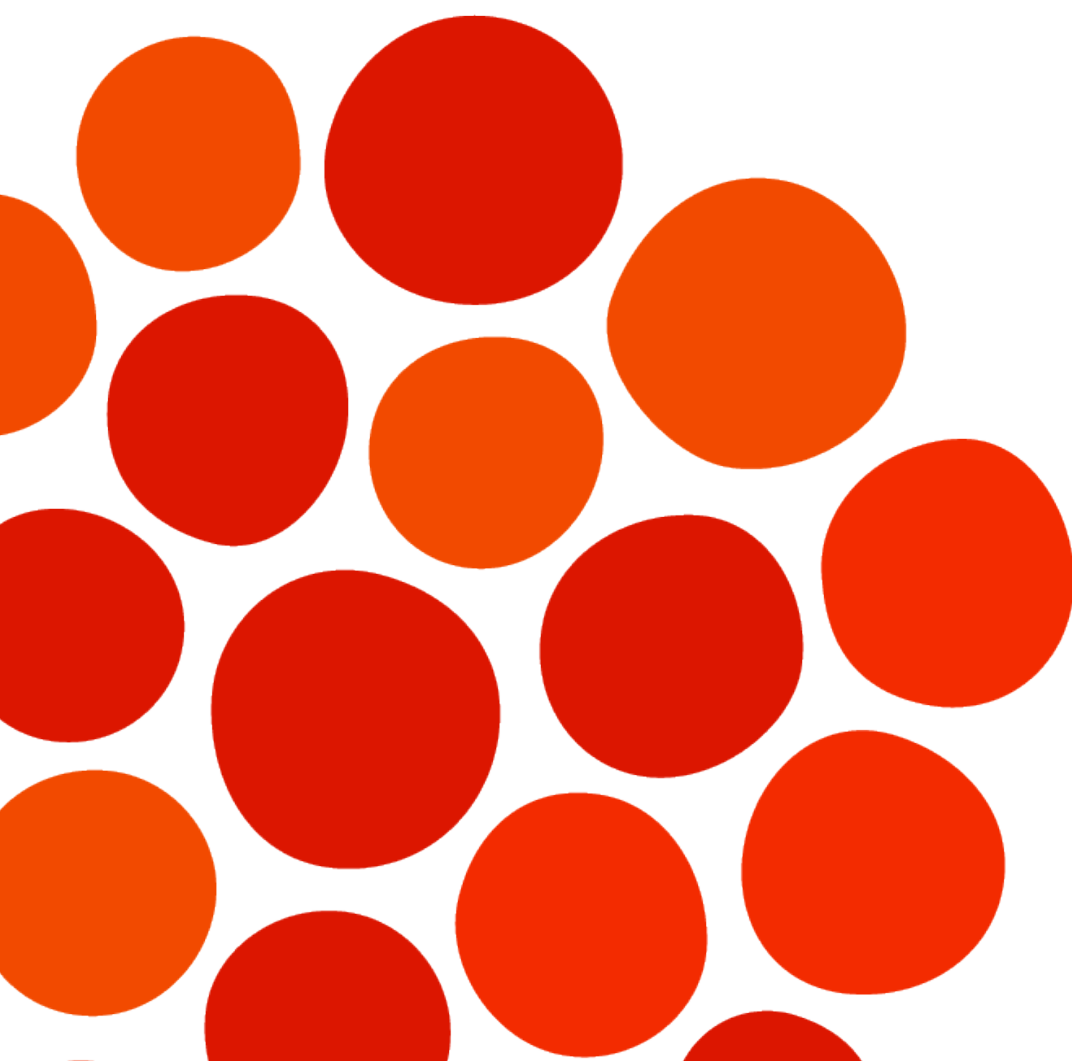


INTERIM REPORT
1 January–30 September 2017



Pihlajalinna Interim Report 1 January–30 September 2017 (9 months)

Strong third quarter in Primary and Social Care

Brief look at July–September:

- Revenue amounted to EUR 99.4 (93.9) million – an increase of 6 per cent
- EBITDA amounted to EUR 9.1 (6.8) million
- Adjusted EBITDA amounted to EUR 9.0 (7.8) million – an increase of 15 per cent
- Operating profit (EBIT) was EUR 5.5 (3.6) million
- Adjusted operating profit (EBIT) was EUR 5.4 (4.7) million – an increase of 15 per cent
- Earnings per share (EPS) was EUR 0.09 (0.08)

Brief look at January–September:

- Revenue amounted to EUR 316.1 (295.4) million – an increase of 7 per cent
- EBITDA amounted to EUR 25.2 (20.8) million
- Adjusted EBITDA amounted to EUR 25.6 (21.8) million – an increase of 17 per cent
- Operating profit (EBIT) was EUR 14.6 (11.3) million
- Adjusted operating profit (EBIT) was EUR 15.1 (12.8) million – an increase of 18 per cent
- Number of personnel at the end of the reporting period was 4,767 (4,470)
- Earnings per share (EPS) was EUR 0.34 (0.27)

KEY FIGURES AND RATIOS	7–9/2017 3 months	7–9/2016 3 months	1–9/2017 9 months	1–9/2016 9 months	2016 12 months
INCOME STATEMENT					
Revenue, EUR million	99.4	93.9	316.1	295.4	399.1
EBITDA, EUR million	9.1	6.8	25.2	20.8	27.9
EBITDA, %	9.2	7.3	8.0	7.1	7.0
Adjusted EBITDA, EUR million	9.0	7.8	25.6	21.8	28.9
Adjusted EBITDA, %	9.1	8.3	8.1	7.4	7.2
Operating profit (EBIT), EUR million	5.5	3.6	14.6	11.3	15.1
Operating profit, %	5.5	3.8	4.6	3.8	3.8
Adjusted operating profit (EBIT), EUR million	5.4	4.7	15.1	12.8	16.6
Adjusted operating profit, %	5.4	5.0	4.8	4.3	4.2
Profit before tax (EBT), EUR million	5.0	3.3	13.3	10.2	13.7
SHARE-RELATED INFORMATION					
Earnings per share (EPS), EUR	0.09	0.08	0.34	0.27	0.39
Equity per share, EUR			4.80	4.74	4.74
OTHER INFORMATION					
Return on capital employed (ROCE), %			11.4	9.0	10.8
Return on equity (ROE), %			13.3	8.7	11.1
Equity ratio, %			43.0	47.3	46.5
Gearing, %			41.7	26.8	21.9
Interest-bearing net debt, EUR million			43.4	27.0	22.1
Net debt/adjusted EBITDA, 12 months			1.3	1.1	0.8
Gross investments, EUR million*	12.8	1.1	20.5	21.9	27.4
Cash flow from operating activities, EUR million	4.2	9.8	18.5	19.1	32.3
Cash flow after investments, EUR million	-4.3	7.0	3.7	-0.3	6.8
Average number of personnel (FTE)**			3,881	3,508	3,503
Personnel at the end of the period (NOE)			4,767	4,470	4,407

* Finance leases are not included in the gross investments

** Pihlajalinna has started to report the number of personnel on average as full-time equivalents (FTEs) instead of the previous Average number of personnel indicator.

Aarne Aktan, CEO of Pihlajalinna:

Pihlajalinna's third quarter in 2017 was good. Profitability clearly improved, though the organic growth in revenue remained at 2.0 per cent.

The Primary and Social Care (P & S) segment had an excellent third quarter. Particularly the profitability of complete outsourcings exceeded our expectations. The profitability of complete outsourcings in general is better during summer holiday season due to decrease in personnel costs while revenue remains constant throughout the year. The profitability of staffing services remained good.

The third quarter of the Private Clinics and Specialised Care (C & S) segment was in line with expectations. Cost development in Public Specialised Care was better than expected. In accordance with the nature of Public Specialised Care, variations between quarters are fairly big. The profitability of Private Clinics, Occupational Healthcare and surgical operations was in line with expectations. Demand for Dental Care, on the other hand, continued to be weak.

After the reporting period, the Finnish government presented the most recent draft on the legislative proposal concerning the Act on Freedom of Choice, related to the health and social ser-



vices reform. The proposal did not include any unexpected, major changes. The schedule for the freedom of choice provided by the health and social services reform was postponed again, which will give Pihlajalinna time to prepare for it. We believe that the legislative package will be adopted during the first half of 2018.

The municipal market has been very active due to the postponement of the health and social services reform, but many municipalities are waiting for the final content of the legislative reform.

Pihlajalinna's outlook for 2017 remains unchanged

Pihlajalinna's 2017 revenue is expected to grow and adjusted operating profit (EBIT) to improve in comparison to 2016. In the financial year 2016, revenue was EUR 399.1 million and the adjusted operating profit (EBIT) was EUR 16.6 million.

Consolidated revenue and result

July–September 2017

Pihlajalinna's revenue for the third quarter amounted to EUR 99.4 (93.9) million, an increase of EUR 5.5 million, or 5.8 per cent. Organic growth in revenue amounted to EUR 1.8 million, or 2.0 per cent, including the commencement of social and healthcare service production in Soini on 1 January 2017. Growth in revenue due to M&A transactions was EUR 3.6 million, or 3.8 per cent.

Third quarter EBITDA amounted to EUR 9.1 (6.8) million, an increase of EUR 2.3 million, or 34 per cent. The quarter's transfer taxes and expert fees relating to the M&A transactions amounted to EUR 0.2 (0.1) million. The EBITDA of the comparison period was burdened by the EUR 0.9 million compensation related to a production agreement of the Surgical Operations service area that ended in the previous financial year.

Adjusted EBITDA amounted to EUR 9.0 (7.8) million, an increase of EUR 1.2 million, or 15 per cent. Adjusted EBITDA grew, mainly due to an improvement in the profitability of the Social and Healthcare Outsourcings.

Depreciation, amortisation and impairment amounted to EUR 3.7 (3.2) million. Amortisation and impairment of intangible assets was EUR 1.3 (1.2) million, of which the amortisation of intangible assets related to the allocation of costs at the time of M&A transactions was EUR 1.0 (0.9) million. Depreciation, amortisation and impairment of property, plant and equipment amounted to EUR 2.3 (2.0) million.

Pihlajalinna's operating profit was EUR 5.5 (3.6) million, an increase of EUR 1.9 million, or 52 per cent. The EBIT-to-revenue ratio (EBIT margin) in the quarter was 5.5 (3.8) per cent. Adjusted operating profit for the quarter amounted to EUR 5.4 (4.7) million, an increase of EUR 0.7 million, or 15 per cent. Adjusted EBIT margin was 5.4 (5.0) per cent. Social and Healthcare Outsourcings improved profitability.

The Group's net financial expenses for the quarter totalled EUR -0.5 (-0.3) million. Profit before taxes for the reporting period amounted to EUR 5.0 (3.3) million, an increase of EUR 1.7 million, or 53 per cent. Taxes on income were EUR -1.0 (-0.9) million. Profit for the period was EUR 4.0 (2.4) million. Earnings per share (EPS) was EUR 0.09 (0.08).

January–September 2017

Pihlajalinna's revenue for the reporting period amounted to EUR 316.1 (295.4) million, an increase of EUR 20.7 million, or 7.0 per cent. Organic growth in revenue amounted to EUR 9.6 million, or 3.2 per cent, including the commencement of social and healthcare service production in Soini on 1 January 2017. Growth in revenue due to M&A transactions was EUR 11.1 million, or 3.8 per cent.

EBITDA amounted to EUR 25.2 (20.8) million, an increase of EUR 4.3 million, or 21 per cent. EBITDA grew, mainly due to an improvement in the profitability of the Social and Healthcare Outsourcings. EBITDA was burdened by a conciliation agreement concerning the Group's facility expenses realised during the report-

ing period, totalling EUR 0.2 million, dismissal-related expenses totalling EUR 0.2 million, and the integration of Dental Care clinics in Jyväskylä and Tampere, totalling EUR 0.1 million. Transfer taxes and expert fees relating to the M&A transactions amounted to EUR 0.6 (0.5) million.

Adjusted EBITDA amounted to EUR 25.6 (21.8) million, an increase of EUR 3.7 million, or 17 per cent. Adjusted EBITDA increased by EUR 1.8 million as a result of M&A transactions and by EUR 2.0 million as a result of organic growth in revenue and increased operational efficiency.

Depreciation, amortisation and impairment amounted to EUR 10.6 (9.6) million. Amortisation and impairment of intangible assets was EUR 3.9 (3.3) million, of which the amortisation of intangible assets related to the allocation of costs at the time of M&A transactions was EUR 2.8 (2.5) million. Depreciation, amortisation and impairment of property, plant and equipment amounted to EUR 6.7 (6.2) million.

Depreciation, amortisation and impairment includes an impairment loss of EUR 0.1 million, resulting from the integration of Dental Care clinics in Jyväskylä and Tampere. The depreciation, amortisation and impairment for the comparison period includes an impairment loss of EUR 0.4 million related to the closing down of a Dental Care clinic in Muurame, and an impairment loss of EUR 0.1 million related to the closing down of a Surgical Operations facility in Tampere. These items have been treated as an adjustment of operating profit.

Pihlajalinna's operating profit was EUR 14.6 (11.3) million, an increase of EUR 3.3 million, or 29 per cent. The EBIT-to-revenue ratio (EBIT margin) was 4.6 (3.8) per cent. Pihlajalinna's adjusted operating profit for the reporting period amounted to EUR 15.1 (12.8) million, an increase of EUR 2.3 million, or 18 per cent. Adjusted EBIT margin was 4.8 (4.3) per cent.

The Group's net financial expenses for the reporting period totalled EUR -1.3 (-1.1) million. Profit before taxes for the reporting period amounted to EUR 13.3 (10.2) million, an increase of EUR 3.1 million, or 31 per cent. Taxes on income were EUR -2.8 (-2.4) million. Profit for the period was EUR 10.6 (7.8) million. Earnings per share (EPS) was EUR 0.34 (0.27).

Market and legislation review

The legislation package connected to the health, social services and regional government reform has been under consideration by the parliament since the spring. The government presented the new legislative proposal concerning the Act on Freedom of Choice in October, and the proposal was sent for comments in the beginning of November. The government intends to present the proposal to the parliament at the beginning of March 2018, following its circulation for comments. The Act on Freedom of Choice, the Act on Organising Health and Social Services and the Counties Act will be considered simultaneously in the parliament.

The Act on Organising Health and Social Services and the Act of Freedom of Choice are intended to take effect on 1 January 2020. Personal budgets would come into force on 1 January 2020 and service vouchers should be adopted no later than on 1 July 2020. Additionally, regional governments should take service vouchers into use in certain specialised care services no later than on 1 January 2022. The health and social services centres would begin operating on 1 January 2021 and dental care units on 1 January 2022.

According to the Ministry of Social Affairs and Health, the size of the freedom-of-choice market would be, at minimum, approximately EUR 5.8 billion (of which health and social services centres would account for roughly EUR 2 billion, service vouchers for roughly EUR 2 billion, personal budgets for at least EUR 1.4 billion and dental care units for roughly EUR 0.4 billion).

The current municipal outsourcing market has been very active due to the postponement of the health and social services reform, but many municipalities are waiting for the final content of the legislative reform in terms of their decision-making.

On 21 August 2017, the municipal council of Forssa decided to cancel the Council's procurement decision concerning the organisation of the municipality's social and healthcare services and to terminate the procurement procedure. The decision means that the procurement decision made the municipal council of Forssa in May will not result in a service production agreement between Pihlajalinna and the municipalities constituting the Welfare District of Forssa. In May, the municipal councils of Forssa, Humpkala and Ypäjä voted in favour of establishing a joint venture with Pihlajalinna. The municipalities of Jokioinen and Tamela decided not to participate in the establishment of the joint venture.

The market of the C & S segment is stable. Demand in the Occupational Healthcare market has remained stable. Demand among private individuals who pay for their services themselves fluctuates to some extent, which is visible in the weak demand for Dental Care services.

Operating segments

Private Clinics and Specialised Care (C & S)

The Private Clinics and Specialised Care segment is divided into four service areas: Private Clinics, Surgical Operations and Public Specialised Care, Dental Care and Occupational Healthcare.

July–September 2017

The C & S segment's revenue for the quarter amounted to EUR 51.8 (48.6) million, an increase of EUR 3.2 million, or 6.6 per cent. Organic growth in revenue amounted to EUR 1.2 million, or 2.4 per cent. Growth in revenue due to M&A transactions was EUR 2.0 million, or 4.2 per cent. Surgical Operations and Public Specialised Care as well as Private Clinics contributed to the growth in revenue. In the service area of Dental Care, revenue declined.

The C & S segment's EBITDA for the quarter amounted to EUR 2.2 (2.5) million. Adjusted EBITDA was EUR 2.2 (3.4) million. Weak demand in the Private Clinics service area, a cumulative adjustment to the revenue recognition of fixed-price occupational health agreements (EUR -0.5 million) and additional costs of brand revamp and marketing weakened the segment's profitability in comparison to the corresponding period in the previous year. The EBITDA of the comparison period was burdened by the EUR 0.9 million compensation related to a production agreement of the Surgical Operations service area that ended in the previous year and has been treated as an adjustment to EBITDA.

The quiet summer holiday season, typical to the industry, is visible in the July–September revenue and profitability. The C & S segment's revenue for the third quarter was 15 (12) per cent smaller than the average revenue for the quarters in the first half of the year. The profitability of the third quarter is typically the weakest in the financial year in the C & S segment.

The C & S segment's depreciation, amortisation and impairment for the quarter totalled EUR 2.6 (2.7) million. Amortisation of intangible assets related to the allocation of costs at the time of M&A transactions totalled EUR 0.8 (0.9) million. Other depreciation, amortisation and impairment totalled EUR 1.7 (1.8) million.

The depreciation, amortisation and impairment for the comparison period includes an impairment loss of EUR 0.1 million related to the closing down of a Surgical Operations facility in Tampere. This item has been treated as an adjustment of operating profit.

The C & S segment's operating result for the quarter under review was EUR -0.4 (-0.2) million and adjusted operating result EUR -0.4 (0.8) million.

The C & S segment's revenue includes EUR 20.8 million of revenue from Public Specialised Care. The EBITDA and operating profit of Public Specialised Care for the quarter was EUR 1.6 million and EUR 1.5 million, respectively.

January–September 2017

The C & S segment's revenue during the reporting period amounted to EUR 173.5 (158.8) million, an increase of EUR 14.7 million, or 9.3 per cent. Organic growth in revenue amounted to EUR 6.6 million, or 4.1 per cent. Growth in revenue due to M&A transactions was EUR 8.1 million, or 5.1 per cent. Surgical Operations and Public Specialised Care as well as Occupational Healthcare and Private Clinics contributed to the growth in revenue.

The C & S segment's EBITDA for the reporting period amounted to EUR 10.6 (12.2) million. Adjusted EBITDA was EUR 10.8 (13.1) million. In comparison to the corresponding period in the previous year, the segment's profitability was weakened by Private Clinics and improved by Occupational Healthcare. The reporting period's profitability was also burdened by additional costs of digitalisation, brand revamp and marketing. The EBITDA of the comparison period was weakened by the EUR 0.9 million compensation related to a production agreement of the Surgical Operations service area that ended in the previous year and has been treated as an adjustment to EBITDA.

The C & S segment's depreciation, amortisation and impairment for the reporting period totalled EUR 7.5 (7.7) million. Amortisation of intangible assets related to the allocation of costs at the time of M&A transactions totalled EUR 2.4 (2.4) million. Other depreciation, amortisation and impairment totalled EUR 5.1 (5.3) million.

The depreciation, amortisation and impairment includes an impairment loss of EUR 0.1 million related to the integration of Dental Care clinics in Tampere and Jyväskylä. The depreciation, amortisation and impairment for the comparison period includes an impairment loss of EUR 0.4 million related to the closing down of a Dental Care clinic in Muurame, and an impairment loss of EUR 0.1 million related to the closing down of a Surgical Operations facility in Tampere. These items have been treated as an adjustment of operating profit.

The C & S segment's operating profit for the reporting period amounted to EUR 3.1 (4.5) million and adjusted operating profit to EUR 3.4 (5.8) million.

The C & S segment's revenue includes EUR 63.5 million of revenue from Public Specialised Care. The EBITDA and operating profit of Public Specialised Care amounted to EUR 0.9 million and EUR 0.7 million, respectively. The cost accumulation of Public Specialised Care involves random fluctuation. Individual cases falling under the scope of hospital districts' pooling system for high-cost care may increase the costs of specialised care considerably during the financial year in Pihlajalinna's municipal joint ventures. Due to random fluctuation and pooling system for high-cost care the final costs for the financial year will only be found out after the end of the calendar year.

Primary and Social Care (P & S)

The Primary and Social Care segment is divided into two service areas: Social and Healthcare Outsourcings and Other Business Operations, which includes health centre outsourcings, staffing services and residential services (including reception centres for asylum seekers).

July–September 2017

The P & S segment's revenue during the quarter amounted to EUR 49.1 (46.9) million, an increase of EUR 2.2 million, or 4.7 per cent. Organic growth in revenue amounted to EUR 1.6 million, or 3.5 per cent, mainly as a result of the commencement of service production for Soini on 1 January 2017 and increased sales of staffing services. Growth in revenue due to M&A transactions was EUR 0.6 million, or 1.3 per cent.

The P & S segment's EBITDA for the quarter amounted to EUR 7.4 (4.9) million. Adjusted EBITDA amounted to EUR 7.4 (5.1) million, an increase of EUR 2.3 million, or 45 per cent. Social and Healthcare Outsourcings improved profitability.

The profitability of complete outsourcings is better during summer holiday season due to decrease in personnel costs while revenue recognition remains constant throughout the year.

The P & S segment's depreciation, amortisation and impairment for the reporting period totalled EUR 1.0 (0.5) million. Amortisation of intangible assets related to the allocation of costs at the time of M&A transactions totalled EUR 0.1 (0.0) million. Other depreciation, amortisation and impairment totalled EUR 0.8 (0.5) million.

The P & S segment's operating profit for the quarter amounted to EUR 6.4 (4.4) million. The adjusted operating profit was EUR 6.4 (4.6) million, an increase of EUR 1.8 million, or 40 per cent.

January–September 2017

The P & S segment's revenue during the reporting period amounted to EUR 148.2 (140.7) million, an increase of EUR 7.5 million, or 5.3 per cent. Organic growth in revenue amounted to EUR 5.9 million, or 4.2 per cent, mainly as a result of the commencement of service production for Soini on 1 January 2017. Growth in revenue due to M&A transactions was EUR 1.6 million, or 1.2 per cent.

The P & S segment's EBITDA for the reporting period was EUR 16.2 (9.8) million. Adjusted EBITDA for the quarter amounted to EUR 16.2 (10.0) million, an increase of EUR 6.2 million, or 62 per cent. Profitability improved due to Social and Healthcare Outsourcings as well as staffing services.

The P & S segment's depreciation, amortisation and impairment for the reporting period totalled EUR 2.8 (1.5) million. Amortisation of intangible assets related to the allocation of costs at the time of M&A transactions totalled EUR 0.4 (0.1) million. Other depreciation, amortisation and impairment totalled EUR 2.4 (1.4) million.

The P & S segment's operating profit for the reporting period was to EUR 13.4 (8.4) million. The adjusted operating profit was EUR 13.4 (8.5) million, an increase of EUR 4.9 million, or 58 per cent.

Performance of the segments

quarter	C & S		P & S	
	7–9/2017	7–9/2016	7–9/2017	7–9/2016
Revenue, EUR million	51.8	48.6	49.1	46.9
EBITDA, EUR million	2.2	2.5	7.4	4.9
EBITDA, %	4.2	5.1	15.0	10.6
Adjusted EBITDA, EUR million	2.2	3.4	7.4	5.1
Adjusted EBITDA, %	4.2	6.9	15.0	10.8
Operating profit (EBIT), EUR million	-0.4	-0.2	6.4	4.4
Operating profit, %	-0.7	-0.4	13.0	9.5
Adjusted operating profit (EBIT), EUR million	-0.4	0.8	6.4	4.6
Adjusted operating profit, %	-0.7	1.6	13.0	9.8

cumulative	1–9/2017	1–9/2016	1–9/2017	1–9/2016
Revenue, EUR million	173.5	158.8	148.2	140.7
EBITDA, EUR million	10.6	12.2	16.2	9.8
EBITDA, %	6.1	7.7	10.9	7.0
Adjusted EBITDA, EUR million	10.8	13.1	16.2	10.0
Adjusted EBITDA, %	6.2	8.2	10.9	7.1
Operating profit (EBIT), EUR million	3.1	4.5	13.4	8.4
Operating profit, %	1.8	2.8	9.1	5.9
Adjusted operating profit (EBIT), EUR million	3.4	5.8	13.4	8.5
Adjusted operating profit, %	1.9	3.7	9.1	6.0

Consolidated cash flow and statement of financial position

At the end of the reporting period, Pihlajalinna Group's total statement of financial position was EUR 243.8 (213.8) million. Consolidated cash and cash equivalents stood at EUR 27.8 (23.2) million.

The Group's net cash flow from operating activities during the reporting period amounted to EUR 18.5 (19.1) million. A total of EUR 2.7 (4.1) million in working capital was tied up during the reporting period. The Group pays the TyEL employees' pension insurance premiums for the entire year in advance in its municipal joint ventures. Advance TyEL premiums totalled EUR 4.0 (3.8) million during the reporting period.

Net cash flow from investing activities totalled EUR -14.8 (-19.5) million. Subsidiary acquisitions had an impact of EUR -9.1 (-16.6) million on net cash flow from investing activities during the reporting period. Investments in property, plant and equipment and intangible assets during the reporting period totalled EUR -6.0 (-3.2) million, and proceeds from the disposals of property, plant and equipment and subsidiaries totalled EUR 0.2 (0.2) million. Dividends received amounted to EUR 0.1 (0.3) million.

The Group's cash flow after investments was EUR 3.7 (-0.3) million.

Net cash flow from financing activities totalled EUR -3.5 (8.2) million. During the reporting period, the Group withdrew EUR 14.5 (14.5) million of new loans within its credit facility and repaid its financial liabilities, including changes in credit limits, by a total of EUR 5.4 (3.1) million. The parent company of the Group distributed EUR 3.1 million in dividends during the reporting period. In addition, EUR 2.8 (0.3) million of dividends was distributed to non-controlling interests during the reporting period. Repayment of financial lease liabilities totalled EUR 2.4 (1.8) million and interest paid and other financial expenses amounted to EUR 1.4 (1.1) million. During the reporting period, Pihlajalinna increased its holding in Mäntänvuoren Terveys Oy by purchasing, in accordance with its commitment, 15 per cent of the company's share capital. Changes in non-controlling interests in cash flow amounted to EUR -2.9 million.

The Group's gearing was 41.7 (26.8) per cent at the end of the reporting period. Interest-bearing net debt amounted to EUR 43.4 (27.0) million. For the financial year 2016, the facility leases of three care homes in Southwest Finland were reported as operating leases. The Group's gearing for the reporting period is increased by the replacement of said leases by new 15-year leases, which are interpreted as finance leases. The current value of these finance leases at the beginning of the financial year was EUR 12.5 million.

In the reporting period, return on capital employed was 11.4 (9.0) per cent and return on equity was 13.3 (8.7) per cent.

Pihlajalinna has a revolving credit facility worth EUR 60 million valid until 2020 and credit limit agreements worth a total of EUR 10 million valid until further notice. The revolving credit facility includes a financial covenant based on the ratio of net debt to EBITDA. The Group met the set covenants on 30 September 2017.

At the end of the reporting period, Pihlajalinna had a total of EUR 33.9 million of unused credit limits.

Capital expenditure and acquisitions

On 2 January 2017, Pihlajalinna acquired the entire share capital of Itä-Suomen Lääkäritalo Oy, which operates in the Kuopio region. Itä-Suomen Lääkäritalo has, under the name Lääkärikeskus ITE, worked in close cooperation with Itä-Suomen Lääkärikeskus Oy, which Pihlajalinna acquired on 1 February 2016.

Insta Care Oy, a former joint venture, became a wholly-owned subsidiary of Pihlajalinna as of 1 June 2017. At the same time, the company's name was changed to Pihlajalinna Solutions Oy.

Pihlajalinna increased its holding in Mäntänvuoren Terveys Oy by purchasing, in accordance with its commitment, 15 per cent of the company's share capital from the City of Mänttä-Vilppula at the beginning of July. After the transaction, the Group owns 66 per cent of the company.

On 6 July 2017, Pihlajalinna acquired the entire share capitals of Kuopio-based Sataman Röntgen Oy and Joensuu-based Joen Magneetti Oy.

On 3 August 2017, Pihlajalinna acquired the Oulu-based Caritas Lääkärit Oy. At the same time, the company's name was changed to Pihlajalinna Madetojanpuisto Oy.

A summary of the acquisitions made during the reporting period is presented in the notes to the Interim Report.

Gross investments, including acquisitions, totalled EUR 20.5 (21.9) million in the reporting period. 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 5.6 (3.9) million during the reporting period. Gross investments relating to the opening of new units totalled EUR 1.3 (0.1) million. Gross investments associated with M&A transactions totalled EUR 13.6 (18.0) million.

The Group's investment commitments related to development, additional and replacement investments and the opening of new units amount to approximately EUR 5.8 million. The investment commitment to build a welfare centre in Hattula became void when the Market Court annulled Hattula's procurement decision on health and social services.

The expansion of Pihlajalinna will continue in spite of the postponement of the health and social services reform until 2020. Pihlajalinna will expand to ten new locations by 2020, primarily by opening completely new clinics. In addition, the company may expedite the pace of expansion with acquisitions. The establishment of new private clinics is underway in Oulu, Turku and Seinäjoki. They will operate as separate limited liability companies so that the local staff and doctors can be offered the possibility to become shareholders. The Oulu and Turku clinics will open at the turn of the year and the Seinäjoki clinic in the spring of 2018. The company estimates that the investments required for the new clinics will remain under EUR 40 million.

Personnel

At the end of the reporting period, the number of personnel amounted to 4,767 (4,470), an increase of 297 persons or 7 per cent. The Group's personnel averaged 3,881 (3,508) persons as full-time equivalents, an increase of 373 persons or 11 per cent. During the reporting period, the Group's employee benefit expenses totalled EUR 130.5 (124.4) million, an increase of EUR 6.1 million or 5 per cent.

Changes in Group structure

As part of Pihlajalinna's brand revamp, the company names of the following Group companies were changed during the reporting period: Dextra Oy became Pihlajalinna Lääkärikeskukset Oy, Tampereen Lääkärikeskus Oy became Pihlajalinna Tampere Oy, Hoivakoti Johanna Oy became Ikipihlaja Johanna Oy,

Kuusama-Koti Oy became Ikipihlaja Kuusama Oy, Hoitokoti Matinkartano Oy became Ikipihlaja Matinkartano Oy, Hoitokoti Setälänpiha became Ikipihlaja Setälänpiha Oy and Raisio Oiva Oy became Ikipihlaja Oiva Oy.

The following subsidiary mergers were implemented during the reporting period: Jämsän Lääkärikeskus Oy merged with Pihlajalinna Lääkärikeskukset Oy on 1 September 2017; Itä-Suomen Lääkäritalo merged with Pihlajalinna Lääkärikeskukset Oy on 1 June 2017; Dextra Medical Spa, Plastiikkakirurginen sairaala Oy and Itä-Suomen Lääkärikeskus Oy merged with Pihlajalinna Lääkärikeskukset Oy on 1 May 2017; Laser Tilkka Oy merged with Pihlajalinna Lääkärikeskukset Oy on 1 March 2017; and Oikare Oy merged with Ikipihlaja Setälänpiha Oy on 1 March 2017.

During the reporting period, Pihlajalinna established the companies Pihlajalinna Oulu Oy, Pihlajalinna Seinäjoki Oy, Pihlajalinna Turku Oy and Pihlajalinna Erityisasumispalvelut Oy. The business operations of the companies in question have not yet commenced.

The business operations of Gyne-Praxis Oy were transferred to Pihlajalinna Lääkärikeskukset Oy with an asset deal on 31 May 2017. Gyne-Praxis Oy will be dissolved by the end of the year.

Koskisairaala Oy was dissolved on 1 January 2017.

Management changes

Tarja Rantala was appointed Pihlajalinna Plc's interim CFO and member of the Management Team as of 1 July 2017.

Perttu Monthan was appointed Pihlajalinna's CDO on 19 June 2017. Monthan is a member of the Extended Management Team.

Pauliina Rannikko was appointed General Counsel of Pihlajalinna. She started in her role and joined the Group's Management Team on 18 April 2017.

Joni Aaltonen, Pihlajalinna's Head of Mergers and Acquisitions, was named the new SVP of Pihlajalinna Group's Primary and Social Care (P & S) segment on 17 February 2017. He started in his new role and joined the Group's Management Team on 20 February 2017.

Management Team

The Group's Management Team includes the following five (5) members: Aarne Aktan, CEO (also Executive Vice President of the C&S segment); Juha Rautio, Deputy CEO and Head of Group Projects; Joni Aaltonen, SVP of the Primary and Social Care segment and head of corporate planning; Tarja Rantala, interim CFO (as of 1 July 2017); and Pauliina Rannikko, General Counsel.

In addition to the Management Team members, the Extended Management Team includes the following five (5) members: Sanna Hildén, Head of Human Resources; Siri Markula, Head of Communications and IR; Perttu Monthan, CDO; Pauli Waroma, CMO; and Kimmo Saarinen, Medical Director.

The main responsibilities of the Extended Management Team include support for the CEO and the Management Team in major projects and the Group's shared services.

Board of Directors

The Annual General Meeting held on 4 April 2017 decided that the Board of Directors will be composed of six (6) at a time. Mr Jari Eklund, Mr Timo Everi, Ms Leena Niemistö, Mr Jari Sundström, Ms Seija Turunen

and Mr Mikko Wirén were re-elected to the Board of Directors for a term concluding at the end of the next Annual General Meeting.

At its organisation meeting on 4 April 2017, Pihlajalinna Plc's Board of Directors elected Mikko Wirén as its Chairperson and Leena Niemistö as its Deputy Chairperson.

Shareholders' Nomination Board

The Annual General Meeting held on 4 April 2017 resolved to establish a Shareholders' Nomination Board, tasked with preparing future proposals on the election and remuneration of the members of the Board of Directors to the General Meetings.

On 11 September 2017, the four biggest registered shareholders of Pihlajalinna Plc appointed the following representatives to the Shareholders' Nomination Board:

Erkki Moisander, Chairman of the Board, CEO, LocalTapiola Group
Mikko Wirén, Managing Director, MWW Yhtiö Oy
Minna Kohmo, Managing Director, LocalTapiola Mutual Life Insurance Company
Hanna Hiidenpalo, Director, Chief Investment Officer, Elo Mutual Pension Insurance Company

The Shareholders' Nomination Board will choose a Chairman from amongst its members.

Committees nominated by the Board

Audit Committee: Seija Turunen (Chairman), Jari Eklund and Leena Niemistö.

Remuneration Committee: Mikko Wirén (Chairman), Timo Everi and Jari Sundström.

Remuneration of the members of the Board of Directors

The Annual General Meeting of 4 April 2017 decided that remuneration shall be paid to the members of the Board of Directors as follows: to the Chairperson EUR 250,000 per year, to the Deputy Chairperson EUR 48,000 per year and to the other members of the Board of Directors EUR 24,000 per year.

In addition, the General Meeting decided that each Board member shall be paid a meeting fee of EUR 500 for each Board and Committee meeting and that reasonable travel compensation will be paid to the Board members according to the company's travel policy.

Shares and shareholders

At the end of the reporting period, Pihlajalinna Plc's share capital entered in the Trade Register amounted to EUR 80,000 and the total number of shares outstanding was 20,613,146. 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 reporting period, the Company had 11,335 (7,953) 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, and Pihlajalinna Plc has been classified as a Mid Cap company in the Healthcare sector.

Share-related information	7–9/2017	7–9/2016	1–9/2017	1–9/2016	2016
No. of shares outstanding at the end of the period	20,613,146	20,613,146	20,613,146	20,613,146	20,613,146
Average no. of shares outstanding during the period	20,613,146	20,613,146	20,613,146	20,613,146	20,613,146
Highest price, EUR	17.75	16.90	18.42	18.87	18.87
Lowest price, EUR	15.33	15.90	15.33	12.90	12.90
Average price, EUR*	16.47	16.32	17.14	16.40	16.38
Closing price, EUR	15.98	16.13	15.98	16.13	18.42
Share turnover, 1,000 shares	1,053	1,274	3,571	6,839	8,196
Share turnover, %	5.1	6.2	17.3	33.2	39.8
Market capitalisation at the end of the period, EUR million			329.4	332.5	379.7

* average share price weighted by trading volume

Auditing

At Pihlajalinna's Annual General Meeting of 4 April 2017, KPMG Oy Ab, a firm of authorised public accountants, was elected the company's auditor until the end of the next Annual General Meeting. Ms Lotta Nurminen, APA, will be the principal auditor.

Amendments to the Articles of Association

The General Meeting of 4 April 2017 resolved that Articles 4 and 8 of the Articles of Association be amended to read as follows:

Section 4: The Company has a Board of Directors which consists of no fewer than four (4) and no more than ten (10) members.

The General Meeting shall elect the Chairperson and Deputy Chairperson of the Board of Directors. The term of office of a member of the Board of Directors shall expire at the close of the first Annual General Meeting following the election. In case the Chairperson and Deputy Chairperson of the Board of Directors resign or become otherwise unable to act as chairperson during their term of office, the Board of Directors may elect a new Chairperson from among its members for the remaining term of office.

Section 8: The Company shall have one (1) Auditor that shall be a firm of authorised public accountants with an APA-certified Auditor acting as the Auditor with principal responsibility.

Authorisation for the repurchase of the company's own shares

The Annual General Meeting of 4 April 2017 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. The authorisation revokes the authorisation given by the Annual General Meeting on 4 April 2016 to decide on the repurchase of the company's own shares. The authorisation will remain in force until the end of the next Annual General Meeting, but nevertheless no longer than until 30 June 2018.

Own shares may be repurchased on the basis of the authorisation only by using non-restricted equity. Own shares may be repurchased at a price formed in public trading on the date of the repurchase or otherwise at a price formed on the market. Own shares may be repurchased using, inter alia, derivatives. The Board of Directors resolves how shares are repurchased. Own shares may be repurchased otherwise than in proportion to the shares held by the shareholders (directed repurchase), provided that there is a weighty financial reason for the company to do so.

Authorisation to decide on a share issue

The Annual General Meeting of 4 April 2017 decided to authorise the Board of Directors to resolve on the issuance of shares and other special rights conveying entitlement to shares as referred to in the Chapter 10, section 1 of the Limited Liability Companies Act. The authorisation revokes the authorisation given by the Annual General Meeting on 4 April 2016 to decide on share issues and special rights conveying entitlement to shares. The authorisation will remain in force until the end of the next Annual General Meeting, but nevertheless no longer than until 30 June 2018.

The number of shares issued pursuant to the authorisation may not exceed 4,122,629 shares, which corresponds to approximately 20 per cent of all the existing shares in the company. The authorisation concerns both the issuance of new shares as well as the transfer of the company's own shares.

The Board of Directors decides on all other terms and conditions applicable to the issuance of shares and other special rights conveying entitlement to shares. The authorisation includes a right to deviate from the shareholders pre-emptive right to subscription (directed issue), provided that there is a weighty financial reason for the company to do. The authorisation may be used, for example, to finance acquisitions or other business arrangements and investments or the implementation of the company's share-based incentive schemes, as well as other purposes determined by the company's Board of Directors.

Risks and uncertainties in business operations

During the first quarter, Pihlajalinna conducted a comprehensive survey of its risks in cooperation with an external expert. The Group's key personnel took part in the survey. At the same time, the Group adopted a new risk management tool for the active assessment, management and monitoring of risks. The main objective is the minimisation and better anticipation of identified 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 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 areas of social and healthcare services but, on the other hand, the Group's extensive operations in different operating areas may partially balance out the effects of reforms.

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.

The Group closely monitors political decision-making processes. For instance, forecasting the reception centre business is challenging due to possible changes in the asylum seeker situation, which are difficult to predict.

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 or an interim report.

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, and it is still underway.

Flagging notifications

Pihlajalinna did not receive any flagging notifications during the reporting period.

Current incentive schemes

The CEO participates in a long-term share-based incentive scheme for the years 2016–2018. There are three earnings periods in the incentive scheme, equivalent to the full calendar years 2016, 2017 and 2018. The earnings criteria of the share-based incentive scheme have been connected to the profitability development of the company's business operations. The amount of any share compensation paid to the CEO depends on achieving the targets set on the earnings criteria.

The maximum total incentive paid to the CEO consists of company shares and a monetary contribution. Based on the incentive scheme, the CEO can be granted a maximum of 37,500 shares (gross amount before applicable taxes) as a compensation. The possible share compensation will be paid to the CEO after the financial statements of each earnings period (financial year) have been confirmed, in 2017, 2018 and 2019. The CEO did not earn any share-based incentive compensation for the financial year 2016.

A transfer restriction applies to incentive scheme shares during the commitment period. The commitment period begins when the compensation is paid and ends two years after the compensation payment date.

The company does not use any share-based incentive schemes for other members of the Management Team or the Board of Directors.

Events after the reporting period

Ville Lehtonen was appointed Chief Financial Officer (CFO) of Pihlajalinna Group on 31 October 2017. He will start in his role and join the Group's Management Team on 1 December 2017.

Accounting policies

This (unaudited) Interim Report has been prepared in compliance with the IFRS, applying the same accounting policies and calculation methods as in the financial statements for 2016, and the requirements of IAS 34 (Interim Financial reporting) were complied with. All figures have been rounded, due to which the actual total of individual figures may differ from the total presented.

As of the beginning of 2017, the Group has applied new standards and interpretations, including the IASB's amendments to IAS 12 Income Taxes and IAS 7 Statement of Cash Flows. The amendments to the Statement of Cash Flows standard will affect the notes to the consolidated financial statements. The amendment to the Income Taxes standard is not estimated to impact the Group's financial statements.

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.

Application of new and revised IFRS standards

Pihlajalinna will adopt the IFRS 15 and IFRS 9 standards as of the beginning of the financial year beginning on 1 January 2018 and the IFRS 16 standard as of the beginning of the financial year beginning on 1 January 2019, provided that they have been approved for application within the EU on the planned date of adoption.

IFRS 15 Revenue from Contracts with Customers The new standard includes a five-step model for recognising revenue from contracts with customers, and it replaces the current IAS 18 and IAS 11 standards and related interpretations. Revenue can be recognised over time or at a point of time, and the passing of control is a key criterion.

Pihlajalinna has identified the following major performance obligations by segment:

Primary and Social Care (P & S)

Social and healthcare outsourcing

- statutory social and healthcare services of a municipality's residents separately described in the contracts with customers
- individual social and healthcare service visits by residents of other municipalities

Residential services (including asylum seeker reception centres)

- statutory social and healthcare services separately described in the contracts with customers
- capacities of reception centres on each day covered by the agreement
- elderly care home services on each day covered by the agreement
- individual separately charged additional services or health centre visits

Private Clinics and Specialised Care (C & S)

Private Clinics and Dental Care

- individual customer visits to healthcare services

Surgical operations and public specialised care

- statutory social and healthcare services of a municipality's residents separately described in the contracts with customers
- individual social and healthcare service visits by residents of other municipalities
- other individual visits (e.g. through insurance companies)

Occupational healthcare

- individual occupational healthcare customer visits (e.g. appointments with occupational healthcare nurses and doctors, laboratory tests)
- preventive and health-promoting separately agreed services (e.g. occupational health check-ups, workplace-specific occupational health surveys)
- other additional services agreed upon with the customer (e.g. first aid course)

The transaction price is primarily comprised of individual visits according to the price list or annual, daily or hourly rates based on customer agreements. In most cases, the price concerns an individual performance obligation. In some cases, the price includes a variable element of consideration (e.g. discount, penalty charge), which is allocated to one or more performance obligations. The performance obligations are primarily fulfilled either over time (e.g. outsourcings, residential services) or at a point in time (e.g. occupational healthcare services, individual customer visits, additional services).

The performance obligation in social and healthcare outsourcings is the municipality's statutory social and healthcare service operations described in the customer agreement. The outsourcings are based on a fixed annual price, and they are recognised as revenue over time.

Pihlajalinna estimates that the adoption of the standard will not have a significant impact on the Group's equity or the revenue recognition principles currently applied by Pihlajalinna. The standard increases the amount of notes to be disclosed. According to Pihlajalinna's preliminary identification, 66 per cent of the revenue for the January–September 2017 reporting period was recognised over time and 34 per cent of the revenue for the period was recognised at a point of time.

IFRS 9 Financial Instruments. In accordance with the standard, financial assets are measured at fair value, unless certain conditions are met, in which case they are measured at amortised cost. The measurement methods have also been simplified. The new standard will result in changes in hedge accounting and provide a new model for the assessment of impairment, in accordance with which expected credit losses are

measured already at the beginning of a contract. Pihlajalinna does not apply hedge accounting, and changes in the classification of financial instruments and impairment model are not expected to have an effect on Pihlajalinna's financial statements.

IFRS 16 Leases. There are no significant changes in the accounting practice applied by lessors. All of a lessee's leases will be recognised as right-of-use assets on the balance sheet unless the lease term is 12 months or less or the underlying asset has a low value (UDS 5,000 at maximum). At the end of the reporting period, the Group's operating leases totalled EUR 39.6 million. In accordance with the standard, the rent liabilities concerning operating premises presented in the Group's operating leases have to be recognised as a right-of-use asset and lease liability in the statement of financial position. However, the concepts of agreements recognised as liabilities and leases pursuant to IFRS 16 differ, and therefore the amount of agreements recognised on the balance sheet may differ from the amount of other liabilities. The amendment will have significant impacts on Pihlajalinna's financial statements. The amendment will also have effects on balance sheet-based indicators, such as gearing.

Tables and notes

1 January–30 September 2017

Consolidated statement of comprehensive income

EUR million	7–9/2017 3 months	7–9/2016 3 months	1–9/2017 9 months	1–9/2016 9 months	2016 12 months
Revenue	99.4	93.9	316.1	295.4	399.1
Other operating income	0.5	0.4	1.1	1.2	1.5
Materials and services	-39.8	-38.9	-132.1	-124.4	-168.0
Employee benefit expenses	-41.2	-39.1	-130.5	-124.4	-167.2
Other operating expenses	-9.9	-9.6	-29.6	-27.1	-37.7
Share of profit in associated companies and joint ventures	0.1	0.1	0.3	0.2	0.2
EBITDA	9.1	6.8	25.2	20.8	27.9
Adjusted EBITDA	9.0	7.8	25.6	21.8	28.9
Depreciation, amortisation and impairment	-3.7	-3.2	-10.6	-9.6	-12.8
Operating profit (EBIT)	5.5	3.6	14.6	11.3	15.1
Adjusted operating profit (EBIT)	5.4	4.7	15.1	12.8	16.6
Financial income	0.0	0.1	0.1	0.1	0.1
Financial expenses	-0.5	-0.4	-1.4	-1.2	-1.5
Profit before tax	5.0	3.3	13.3	10.2	13.7
Income tax	-1.0	-0.9	-2.8	-2.4	-3.0
Profit for the period *	4.0	2.4	10.6	7.8	10.8
Total comprehensive income for the period	4.0	2.4	10.6	7.8	10.8
Total comprehensive income for the period attributable:					
To the owners of the parent	1.9	1.7	7.1	5.7	8.0
To non-controlling interests	2.1	0.7	3.5	2.1	2.7
Earnings per share calculated on the basis of the profit for the period attributable to the owners of the parent (EUR)					
Basic and diluted	0.09	0.08	0.34	0.27	0.39

* The Group has no other comprehensive income items

Consolidated statement of financial position

EUR million	9/2017	9/2016	12/2016
ASSETS			
Non-current assets			
Property, plant and equipment	57.7	46.1	45.5
Goodwill	101.9	89.6	92.3
Other intangible assets	16.7	16.2	16.3
Interests in associates	3.0	2.8	2.8
Available-for-sale financial assets	0.0	0.0	0.0
Other receivables	2.7	2.9	2.8
Deferred tax assets	2.2	2.8	1.6
Total non-current assets	184.3	160.4	161.3
Current assets			
Inventories	2.2	1.9	2.0
Trade and other receivables	28.0	27.7	26.1
Current tax assets	1.5	0.5	0.8
Cash and cash equivalents	27.8	23.2	27.5
Total current assets	59.5	53.3	56.4
Total assets	243.8	213.8	217.7
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	0.1	0.1	0.1
Reserve for invested unrestricted equity	87.9	87.9	87.9
Retained earnings	3.6	4.1	1.7
Result for the review period	7.1	5.7	8.0
	98.8	97.8	97.8
Non-controlling interests	5.2	3.1	3.2
Total equity	104.0	100.9	101.0
Non-current liabilities			
Deferred tax liabilities	5.5	5.5	5.5
Financial liabilities	68.7	50.5	48.3
Other non-current liabilities	1.7	1.9	1.9
Non-current provisions	0.8	0.6	0.8
Total non-current liabilities	76.7	58.5	56.7
Current liabilities			
Trade and other payables	54.1	48.8	55.0
Current tax liabilities	2.2	1.9	1.3
Financial liabilities	6.9	3.7	3.7
Total current liabilities	63.1	54.4	60.1
Total liabilities	139.8	112.9	116.7
Total equity and liabilities	243.8	213.8	217.7

Consolidated statement of changes in equity

EUR million	Equity attributable to owners of the parent				
	Share capital	Reserve for invested unrestricted equity	Retained earnings	Non-controlling interests	Equity Total
Total equity, 1 Jan. 2016	0.1	87.9	4.1	1.3	93.5
Result for the review period			5.7	2.1	7.8
Total comprehensive income for the period			5.7	2.1	7.8
Dividends paid			0.0	-0.3	-0.3
Total transactions with owners			0.0	-0.3	-0.3
Total equity, 30 Sept. 2016	0.1	87.9	9.8	3.1	100.9
Total equity, 1 Jan. 2017	0.1	87.9	9.7	3.2	101.0
Result for the review period			7.1	3.5	10.6
Total comprehensive income for the period			7.1	3.5	10.6
Dividends paid			-3.2	-1.5	-4.6
Total transactions with owners			-3.2	-1.5	-4.6
Changes in non-controlling interests that have not resulted in a change in control			-2.8	-0.1	-2.9
Total changes in subsidiary holdings			-2.8	-0.1	-2.9
Total equity, 30 Sept. 2017	0.1	87.9	10.8	5.2	104.0

Consolidated statement of cash flows

EUR million	7–9/2017 3 months	7–9/2016 3 months	1–9/2017 9 months	1–9/2016 9 months	2016 12 months
Cash flow from operating activities					
Cash receipts from sales	101.0	95.0	318.3	297.0	400.5
Cash receipts from other operating income	0.5	0.4	0.7	1.0	1.4
Operating expenses paid	-95.8	-85.1	-297.0	-276.9	-367.3
Cash flows from operating activities before financial items and taxes	5.7	10.3	22.0	21.2	34.6
Interest received	0.1	0.1	0.2	0.1	0.1
Taxes paid	-1.7	-0.6	-3.7	-2.2	-2.4
Net cash flow from operating activities	4.2	9.8	18.5	19.1	32.3
Cash flow from investing activities					
Investments in tangible and intangible assets	-3.1	-1.1	-6.0	-3.2	-4.9
Proceeds from disposal of property, plant and equipment and intangible assets and prepayments	0.0	0.1	0.2	0.2	0.3
Changes in other investments			0.0	0.0	0.0
Changes in loan receivables				0.0	0.0
Dividends received		0.0	0.1	0.3	0.3
Acquisition of subsidiaries less cash and cash equivalents at the date of acquisition	-5.3	-1.9	-9.1	-16.6	-21.1
Net cash flow from investing activities	-8.4	-2.8	-14.8	-19.5	-25.5
Cash flow from financing activities					
Proceeds from share issue				0.0	0.0
Changes in non-controlling interests	-3.0		-2.9		-1.1
Proceeds from borrowings	9.5		14.5	14.5	14.9
Repayment of borrowings including changes in credit limits	0.3	-2.1	-5.4	-3.1	-3.6
Repayment of financial lease liabilities	-0.8	-0.6	-2.4	-1.8	-2.4
Interest and other operational financial expenses	-0.5	-0.4	-1.4	-1.1	-1.4
Dividends paid and other profit distribution	-0.5		-5.9	-0.3	-1.0
Net cash flow from financing activities	5.1	-3.2	-3.5	8.2	5.4
Changes in cash and cash equivalents	0.8	3.8	0.2	7.9	12.2
Cash at the beginning of the review period	27.0	19.4	27.5	15.3	15.3
Cash at the end of the review period	27.8	23.2	27.8	23.2	27.5

Operating segments

EUR million	7–9/2017 3 months	7–9/2016 3 months	1–9/2017 9 months	1–9/2016 9 months	2016 12 months
Revenue					
C & S	51.8	48.6	173.5	158.8	215.6
P & S	49.1	46.9	148.2	140.7	189.8
Unallocated	0.1	0.0	0.1	0.2	0.4
Eliminations	-1.5	-1.5	-5.8	-4.3	-6.7
Total consolidated revenue	99.4	93.9	316.1	295.4	399.1
EBITDA					
C & S	2.2	2.5	10.6	12.2	16.4
P & S	7.4	4.9	16.2	9.8	12.9
Unallocated	-0.4	-0.6	-1.7	-1.2	-1.4
Consolidated EBITDA	9.1	6.8	25.2	20.8	27.9
Adjusted EBITDA					
C & S	2.2	3.4	10.8	13.1	17.3
P & S	7.4	5.1	16.2	10.0	13.0
Unallocated	-0.5	-0.6	-1.4	-1.2	-1.4
Consolidated adjusted EBITDA	9.0	7.8	25.6	21.8	28.9
Adjustment items	0.1	-1.0	-0.4	-1.0	-1.0
Consolidated EBITDA	9.1	6.8	25.2	20.8	27.9
Adjusted EBITDA, % of revenue					
C & S	4.2%	6.9%	6.2%	8.2%	8.0%
P & S	15.0%	10.8%	10.9%	7.1%	6.9%
Consolidated adjusted EBITDA, % of revenue	9.1%	8.3%	8.1%	7.4%	7.2%
Consolidated EBITDA, % of revenue	9.2%	7.3%	8.0%	7.1%	7.0%
Operating profit					
C & S	-0.4	-0.2	3.1	4.5	6.2
P & S	6.4	4.4	13.4	8.4	10.9
Unallocated	-0.5	-0.7	-2.0	-1.5	-1.9
Consolidated operating profit	5.5	3.6	14.6	11.3	15.1
Adjusted operating profit					
C & S	-0.4	0.8	3.4	5.8	7.5
P & S	6.4	4.6	13.4	8.5	11.0
Unallocated	-0.6	-0.7	-1.8	-1.5	-1.9
Consolidated adjusted operating profit	5.4	4.7	15.1	12.8	16.6
Adjustment items	0.1	-1.1	-0.5	-1.5	-1.5
Consolidated operating profit	5.5	3.6	14.6	11.3	15.1
Adjusted operating profit, % of revenue					
C & S	-0.7%	1.6%	1.9%	3.7%	3.5%
P & S	13.0%	9.8%	9.1%	6.0%	5.8%

Consolidated adjusted operating profit, % of revenue	5.4%	5.0%	4.8%	4.3%	4.2%
Consolidated operating profit, % of revenue	5.5%	3.8%	4.6%	3.8%	3.8%

Adjusted EBITDA and operating profit

EUR million	7–9/2017 3 months	7–9/2016 3 months	1–9/2017 9 months	1–9/2016 9 months	2016 12 months
EBITDA	9.1	6.8	25.2	20.8	27.9
Adjustments to EBITDA					
Closing down of dental clinics			0.1		
Subsidiary's previous holding at fair value	-0.1		-0.1		
Conciliation agreement concerning the Group's facility expenses			0.2		
Costs arising from the integration of Care Services		0.1		0.1	0.1
Dismissal-related expenses			0.2		
Compensation related to a production agreement of the Surgical Operations service area that ended in the previous financial year		0.9		0.9	0.9
Adjustments to EBITDA in total	-0.1	1.0	0.4	1.0	1.0
Adjusted EBITDA	9.0	7.8	25.6	21.8	28.9
Depreciation, amortisation and impairment	-3.7	-3.2	-10.6	-9.6	-12.8
Adjustments to depreciation, amortisation and impairment					
Closing down of dental clinics			0.1	0.4	0.4
Closing down of Surgical Operations clinic, Tampere		0.1		0.1	0.1
Adjustments to depreciation, amortisation and impairment in total	0.0	0.1	0.1	0.5	0.5
Adjusted operating profit (EBIT)	5.4	4.7	15.1	12.8	16.6
Operating profit (EBIT)	5.5	3.6	14.6	11.3	15.1

Contingent liabilities and commitments

EUR million	9/2017	9/2016	12/2016
Collateral given on own behalf			
Pledged collateral notes	1.1	1.3	1.1
Sureties	0.3	0.3	0.3
Collateral given on behalf of associated companies			
Sureties	3.2	3.8	3.4
Other contingent liabilities			
Lease commitments	39.6	31.8	30.6

The Group's material subsidiaries as specified in the loan agreement have provided a suretyship in the parent company's loan facility. The balance of the loan at the time of the interim report was EUR 34.0 million.

If certain criteria are met, the Group has committed to redeeming an additional 20 per cent of the shares in Kolmostien Terveys Oy and 15 per cent of the shares in Mäntänvuoren Terveys Oy during 2017–2018.

Related party transactions

EUR million	1–9/2017	1–9/2016	12/2016
Key management personnel			
Rents paid	0.7	0.7	0.8
Services procured	1.3	0.8	1.6
Trade payables	0.1	0.0	0.2
Other liabilities	0.1	0.1	0.2
Associated companies and joint ventures			
Services sold	0.0	0.1	0.1
Services procured	0.6	0.8	1.3
Rents received	0.2	0.2	0.3
Interest and commissions received	0.1	0.0	0.0
Dividends received	0.1	0.3	0.3
Trade payables	0.1	0.0	0.1
Other liabilities			0.1
Trade receivables			0.0
Interest and commission receivables	0.0	0.0	0.1
Loan receivables	1.3	1.5	1.5

Changes in property, plant and equipment

EUR million	1–9/2017	1–9/2016	12/2016
Acquisition cost at the beginning of the period	69.6	62.7	62.7
Additions	17.6	3.0	4.4
Acquired business operations	1.5	1.0	1.3
Transfers between items	0.0		2.1
Disposals	-2.1	-0.4	-0.8
Acquisition cost at the end of the period	86.6	66.2	69.6
Accumulated depreciation at the beginning of the period	-24.1	-14.0	-14.0
Depreciation and amortisation for the review period	-6.7	-6.2	-8.2
Transfers between items	0.0		-2.4
Accumulated depreciation on disposals	1.9	0.2	0.5
Accumulated depreciation at the end of the period	-28.9	-20.1	-24.1
Carrying amount at the end of the period	57.7	46.1	45.5

Changes in intangible assets

EUR million	1–9/2017	1–9/2016	12/2016
Acquisition cost at the beginning of the period	120.7	98.7	98.7
Additions	1.8	0.9	1.3
Acquired business operations	12.1	17.1	20.4
Transfers between items	0.0		0.3
Disposals		0.0	0.0
Acquisition cost at the end of the period	134.6	116.7	120.7
Accumulated depreciation at the beginning of the period	-12.1	-7.5	-7.5
Depreciation and amortisation for the review period	-3.9	-3.3	-4.5
Accumulated depreciation on disposals	0.0	0.0	0.0
Accumulated depreciation at the end of the period	-16.0	-10.9	-12.1
Carrying amount at the end of the period	118.6	105.8	108.6

Acquired business operations, total

The acquisitions made during the reporting period 2017 (Itä-Suomen Lääkäritalo Oy, 50 per cent of the former joint venture Insta Care Oy, Joen Magneetti Oy, Satama Röntgen Oy and Caritas Lääkäripalvelut Oy) and the update of acquisition costs previously presented as preliminary are presented in total in the table below as they are not material in terms of individual review.

EUR million	1-9/2017
Consideration transferred:	
Cash	9.5
Contingent consideration	2.4
Total acquisition cost	11.9
At the date of acquisition, the values of assets acquired and liabilities assumed were as follows:	
Property, plant and equipment	1.5
Intangible assets	2.4
Inventories	0.1
Trade and other receivables	1.3
Cash and cash equivalents	0.9
Total assets	6.3
Deferred tax liabilities	-0.4
Financial liabilities	-1.8
Other liabilities	-1.7
Total liabilities	-3.9
Net assets	2.4
Goodwill generated in the acquisition:	
Consideration transferred	11.9
Previous holding measured at fair value	0.1
Net identifiable assets of acquiree	-2.4
Goodwill	9.6
Transaction price paid in cash:	9.5
Cash and cash equivalents of acquirees	-0.9
Effect on cash flow*	8.6
*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	8.6
Contingent consideration paid during the financial year	0.5
Total	9.1
The acquisition-related expenses, a total of EUR 0.3 million, have been recorded under other operating expenses.	

The revenue and results for the acquired business operations beginning from the date of acquisition (total revenue EUR 4.0 million and total operating profit of EUR 0.3 million) are included in the consolidated statement of comprehensive income. Had the acquisitions of 2017 been consolidated since the beginning of the financial year 2017, consolidated revenue

would have amounted to EUR 320.3 million and operating profit for the period would have amounted to EUR 14.4 million.

Quarterly information

EUR million	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15
INCOME STATEMENT								
Revenue	99.4	106.7	110.0	103.7	93.9	101.4	100.1	62.6
EBITDA	9.1	7.1	8.9	7.1	6.8	7.0	7.0	3.4
Adjusted EBITDA	9.0	7.4	9.1	7.1	7.8	7.0	7.0	3.4
Adjusted EBITDA, %	9.1	6.9	8.3	6.8	8.3	6.9	7.0	5.5
Depreciation and amortisation	-3.7	-3.4	-3.5	-3.2	-3.2	-3.5	-2.9	-2.1
Operating profit (EBIT)	5.5	3.7	5.4	3.9	3.6	3.5	4.2	1.4
Adjusted operating profit (EBIT)	5.4	4.0	5.7	3.9	4.7	3.9	4.2	1.4
Adjusted operating profit (EBIT), %	5.4	3.7	5.2	3.7	5.0	3.9	4.2	2.2
Financial income	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.0
Financial expenses	-0.5	-0.4	-0.4	-0.3	-0.4	-0.4	-0.4	-0.4
Profit before tax	5.0	3.3	5.0	3.5	3.3	3.1	3.8	1.0
Income tax	-1.0	-0.7	-1.1	-0.5	-0.9	-0.5	-1.0	-0.3
Result for the financial year	4.0	2.7	3.9	3.0	2.4	2.6	2.7	0.7
Personnel at the end of the period	4,767	4,898	4,519	4,407	4,470	4,589	4,228	3,047
Change in personnel during the quarter	-131	380	112	-63	-119	361	1,181	142

EUR million	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15
C & S segment								
Revenue	51.8	59.0	62.7	56.8	48.6	56.1	54.1	32.0
EBITDA	2.2	3.3	5.2	4.2	2.5	4.6	5.1	2.6
Adjusted EBITDA	2.2	3.4	5.2	4.2	3.4	4.6	5.1	2.6
Operating profit (EBIT)	-0.4	0.9	2.7	1.7	-0.2	1.7	2.9	1.0
Adjusted operating profit (EBIT)	-0.4	1.0	2.8	1.7	0.8	2.1	2.9	1.0
P & S segment								
Revenue	49.1	49.6	49.5	49.1	46.9	47.0	46.8	31.4
EBITDA	7.4	4.4	4.4	3.1	4.9	2.6	2.3	1.1
Adjusted EBITDA	7.4	4.4	4.4	3.1	5.1	2.6	2.3	1.1
Operating profit (EBIT)	6.4	3.5	3.5	2.5	4.4	2.1	1.8	0.7
Adjusted operating profit (EBIT)	6.4	3.5	3.5	2.5	4.6	2.1	1.8	0.7
Unallocated								
Revenue	0.1	0.1	0.0	0.2	0.0	0.1	0.1	0.0
EBITDA	-0.4	-0.6	-0.7	-0.2	-0.6	-0.3	-0.4	-0.3
Adjusted EBITDA	-0.5	-0.4	-0.5	-0.2	-0.6	-0.3	-0.4	-0.3

Operating profit (EBIT)	-0.5	-0.7	-0.8	-0.3	-0.7	-0.3	-0.5	-0.3
Adjusted operating profit (EBIT)	-0.6	-0.5	-0.6	-0.3	-0.7	-0.3	-0.5	-0.3

Tax footprint

EUR million	1–9/2017	2016
Direct tax payable for the period		
Income tax (business income tax)	3.7	2.5
Employer's pension contribution	20.0	24.6
Social security contributions	1.1	2.9
Employer's unemployment insurance contribution	2.9	4.3
Contribution to accident insurance and group life insurance	0.7	0.9
Employer contributions, total	24.7	32.7
Property taxes	0.0	0.0
Transfer tax	0.4	0.7
Direct tax payable for the period, total	28.8	36.0
Value added tax of acquisitions payable by the company		
Value added taxes, estimate	7.3	10.4
Tax for the period		
Withholding taxes	26.8	33.6
Employee's pension contributions, notional	7.2	7.7
Employee's unemployment insurance contributions, notional	1.7	1.5
Payroll tax, total	35.7	42.8
Net value added tax	1.2	0.5
Total tax for the period	37.0	43.3
Revenue, EUR million	316.1	399.1
Result before taxes, EUR million	13.3	13.7
Average number of personnel (FTE)	3,881	3,503
Public subsidies, EUR million	0.4	0.7

Pihlajalinna's Capital Markets Day 2017 and financial reporting in 2018

Pihlajalinna's Capital Market Day will be held in on Wednesday, 22 November 2017, at 9:00 a.m.–12:30 p.m. at GLO Hotel Kluuvi, Kluuvikatu 4, Helsinki.

Financial Statements Bulletin 2017: Tuesday, 13 February 2018

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

Interim Report January–March: Friday, 4 May 2018

Half-Year Financial Report January–June: Thursday, 16 August 2018

Interim Report January–September: Thursday, 1 November 2018

Pihlajalinna Plc's Annual General Meeting is scheduled for 5 April 2018 in Tampere, Finland.

Briefing

Pihlajalinna Plc will hold a briefing for analysts and the media on Thursday, 9 November 2017 at 10:00 a.m. in the Paavo Nurmi room at Hotel Kämp, Pohjoisesplanadi 29, 00100 Helsinki, Finland.

Helsinki, 8 November 2017

Pihlajalinna Plc's Board of Directors

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CALCULATION OF KEY FIGURES

Return on equity (ROE), %

$$\frac{\text{Profit for the period (rolling 12 mths)} \times 100}{\text{Equity (average)}}$$

Return on capital employed (ROCE), %

$$\frac{\text{Profit before taxes (rolling 12 mths)} + \text{interest and other financial expenses (rolling 12 mths)} \times 100}{\text{Total statement of financial position – non-interest-bearing liabilities (average)}}$$

Gearing, %

$$\frac{\text{Interest-bearing net debt} \times 100}{\text{Total equity}}$$

Equity ratio, %

$$\frac{\text{Equity} \times 100}{\text{Total statement of financial position – prepayments received}}$$

Earnings per share (EPS), EUR	<u>Profit for the period attributable to owners of the parent</u> Average number of shares during the period
Equity per share, EUR	<u>Equity attributable to owners of the parent</u> Number of shares at period end
EBITDA	Operating profit + depreciation, amortisation and impairment
EBITDA, %	<u>EBITDA x 100</u> Revenue
Net debt/Adjusted EBITDA (rolling 12 mths)	<u>Interest-bearing net debt</u> Adjusted EBITDA (rolling 12 mths)
Cash flow after investments	Net cash flow from operating activities + net cash flow from investing activities
Adjusted EBITDA*	Operating profit + depreciation, amortisation and impairment + adjustment items
Adjusted operating profit (EBIT)*	Operating profit + adjustment items
Adjusted EBIT margin*	<u>Adjusted operating profit (EBIT) x 100</u> Revenue
Gross investments	Increase in property, plant and equipment and intangible assets excluding finance leases
* The calculation principles of the adjustment items with effects on comparability are presented in Pihlajalinna's Annual Report 2016.	

Pihlajalinna in brief

Pihlajalinna is one of the leading private social and healthcare services providers in Finland. The company provides social and healthcare services for households, companies, insurance companies and public sector entities in private clinics, health centres, dental clinics and hospitals 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.