to M&A transactions was EUR 9.9 million, or 8.3 per cent. The most significant M&A transactions were the acquisitions of Doctagon and the Forever fitness centre chain in the first quarter of the previous year as well as the acquisition of Terveyspalvelu Verso in late 2018. Organic growth in revenue amounted to EUR 3.4 million, or 2.8 per cent.

EBITDA amounted to EUR 12.2 (7.3) million, an increase of EUR 4.8 million, or 66.2 per cent. Profitability improved significantly in occupational healthcare services, public sector specialised care and private clinic operations.

EBITDA increased by EUR 1.2 million as a result of M&A transactions and by EUR 0.7 million due to the start-up of new private clinics. Transfer taxes and expert fees related to M&A transactions (IFRS 3 costs) reduced EBITDA by EUR 0.1 (1.2) million.

Adjusted EBITDA amounted to EUR 12.6 (6.9) million, an increase of EUR 5.6 million, or 81.6 per cent. EBITDA adjustments totalled EUR 0.4 (-0.4) million.

Depreciation, amortisation and impairment amounted to EUR 8.6 (7.0) million. Amortisation and impairment of intangible assets amounted to EUR 1.8 (1.6) million, of which purchase price allocation (PPA) amortisation was EUR 1.1 (1.1) million. Depreciation, amortisation and impairment of property, plant and equipment amounted to EUR 1.9 (1.7) million and depreciation of right-of-use assets totalled EUR 4.9 (3.7) million.

Pihlajalinna's operating profit amounted to EUR 3.5 (0.3) million, an increase of EUR 3.2 million. The EBIT-to-revenue ratio (EBIT margin) was 2.7 (0.2) per cent. The adjusted operating result was EUR 3.9 (-0.1) million, an increase of EUR 4.0 million. The adjusted operating result margin was 3.0 (-0.1) per cent.

Pihlajalinna's public specialised care revenue included in complete social and healthcare outsourcings amounted to EUR 21.7 (21.5) million. The EBITDA of public specialised care was EUR 0.2 (-1.0) million and the operating result was EUR 0.1 (-1.0) million. The cost accumulation of public specialised care involves random fluctuation. Individual cases falling within the scope of the hospital districts' pooling system for high-cost care and operational economy surplus refunds may influence the costs of specialised care considerably during the financial year, and between financial periods, in Pihlajalinna's municipal companies.

The Group's net financial expenses totalled EUR -1.0 (-0.9) million. Profit before tax amounted to EUR 2.5 (-0.6) million, an increase of EUR 3.2 million. Taxes in the income statement amounted to EUR -0.7 (0.0) million. Profit was EUR 1.9 (-0.7) million. Earnings per share (EPS) was EUR 0.06 (-0.06).

Market and legislation review

After years of planning and preparation, the structural reform of social and healthcare services in Finland ultimately collapsed. The new government may resume the process of health and social services reform because the sustainability gap in public finances still exists and savings are needed. Municipalities continue to bear the responsibility for the cost-efficient organisation of social and healthcare services.

More than 50% of municipal revenue is spent on social and healthcare services and two out of three Finnish municipalities reported a deficit in 2018. With the rapid ageing of the population and the proportion of over 75-year-olds set to grow by more than 50% by 2030 (source: Valor 2019), social and healthcare service costs will increase further and municipalities will need assistance in the provision of services.

Following the collapse of social and healthcare service reform, municipalities have become more active in contacting private sector service providers. The annual margins of Pihlajalinna's partner municipalities have developed very favourably under joint venture structures compared to their peer municipalities. One of the latest outsourcing arrangements is in Hattula, where Pihlajalinna started the partial outsourcing of social and healthcare services 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. Pihlajalinna has extended the validity of its tender until 30 June 2019.

Pihlajalinna seeks to complement the public sector's service offering particularly in basic-level specialised care and non-urgent specialised care, as the public sector has implemented cuts in operations and centralised specialised care in fewer units.

The situation in the private market remains unchanged. The occupational healthcare market is expected to grow as many municipalities and other public sector entities are interested in divesting the occupational healthcare providers they currently own.

Consolidated statement of financial position and cash flow

At the end of the quarter, Pihlajalinna Group's total statement of financial position was EUR 443.5 (431.1) million. Consolidated cash and cash equivalents stood at EUR 27.8 (37.1) million.

Net cash flow from operating activities totalled EUR 3.4 (5.6) million. Taxes paid amounted to EUR -2.6 (-1.9) million. The change in net working capital was EUR -6.2 (1.2) million. Cash flow from operating activities was reduced by changes in trade payables and other liabilities.

Net cash flow from investing activities totalled EUR -4.5 (-40.3) million. Subsidiary acquisitions had an impact of EUR -0.5 (-32.8) million on net cash flow from investing activities. Investments in property, plant and equipment and intangible assets totalled EUR -4.1 (-7.7) million, and proceeds from the disposals of property, plant and equipment totalled EUR 0.1 (0.2) million.

The Group's cash flow after investments (free cash flow) was EUR -1.1 (-34.7) million.

Net cash flow from financing activities totalled EUR -7.4 (34.7) million. The Group withdrew no new loans (EUR 95.5 million) and repaid its financial liabilities, including changes in credit limits, by a total of EUR 0.5 (58.7) million. Repayments of lease liabilities totalled EUR 4.7 (3.7) million and interest paid and other financial expenses amounted to EUR 1.0 (0.8) million. Changes in non-controlling interests had a net effect of EUR -1.3 (2.3) million on cash flow.

The Group's gearing was 145.5 (117.9) per cent. Interest-bearing net debt amounted to EUR 190.5 (161.2) million. The Group had no contingent considerations during the review period (earn-out payments EUR -0.5 million in Q1/2018).

Return on capital employed was 4.7 (5.2) per cent and return on equity was 7.1 (8.0) per cent.

Financing arrangements

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

The financing arrangement includes the customary financial covenants concerning leverage (ratio of net debt to pro forma EBITDA) and gearing. The adoption of IFRS 16 does not affect the calculation of financial covenants. The calculation of covenants will continue with the creditor banks in accordance with the accounting principles confirmed in the original financing arrangement (frozen GAAP). The Group met the set covenants on 31 March 2019.

The Group has credit limit agreements valid until further notice, totalling EUR 10 million. The notice period of the credit limit agreements is one month. At the end of the review period, Pihlajalinna had a total of EUR 39.0 million in unused committed credit limits.

Acquisitions, divestments and capital expenditure

Acquired entity	Month of acquisition	Industry	Domicile
Klaari Oy (Fit1 fitness centre chain) and its subsidiary Fitnessclub Länsi-Suomi Oy, 100% of the share capital	2/2019	Fitness centres	Espoo, Vaasa

Gross investments, including acquisitions, totalled EUR 14.0 (126.2) million. The Group's gross investments in property, plant and equipment and intangible assets, which consisted of development, additional and replacement investments required for growth, amounted to EUR 2.0 (3.0) million during the review period. Capital expenditure relating to the opening of new units totalled EUR 2.4 (6.1) million. Gross investments associated with M&A transactions totalled EUR 0.7 (70.1) million. Gross investments in right-of-use assets amounted to EUR 8.8 (47.0) million.

The Group's investment commitments related to development, additional and replacement investments amounted to approximately EUR 1.1 million (EUR 6,7 million).

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

Pihlajalinna's expansion will continue. 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.

Acquisitions of non-controlling interests

Pihlajalinna signed a conditional agreement with the Kuusiokunnat municipalities according to which it was to increase its holding in Kuusiolinna Terveys Oy to 97 per cent by the end of 2018. The validity of the agreement was extended until 15 March 2019. The deadline for the transaction has passed.

The City of Parkano sold 15 per cent of the share capital of Kolmostien Terveys to Pihlajalinna in February 2019.

Company	Pihlajalinna's holding, 31 December 2018	Pihlajalinna's holding, 31 March 2019	First year of service production under the current contract	Duration of contract (years)
Jokilaakson Terveys Oy	90%	90%	internal service provision	internal service provision
Jämsän Terveys Oy	51%	51%	2015	10+5
Kuusiolinna Terveys Oy	51%	51%	2016	10+5
Mäntänvuoren Terveys Oy	81%	81%	2016	10+5
Kolmostien Terveys Oy	81%	96%	2015	10+5

Changes in Group structure

The following changes in Group structure were implemented during the review period:

Pihlajalinna Tampere Oy merged with Pihlajalinna Lääkärikeskukset Oy on 1 January 2019.

Doctagon Ab merged with Pihlajalinna Terveys Oy on 1 January 2019.

Anula Oy merged with Linnan Klinikka Oy on 1 January 2019.

Hammaslääkäripalvelu Savodent Oy, HammasPirta Oy, Paimion Hammaslääkäripalvelu Oy and Salon Hammaslääkärikeskus Oy merged with Tampereen Hammaspiste Oy (Pihlajalinna Hammasklinikat Oy) on 1 January 2019.

Hammaslääkärikeskus Mandibula Oy merged with Mandibula Raisio Oy on 28 February 2019.

Mandibula Raisio merged with Pihlajalinna Hammasklinikat Oy on 1 March 2019.

Research and development

Development costs that fulfilled the criteria for capitalisation amounted to EUR 0.2 (0.2) million during the period.

Development activities during the 2019 financial year will be focused on a remote service model for municipal residents for use in social and healthcare outsourcing, operating models for fixed-price occupational healthcare agreements, as well as a sports clinic concept and a social and healthcare service centre concept.

Personnel

At the end of the reporting period, the number of personnel amounted to 5,871 (5,638), an increase of 233 persons or 4 per cent. The Group's personnel averaged 4,799 (4,138) persons as full-time equivalents, an increase of 661 persons or 16 per cent. The Group's employee benefit expenses totalled EUR 57.0 (52.0) million, an increase of EUR 5.0 million or 10 per cent.

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

Board of Directors

The Annual General Meeting held on 4 April 2019 decided that the number of members on the Board of Directors be confirmed as seven, instead of eight, which was the previous number. Leena Niemistö, Kati Sulin, Seija Turunen and Mikko Wirén were re-elected and Matti Jaakola, Hannu Juvonen and Mika Manninen 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 Annual General Meeting elected Mikko Wirén as the Chairman of the Board and Leena Niemistö as the Vice-Chairman.

Committees nominated by the Board

At its organising meeting on 4 April 2019, Pihlajalinna Plc's Board of Directors elected the following members to its committees:

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

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

Remuneration of the members of the Board of Directors

The Annual General Meeting held on 4 April 2019 decided that the remuneration of the Board of Directors be kept 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 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.

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

Auditors and auditing

At Pihlajalinna's Annual General Meeting held on 4 April 2019, KPMG Oy Ab, a firm of authorised public accountants, was elected as the company's auditor for the financial year 1 January–31 December 2019. Lotta Nurminen, APA, is the principal auditor.

Shares and shareholders

At the end of the financial period, Pihlajalinna Plc's share capital entered in the Trade Register amounted to EUR 80,000 and the total number of shares 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 review period, the company had 13,081 (14,065) 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	1–3/2019	1–3/2018	2018
No. of shares outstanding at the end of the period	22,620,135	22,620,135	22,620,135
Average no. of shares outstanding during the period	22,620,135	21,014,544	22,224,236
Highest price, EUR	10.98	15.28	15.28
Lowest price, EUR	8.70	12.50	8.56
Average price, EUR*	10.32	14.10	12.18
Closing price, EUR	9.92	12.62	8.62
Share turnover, 1,000 shares	572	2,111	6,182
Share turnover, %	2.5	9.3	27.8
Market capitalisation at the end of the period, EUR million	224.4	285.5	195.0

* average share price weighted by trading volume

Board authorisations

The Annual General Meeting held on 4 April 2019 decided to authorise the Board of Directors to resolve on the repurchase of an aggregate maximum of 2,061,314 of the company's own shares, which is equivalent to approximately 9 per cent of the company's current shares. The company's own shares may be repurchased on the basis of the authorisation only by using non-restricted equity. The shares may be purchased as a directed repurchase. The authorisation will remain in force until the end of the next AGM, however, not beyond 30 June 2020.

The Annual General Meeting also 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. The number of shares issued pursuant to the authorisation shall not exceed 3,091,971 shares, which is equivalent to approximately 14 percent of the company's current shares. The authorisation concerns both the issuance of new shares and the transfer of the company's own shares. Pursuant to the authorisation, the share issue may be carried out as a directed share issue. The authorisation will remain in force until the end of the next AGM, however, not beyond 30 June 2020.

Risks and uncertainties in business operations

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

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

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.

In its risk management, Pihlajalinna's aim is to operate as systematically as possible and incorporate risk management in normal business processes. Furthermore, the Group invests in quality management systems and the management of occupational safety and health risks. Pihlajalinna's Risk Management Policy defines and categorises the Group's risks and describes the goals of risk management. In addition, it defines risk management principles, operating methods and responsibilities. Internal risk reporting is included in the regular business reporting as well as in business planning and decision-making. The material risks and their management are reported to stakeholders regularly and, when necessary, on a case-by-case basis.

In 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.

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. The Group has a difference of opinion with one of its partners regarding the determination of the annual price of the agreement. The counterparty has taken legal action regarding the matter during the review period. Negotiations are ongoing.

The Group's trade receivables include EUR 4.1 million (3.6 million at the end of 2018) in substantially delayed payments from a significant customer. Active negotiations are ongoing regarding the collection of the receivables. According to the Group management's estimate, the customer will pay the receivables in full.

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

At the end of the review period, goodwill on Pihlajalinna's statement of financial position amounted to EUR 170.6 (162.3) million. Pihlajalinna checks annually and, if necessary, quarterly, that the carrying amount of goodwill does not exceed the fair value. During the review period, Pihlajalinna observed no indications of the carrying amount of goodwill being greater than its estimated recoverable amount. If negative changes were to occur in the development of Pihlajalinna's profit and growth, this could lead to an impairment of goodwill which, in turn, could have an unfavourable impact on Pihlajalinna's operating result and equity.

A tax audit of the Group's main companies, which began in spring 2017, was completed with regard to income taxation (the Act on the Taxation of Business Profits and Income from Professional Activity) and value added taxes (Value Added Tax Act) without notable sanctions. For withholding taxes (Tax Prepayment Act), the audit is still incomplete.

Flagging notifications

The company did not receive any flagging notifications under Chapter 9, Section 5 of the Securities Markets Act during the review period.

Current incentive schemes

At its meeting held on 14 February 2019, the Board of Directors of Pihlajalinna Plc approved the establishment of a share-based incentive programme for selected key employees. The programme includes an overall five-year plan period and none of the share rewards received by the key employees thereunder may be sold or transferred prior to the year 2022. The key employee shall, in addition, make an investment in Pihlajalinna shares as a precondition for participation in the programme.

The fixed matching share plan comprises the individual key employee's investment in Pihlajalinna's shares and the delivery of one matching share for each invested share without consideration (gross before the deduction of the applicable payroll tax) in the calendar year 2020. Both the invested shares and the matching shares will be subject to a two-year transfer restriction.

The performance matching plan comprises three separate one-year performance periods. The potential share rewards will be delivered after the respective performance periods during the calendar years 2020, 2021 and 2022 respectively if the performance targets set by the Board of Directors are achieved. The maximum amount of performance-based share rewards payable based on each individual one-year performance period is two matching shares for each three shares invested by the key employee (gross before the deduction of the applicable payroll tax). A precondition for a key employee's participation in the performance matching plan is the aforementioned investment in Pihlajalinna's shares. The share rewards will be subject to a two-year transfer restriction. The performance criteria applied to the performance matching plan are the adjusted EBIT of Pihlajalinna Group and key operative targets.

A maximum of 25 key employees are initially eligible for participating in the share-based incentive programme. If all the eligible key employees participate in the programme by fulfilling the investment precondition in full and if the performance targets set for the three performance periods are fully achieved, the maximum aggregate amount of share rewards that may be delivered based on the programme is approximately 369,000 shares (gross before the deduction of the applicable payroll tax). If the programme is realised in full, the aforementioned number of shares is equivalent to approximately 1.6% of the company's shares.

The aggregate maximum value of the programme, assuming that the eligible participants fulfil the investment requirement in full, is approximately EUR 3.8 million.

According to a share ownership recommendation applied by the company, each participant of the programme who is a member of Pihlajalinna's Group Management Team is expected to accumulate and, once achieved, maintain a share ownership in the company corresponding in value to the individual's annual base salary. Each such individual is expected to retain at least 50 per cent of the shares received under the share-based incentive programme in his/her ownership until the above ownership level is fulfilled.

Events after the review period

The Annual General Meeting was held on 4 April 2019. The meeting adopted the Annual Accounts for 2018 and discharged the members of the company's Board of Directors and the CEO from liability for the financial year 2018. In accordance with the proposal of the Board of Directors, the AGM decided that a dividend of EUR 0.10 per share be paid for the financial year that ended on 31 December 2018 based on the adopted statement of financial position. The dividend record date was 8 April 2019 and the payment date was 15 April 2019. The other decisions of the AGM are reported in this interim report under the subheadings Board of Directors, Committees nominated by the Board, Remuneration of the members of the Board of Directors and Auditors and auditing.

Elina Heliö, Master of Laws, was appointed the Head of Human Resources at Pihlajalinna Group on 5 April 2019. She will transfer to her new position from Orion Oyj, where she held the position of Vice President, Human Resources. Heliö will start in her new position and as a member of the Group Management Team on 6 May 2019 and will report to CEO Joni Aaltonen.

Accounting policies

This (unaudited) Interim Report has been prepared in compliance with IFRS standards and the requirements of IAS 34 (Interim Financial reporting). 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 interim reports in accordance with IFRS requires the management to make estimates and assumptions that affect the valuation of the reported assets and liabilities and contingent assets and liabilities on the statement of financial position, and recognition of the amount of income and expenses. Although the estimates are based on the management's best knowledge of current events and actions, the actual results may differ from the estimates.

The interim report has been prepared in compliance with the IFRS standards currently approved for application in the European Union. The interim report 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 2019.

The calculation formulas for key financial figures and alternative performance measures as well as the justifications for their presentation are provided in the 2018 Annual Report.

IFRS 16 Leases

Pihlajalinna has adopted IFRS 16 fully retrospectively by adjusting the financial figures for 2018 in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Pihlajalinna issued a release on 18 April 2019 to present restated comparable financial figures for each reporting period in 2018.

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 January–31 March 2019

Consolidated statement of comprehensive income

EUR million	1–3/2019 3 months	1–3/2018 3 months	2018
Revenue	132.5	119.2	487.8
Other operating income	0.4	1.3	4.2
Materials and services	-50.7	-48.6	-189.2
Employee benefit expenses	-57.0	-52.0	-208.4
Other operating expenses	-13.0	-12.6	-49.5
Share of profit in associated companies and joint ventures	0.0	0.0	0.0
EBITDA	12.2	7.3	44.8
Depreciation, amortisation and impairment	-8.6	-7.0	-31.6
Operating profit (EBIT)	3.5	0.3	13.2
Financial income	0.0	0.0	0.1
Financial expenses	-1.0	-0.9	-3.9
Profit before taxes	2.5	-0.6	9.5
Income tax	-0.7	0.0	-2.7
Profit for the period*	1.9	-0.7	6.8
Total comprehensive income for the period	1.9	-0.7	6.8
Total comprehensive income for the period attributable:			
To the owners of the parent company	1.4	-1.3	3.5
To non-controlling interests	0.4	0.6	3.3
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	0.06	-0.06	0.16

* The Group has no other comprehensive income items

Consolidated statement of financial position

EUR million	31 March 2019	31 March 2018	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	44.9	39.2	43.3
Goodwill	170.6	162.3	169.9
Other intangible assets	22.0	23.7	22.9
Right-of-use assets	119.9	117.8	116.0
Interests in associates	0.0	0.0	0.0
Other investments	0.1	0.2	0.1
Other receivables	1.8	1.9	1.8
Deferred tax assets	4.8	3.3	4.1
Total non-current assets	364.1	348.4	358.1
Current assets			
Inventories	2.4	2.5	2.5
Trade and other receivables	47.2	41.3	38.1
Current tax assets	2.0	1.7	1.7
Cash and cash equivalents	27.8	37.1	36.3
Total current assets	79.4	82.7	78.6
Total assets	443.5	431.1	436.8
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	0.1	0.1	0.1
Reserve for invested unrestricted equity	116.5	116.6	116.5
Retained earnings	3.7	11.9	1.1
Profit for the period	1.4	-1.3	3.5
	121.7	127.3	121.2
Non-controlling interests	9.3	9.5	9.2
Total equity	131.0	136.8	130.3
Non-current liabilities			
Deferred tax liabilities	5.9	6.8	6.1
Lease liabilities	105.0	103.6	102.0
Financial liabilities	95.6	72.7	95.7
Other non-current liabilities	1.4	1.6	1.5
Provisions	0.3	0.8	0.3
Total non-current liabilities	208.1	185.5	205.6
Current liabilities			
Provisions	0.0	0.6	0.0
Trade and other payables	82.7	82.9	79.5
Current tax liabilities	1.1	1.3	1.9
Lease liabilities	17.7	16.1	16.5
Financial liabilities	2.9	7.9	3.0
Total current liabilities	104.4	108.8	100.8
Total liabilities	312.5	294.3	306.4
Total equity and liabilities	443.5	431.1	436.8

Consolidated statement of changes in equity

	Equity attributable to owners of the parent company				
EUR million	Share capital	Reserve for invested unrestricted equity	Retained earnings	Non-controlling interests	Equity total
Total equity, 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
IFRS 16 adoption			-0.3	-0.1	-0.4
Total equity, 1 Jan. 2018	0.1	87.9	12.0	5.4	105.4
Profit for the period			-1.3	0.6	-0.7
Total comprehensive income for the period			-1.3	0.6	-0.7
Directed share issue		28.6			28.6
Investments in Group companies				2.4	2.4
Total transactions with owners		28.6		2.4	31.0
Changes in NCI without a change in control				1.0	1.0
Total changes in ownership interests				1.0	1.0
Total equity, 31 Mar. 2018	0.1	116.6	10.7	9.5	136.8

	Equity attributable to owners of the parent company				
EUR million	Share capital	Reserve for invested unrestricted equity	Retained earnings	Non-controlling interests	Equity total
Total equity, 1 Jan. 2019	0.1	116.5	4.6	9.2	130.3
Profit for the period			1.4	0.4	1.9
Total comprehensive income for the period			1.4	0.4	1.9
Investments in Group companies			0.1	-0.1	0.0
Total transactions with owners			0.1	-0.1	0.0
Changes in NCI without a change in control			-1.0	-0.3	-1.2
Total changes in ownership interests			-1.0	-0.3	-1.2
Total equity, 31 Mar. 2019	0.1	116.5	5.1	9.3	131.0

Consolidated statement of cash flows

EUR million	1–3/2019 3 months	1–3/2018 3 months	2018
Cash flow from operating activities			
Profit for the financial period	1.4	-1.3	3.5
Adjustments to cash flow from operating activities:			
Taxes	0.7	0.0	2.7
Depreciation, amortisation and impairment	8.6	7.0	31.6
Financial income and expenses	1.0	0.9	3.7
Other	0.5	-0.3	3.5
Net cash generated from operating activities before change in working capital	12.2	6.3	45.0
Change in working capital	-6.2	1.2	1.6
Interest received	0.0	0.0	0.1
Taxes paid	-2.6	-1.9	-5.5
Net cash flow from operating activities	3.4	5.6	41.2
Cash flows from investing activities			
Investments in tangible and intangible assets	-4.1	-7.7	-19.6
Proceeds from disposal of property, plant and equipment and intangible assets and prepayments	0.1	0.2	0.4
Changes in other receivables and investments	0.0	0.0	0.0
Dividends received	0.0	0.0	0.0
Acquisition of subsidiaries less cash and cash equivalents at date of acquisition	-0.5	-32.8	-41.0
Disposal of subsidiaries less cash and cash equivalents at date of disposal			0.1
Net cash flow from investing activities	-4.5	-40.3	-60.1
Cash flows from financing activities			
Changes in non-controlling interests	-1.3	2.3	-6.4
Withdrawals and repayments of loans	-0.5	36.8	49.4
Payments of lease liabilities	-4.7	-3.7	-16.3
Interest and other operational financial expenses	-1.0	-0.8	-3.5
Dividends paid and other profit distribution			-5.0
Net cash flow from financing activities	-7.4	34.7	18.1
Changes in cash and cash equivalents	-8.6	0.0	-0.8
Cash at the beginning of the period	36.3	37.1	37.1
Cash at the end of the period	27.8	37.1	36.3

Contingent liabilities and commitments

EUR million	31 March 2019	31 March 2018	31 December 2018
Collateral given on own behalf			
Pledged collateral notes	1.0	1.7	1.3
Sureties	0.3	3.3	0.4
Lease deposits	1.8	1.7	1.8

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. In addition, Pihlajalinna is committed to renovating two smaller care homes that it acquired previously.

Changes in intangible assets

EUR million	31 March 2019	31 March 2018	31 December 2018
Acquisition cost at the beginning of the period	218.2	137.8	137.8
Additions	0.1	1.5	5.4
Business combinations	0.7	65.6	74.2
Transfers between items	0.0	0.1	0.1
Acquisition cost at the end of the period	218.9	205.0	217.4
Accumulated depreciation at the beginning of the period	-24.5	-17.3	-17.3
Depreciation and amortisation for the financial period	-1.8	-1.6	-7.1
Transfers between items		-0.1	-0.1
Accumulated depreciation at the end of the period	-26.3	-18.9	-24.5
Carrying amount at the end of the period	192.6	186.0	192.8

Changes in property, plant and equipment

EUR million	31 March 2019	31 March 2018	31 December 2018
Acquisition cost at the beginning of the period	72.5	52.4	52.4
Additions	3.6	6.3	19.3
Business combinations		4.5	2.9
Transfers between items		1.4	0.3
Disposals	-0.2	-0.3	-2.4
Acquisition cost at the end of the period	75.9	64.3	72.5
Accumulated depreciation at the beginning of the period	-29.2	-22.1	-22.1
Depreciation and amortisation for the financial period	-1.9	-1.7	-7.5
Transfers between items	0.0	-1.4	
Accumulated depreciation on disposals	0.1	0.2	0.3
Accumulated depreciation at the end of the period	-31.0	-25.1	-29.2
Carrying amount at the end of the period	44.9	39.2	43.3

Changes in right-of-use assets

EUR million	31 March 2019	31 March 2018	31 December 2018
Acquisition cost at the beginning of the period	162.7	102.9	102.9
Additions	5.1	17.0	25.3
Business combinations	3.7	31.4	34.5
Acquisition cost at the end of the period	171.5	151.3	162.7
Accumulated depreciation at the beginning of the period	-46.7	-29.8	-29.8
Depreciation and amortisation for the financial period	-4.9	-3.7	-16.9
Accumulated depreciation at the end of the period	-51.6	-33.5	-46.7
Carrying amount at the end of the period	119.9	117.8	116.0

Quarterly information

EUR million	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q4/17	Q3/17	Q2/17
INCOME STATEMENT								
Revenue	132.5	127.0	116.3	125.3	119.2	107.9	99.4	106.7
EBITDA	12.2	14.1	14.3	9.1	7.3	10.0	11.0	8.8
EBITDA, %	9.2	11.1	12.3	7.3	6.1	9.3	11.1	8.3
Adjusted EBITDA	12.6	14.6	14.2	10.2	6.9	10.4	10.9	9.1
Adjusted EBITDA, %	9.5	11.5	12.3	8.1	5.8	9.6	11.0	8.5
Depreciation and amortisation	-8.6	-8.2	-8.2	-8.1	-7.0	-5.3	-5.4	-5.1
Operating profit (EBIT)	3.5	5.9	6.0	1.0	0.3	4.7	5.6	3.8
Operating profit, %	2.7	4.7	5.2	0.8	0.2	4.4	5.6	3.5
Adjusted operating result (EBIT)	3.9	6.5	6.0	2.0	-0.1	5.1	5.5	4.0
Adjusted operating result (EBIT), %	3.0	5.1	5.2	1.6	-0.1	4.7	5.5	3.8
Financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Financial expenses	-1.0	-1.0	-1.0	-0.9	-0.9	-0.5	-0.6	-0.5
Profit before taxes	2.5	4.9	5.1	0.1	-0.6	4.2	5.1	3.3
Income tax	-0.7	-1.3	-1.2	-0.2	0.0	-0.6	-1.0	-0.7
Profit for the period	1.9	3.6	3.9	-0.1	-0.7	3.6	4.0	2.7
Share of the result for the financial period attributable to owners of the parent company	1.4	2.5	2.2	0.0	-1.3	2.5	1.9	2.0
Share of the result for the financial period attributable to non-controlling interests	0.4	1.1	1.7	-0.1	0.6	1.1	2.1	0.7
EPS	0.06	0.11	0.10	0.00	-0.06	0.12	0.09	0.10
Personnel at the end of the period (NOE)	5,871	5,850	5,867	5,918	5,638	4,753	4,767	4,898
Change in personnel during the quarter	21	-17	-51	280	885	-14	-131	380

Tax footprint

EUR million	1–3/2019	1–3/2018	2018
Direct tax payable for the period			
Income tax (business income tax)	1.6	0.9	5.1
Employer's pension contribution	6.9	7.0	30.5
Social security contributions	0.4	0.4	1.5
Employer's unemployment insurance contribution	2.0	1.9	3.2
Contribution to accident insurance and group life insurance	0.3	0.3	0.9
Employer contributions, total	9.6	9.5	36.1
Property taxes	0.1	0.0	0.1
Transfer taxes	0.0	0.1	1.2
Direct tax payable for the period, total	11.2	10.5	42.4
Value added tax of acquisitions payable by the company			
Value added taxes, estimate	3.3	2.5	12.4
Tax for the period			
Withholding taxes	11.5	9.3	44.7
Employee's pension contributions, notional	3.2	2.6	11.7
Employee's unemployment insurance contributions, notional	0.7	0.7	3.3
Payroll tax, total	15.3	12.6	59.7
Net value added tax	0.4	-0.2	0.6
Total tax for the period	15.7	12.4	60.3
Revenue	132.5	119.2	487.8
Profit before taxes	2.5	-0.6	9.5
Average number of personnel (FTE)	4,799	4,138	4,868
Public subsidies	0.2	0.1	1.3

Calculation of key financial figures and alternative performance measures

Key figures		
Earnings per share (EPS)	$\frac{\text{Profit for the financial period attributable to owners of the parent company}}{\text{Average number of shares during the financial year}}$	
Alternative performance measures		
Equity per share	$\frac{\text{Equity attributable to owners of the parent company}}{\text{Number of shares at the end of the financial period}}$	
Dividend per share	$\frac{\text{Dividend distribution for the financial year (or proposal)}}{\text{Number of shares at the end of the financial period}}$	
Dividend/result, %	$\frac{\text{Dividend per share}}{\text{Earnings per share (EPS)}}$	x 100
Effective dividend yield, %	$\frac{\text{Dividend per share}}{\text{Closing price for the financial year}}$	x 100
P/E ratio	$\frac{\text{Closing price for the financial year}}{\text{Earnings per share (EPS)}}$	
Share turnover, %	$\frac{\text{Number of shares traded during the period}}{\text{Average number of shares}}$	x 100
Return on equity (ROE), %	$\frac{\text{Profit for the period (rolling 12 mths)}}{\text{Equity (average)}}$	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 tangible and intangible assets and in right-of-use assets	
Organic revenue growth, %	$\frac{\text{Revenue for the period - revenue from M\&A transactions for the period - revenue for the previous period}}{\text{Revenue for the previous period}} \times 100$	

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

Reconciliations 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	1-3/2019 3 months	1-3/2018 3 months	2018
Return on equity (ROE), %			
Result for the period (rolling 12 mths) /	9.3	9.6	6.8
Equity at the start of the period	130.3	105.4	105.4
Equity at the end of the period	131.0	136.8	130.3
Equity (average) x 100	130.6	121.1	117.9
Return on equity (ROE), %	7.1	8.0	5.7

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

Return on capital employed (ROCE), %			
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Profit before taxes (rolling 12 mths) +	12.6	12.0	9.5
Financial expenses (rolling 12 mths)	4.0	2.5	3.9
/	16.6	14.5	13.4
Total statement of financial position at the start of the period -	436.8	295.6	295.6
non-interest-bearing liabilities at the start of the period	78.2	76.7	76.7
	358.6	218.8	218.8
Total statement of financial position at the end of the period -	443.5	431.1	436.8
Non-interest-bearing liabilities at the end of the period	90.3	91.9	78.2
	353.2	339.1	358.6
Average x 100	355.9	279.0	288.7
Return on capital employed (ROCE), %	4.7	5.2	4.6

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

Equity ratio, %			
Equity /	131.0	136.8	130.3
Total statement of financial position -	443.5	431.1	436.8
Advances received x 100	1.8	2.3	0.9
Equity ratio, %	29.6	31.9	29.9

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

Gearing, %			
Interest-bearing financial liabilities -	218.3	198.3	214.3
Cash and cash equivalents /	27.8	37.1	36.3
Equity x 100	131.0	136.8	130.3
Gearing, %	145.5	117.9	136.6

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

Net debt / adjusted EBITDA, rolling 12 mths			
Interest-bearing financial liabilities -	218.3	198.3	214.3
Cash and cash equivalents	27.8	37.1	36.3
Net debt /	190.5	161.2	178.0
Adjusted EBITDA (rolling 12 mths)	51.6	37.3	45.9
Net debt / adjusted EBITDA, rolling 12 mths	3.7	4.3	3.9

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.

EBITDA and Adjusted EBITDA			
Result for the period	1.9	-0.7	6.8
Income tax	-0.7	0.0	-2.7
Financial expenses	-1.0	-0.9	-3.9

Financial income	0.0	0.0	0.1
Depreciation, amortisation and impairment	-8.6	-7.0	-31.6
EBITDA	12.2	7.3	44.8
Total EBITDA adjustments	0.4	-0.4	1.1
Adjusted EBITDA	12.6	6.9	45.9

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

EBITDA, %			
EBITDA /	12.2	7.3	44.8
Revenue x 100	132.5	119.2	487.8
EBITDA, %	9.2	6.1	9.2
Adjusted EBITDA, %			
Adjusted EBITDA /	12.6	6.9	45.9
Revenue x 100	132.5	119.2	487.8
Adjusted EBITDA, %	9.5	5.8	9.4
Operating profit (EBIT) and Adjusted operating profit (EBIT)			
Result for the period	1.9	-0.7	6.8
Income tax	-0.7	0.0	-2.7
Financial expenses	-1.0	-0.9	-3.9
Financial income	0.0	0.0	0.1
Operating profit	3.5	0.3	13.2
Total adjustments of depreciation, amortisation and impairment	0.0	0.0	0.1
Total EBITDA adjustments	0.4	-0.4	1.1
Total adjustments of operating profit	0.4	-0.4	1.2
Adjusted operating profit (EBIT)	3.9	-0.1	14.4

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

Operating profit (EBIT), %			
Operating profit /	3.5	0.3	13.2
Revenue x 100	132.5	119.2	487.8
Operating profit (EBIT), %	2.7	0.2	2.7
Adjusted operating profit (EBIT), %			
Adjusted operating profit /	3.9	-0.1	14.4
Revenue x 100	132.5	119.2	487.8
Adjusted operating profit (EBIT), %	3.0	-0.1	3.0

Cash flow after investments			
Net cash flow from operating activities	3.4	5.6	41.2
Net cash flow from investing activities	-4.5	-40.3	-60.1
Cash flow after investments	-1.1	-34.7	-18.8

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

Profit before taxes			
Result for the period	1.9	-0.7	6.8
Income tax	-0.7	0.0	-2.7
Profit before taxes	2.5	-0.6	9.5
Gross investments			
Property, plant and equipment at the end of the period	44.9	39.2	43.3
Right-of-use assets at the end of the period	119.9	117.8	116.0
Other intangible assets at the end of the period	22.0	23.7	22.9
Goodwill at the end of the period	170.6	162.3	169.9
Add depreciation, amortisation and impairment	8.6	7.0	31.6
-			
Property, plant and equipment at the start of the period	43.3	30.3	30.3
Right-of-use assets at the beginning of the period	116.0	73.1	73.1
Other intangible assets at the start of the period	22.9	16.6	16.6
Goodwill at the beginning of the period	169.9	103.9	103.9
Proceeds from the sale of property, plant and equipment during the period	-0.1	0.0	-0.3
Gross investments	14.0	126.2	160.1
Organic revenue growth, %			
Revenue for the period -	132.5	119.2	487.8
Revenue from M&A transactions during the period (rolling 12 mths) -	9.9	12.7	65.7
Revenue for the previous period	119.2	110.0	424.0
Organic revenue growth /	3.4	-3.5	-2.0
Revenue for the previous period x 100	119.2	110.0	424.0
Organic revenue growth, %	2.8	-3.2	-0.5
Revenue growth attributable to M&A transactions, %	8.3	11.6	15.5
Revenue growth	13.3	9.2	63.8
Revenue growth, %	11.2	8.4	15.0

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

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

EUR million	1– 3/2019 3 months	1– 3/2018 3 months	2018
EBITDA	12.2	7.3	44.8
Adjustments to EBITDA			
Closure of operating locations			0.0
Subsidiary's previous holding at fair value		-1.0	-1.0
Dismissal-related expenses		0.6	0.6
Gain on the disposal of business			0.0
Change in fair value of contingent consideration			1.2
Other	0.4		0.3
Adjustments to EBITDA in total	0.4	-0.4	1.1
Adjusted EBITDA	12.6	6.9	45.9
Depreciation, amortisation and impairment	-8.6	-7.0	-
Adjustments to depreciation, amortisation and impairment			
Closure of operating locations			0.1
Adjustments to depreciation, amortisation and impairment in total	0.0	0.0	0.1
Adjusted operating result (EBIT)	3.9	-0.1	14.4
Operating profit (EBIT)	3.5	0.3	13.2

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

EUR million	1–3/2019 3 months	1–3/2018 3 months	2018
Other operating income		-1.0	-1.0
Employee benefit expenses	0.3	0.6	0.6
Other operating expenses	0.1		1.5
EBITDA adjustment items total	0.4	-0.4	1.1
Depreciation, amortisation and impairment			0.1
Operating profit adjustment items total	0.4	-0.4	1.2

Pihlajalinna's financial reporting in 2019

Interim Report January–June: Thursday, 15 August 2019

Interim Report January–September: Tuesday, 5 November 2019

Briefing

Pihlajalinna will hold a briefing for analysts and the media on Friday, 3 May 2019 at 10:00 a.m. in the Paavo Nurmi room at Hotel Kämp, Pohjoisesplanadi 29, 00100 Helsinki, Finland.

Helsinki, 3 May 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 specialised care services, including emergency and on-call services, a wide range of surgical services, occupational healthcare and dental care services, in private clinics and hospitals. The 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.