

Pihlajalinna

INTERIM REPORT
1 January–30 September 2018



Pihlajalinna Interim Report 1 Jan–30 Sep 2018 (9 months)

Pihlajalinna's profitability is improving, outlook unchanged

Brief look at July–September:

- Revenue amounted to EUR 116.3 (99.4) million – an increase of 17.0 per cent
- EBITDA amounted to EUR 10.7 (9.1) million
- Adjusted EBITDA was EUR 10.7 (9.0) million – an increase of 18.3 per cent
- Operating profit (EBIT) was EUR 5.9 (5.5) million
- Adjusted operating profit (EBIT) was EUR 5.9 (5.4) million – an increase of 10.8 per cent
- IFRS 3 costs related to M&A transactions had a negative effect of EUR 0.1 (0.2) million on operating profit
- Earnings per share (EPS) was EUR 0.11 (0.09)

Brief look at January–September:

- Revenue amounted to EUR 360.8 (316.1) million – an increase of 14.2 per cent
- EBITDA amounted to EUR 20.6 (25.2) million
- Adjusted EBITDA was EUR 21.2 (25.6) million
- Operating profit (EBIT) was EUR 6.8 (14.6) million
- Adjusted operating profit (EBIT) was EUR 7.5 (15.1) million
- IFRS 3 costs related to M&A transactions had a negative effect of EUR 1.6 (0.6) million on operating profit
- The number of personnel at the end of the review period was 5,867 (4,767)
- Earnings per share (EPS) was EUR 0.05 (0.34)

KEY FIGURES AND RATIOS	7–9/2018 3 months	7–9/2017 3 months	1–9/2018 9 months	1–9/2017 9 months	2017 12 months
INCOME STATEMENT					
Revenue, EUR million	116.3	99.4	360.8	316.1	424.0
EBITDA, EUR million	10.7	9.1	20.6	25.2	33.3
EBITDA, %	9.2	9.2	5.7	8.0	7.9
Adjusted EBITDA, EUR million*	10.7	9.0	21.2	25.6	34.1
Adjusted EBITDA, %*	9.2	9.1	5.9	8.1	8.0
Operating profit (EBIT), EUR million	5.9	5.5	6.8	14.6	19.1
Operating profit, %	5.1	5.5	1.9	4.6	4.5
Adjusted operating profit (EBIT), EUR million*	5.9	5.4	7.5	15.1	20.0
Adjusted operating profit, %*	5.1	5.4	2.1	4.8	4.7
Profit before tax (EBT), EUR million	5.2	5.0	4.8	13.3	17.4
SHARE-RELATED INFORMATION					
Earnings per share (EPS), EUR	0.11	0.09	0.05	0.34	0.46
Equity per share, EUR			5.27	4.80	4.87
OTHER INFORMATION					
Return on capital employed (ROCE), %			5.2	11.4	11.8
Return on equity (ROE), %			5.8	13.3	13.6
Equity ratio, %			38.1	43.0	41.8
Gearing, %			75.5	41.7	32.3
Interest-bearing net debt, EUR million			96.3	43.4	34.2
Net debt/adjusted EBITDA, 12 months*			3.2	1.3	1.0
Gross investments, EUR million**	2.5	12.8	87.9	20.5	30.4
Cash flow from operating activities, EUR million	3.8	4.2	6.8	18.6	34.9
Cash flow after investments, EUR million	1.7	-4.3	-41.0	3.7	16.4
Average number of personnel (FTE)			4,463	3,881	3,879
Personnel at the end of the period (NOE)			5,867	4,767	4,753

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

EBITDA adjustments totalled EUR 0.0 (-0.1) million for the quarter and EUR 0.6 (0.4) million for the review period. Adjustments to operating profit totalled EUR 0.0 (-0.1) million for the quarter and EUR 0.6 (0.5) million for the review period.

** Finance leases are not included in the gross investments

Pihlajalinna's outlook for 2018

Revised outlook for 2018 (published on 20 June 2018):

Pihlajalinna's consolidated revenue is expected to increase clearly from 2017 level especially due to M&A transactions. Adjusted EBIT is expected to remain below 2017 level.

Previous outlook for 2018 (published on 13 February 2018):

Pihlajalinna's consolidated revenue is expected to increase clearly from 2017 level especially due to M&A transactions. Adjusted EBIT is expected to improve compared to 2017.

In the financial year 2017, revenue was EUR 424.0 million and the adjusted EBIT was EUR 20.0 million.

Joni Aaltonen, CEO of Pihlajalinna:

The Group's revenue growth remained strong in the third quarter. Profitability also improved, but is still not at the targeted level. The profitability of occupational healthcare increased in particular, while the start-up of new units continued to weigh down the Group's profit.

The changes in organisational structure and efficiency improvement measures implemented during the first part of the year are starting to deliver results. We have been able to correct our course after the year-on-year decline in profit seen in the first six months of the year. While we want to improve the efficiency of our operations, we do not want to compromise our future development or the direction that we believe is right for Finnish healthcare. Open-minded business development and profitable growth are currently our key goals.

The development of our occupational healthcare operations has been positive. We have expanded



our network of business locations, which has also enabled us to take on larger occupational healthcare accounts, such as our cooperation with Stora Enso, which is set to begin on 1 January 2019.

Laihian Hyvinvointi Oy, a company jointly owned by Pihlajalinna and the municipality of Laihia, started its operations on 1 September 2018. The company produces residential services for senior citizens and people with disabilities. Elsewhere,

the municipality of Laitila is continuing negotiations with Pihlajalinna regarding the provision of services for senior citizens.

We have achieved a concrete expansion of our range of services. Doctagon's municipal responsible doctor model, for example, improves our competitiveness in public sector services and tendering. We are also piloting shared services with Forever fitness centres in the areas of occupational healthcare and rehabilitation.

We launched the *Long live life* customer relationship programme at the beginning of October. The programme is aimed at increasing the awareness of Pihlajalinna's entire service offering, cross-selling services and creating added value by promoting good health.

New private clinics (Turku, Oulu and Seinäjoki) had an effect of EUR -0.8 million on the profit of the third quarter and EUR -3.1 million on the Group's profit for the year to date. Expanding to regional capitals remains a long-term goal for us. The expansion will be primarily achieved by acquisitions and municipal projects. We have no plans to open new surgical units next year.

The decline in insurance company sales nearly levelled off in the third quarter. The decline still had a negative effect on the Group's private surgical operations. Closer cooperation with Fennia will support insurance company sales going forward.

The legislation related to the reform of Finland's regional government, healthcare and social services is in parliament in late 2018. Under the current timetable, the responsibility for organising healthcare and social services would be transferred to the counties on 1 January 2021. The first county elections are planned for May 2019.

We believe that there is still a strong need for health and social services reform and that the reform is worth implementing in spite of the drawbacks of the proposed model. In any case, the model must be reviewed and developed as more experience is accumulated.

In our view, the health and social services reform would provide faster access to basic-level care while also improving service quality. Achieving the financial goals would largely depend on the counties' capacity and willingness to take advantage of the national service networks of private service providers and to implement economic pricing models, namely fixed compensation, a performance-based share and incentives. Bringing services close to people would provide significantly faster access to care and ensure high-quality care.

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

We are preparing for health and social services reform particularly by engaging in geographical expansion. However, our strategy and growth are not dependent on the planned reforms.

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 Northern Ostrobothnia, Kainuu and Lapland.

July–September 2018

EUR million	7–9/2018	%	7–9/2017	%
Southern Finland	25.9	20	12.2	11
Mid-Finland	73.4	57	71.4	63
Ostrobothnia	26.8	21	25.8	23
Northern Finland	2.6	2	2.0	2
Other operations	0.8	1	1.2	1
Intra-Group sales	-13.2		-13.2	
Total consolidated revenue	116.3	100	99.4	100

The revenue of the Southern Finland business area amounted to EUR 25.9 (12.2) million, an increase of EUR 13.6 million, or 112 per cent. The acquisitions of Doctagon, the Forever fitness centre chain and Kymijoen Työterveys had a significant impact on the increase in the Southern Finland business area's revenue.

The revenue of the Mid-Finland business area amounted to EUR 73.4 (71.4) million, an increase of EUR 2.0 million, or 3 per cent. The majority of the growth was attributable to the acquisitions of Linnan Klinikka and Röntgentutka.

The revenue of the Ostrobothnia business area amounted to EUR 26.8 (25.8) million, an increase of EUR 1.0 million, or 4 per cent. The business area's growth was organic. The provision of residential services for senior citizens and people with disabilities under the cooperation agreement between Pihlajalinna and the municipality of Laihia began on 1 September 2018.

The revenue of the Northern Finland business area amounted to EUR 2.6 (2.0) million, an increase of EUR 0.5 million, or 27 per cent. The business area's revenue was increased by the start of operations at Pihlajalinna Oulu.

January–September 2018

EUR million	1–9/2018	%	1–9/2017	%	1–12/2017	%
Southern Finland	78.1	19	45.6	13	60.7	13
Mid-Finland	232.6	58	224.6	63	301.4	63
Ostrobothnia	80.2	20	78.7	22	105.4	22
Northern Finland	9.1	2	5.0	1	7.6	2
Other operations	2.8	1	4.4	1	6.0	1
Intra-Group sales	-42.0		-42.2		-57.1	
Total consolidated revenue	360.8	100	316.1	100	424.0	100

The revenue of the Southern Finland business area amounted to EUR 78.1 (45.6) million, an increase of EUR 32.5 million, or 71 per cent. The acquisitions of Doctagon, the Forever fitness centre chain and Kymijoen Työterveys had a significant impact on the increase in the Southern Finland business area's revenue.

The revenue of the Mid-Finland business area amounted to EUR 232.6 (224.6) million, an increase of EUR 8.0 million, or 4 per cent. The majority of the growth was attributable to the acquisitions of Linnan Klinikka and Röntgentutka.

The revenue of the Ostrobothnia business area amounted to EUR 80.2 (78.7) million, an increase of EUR 1.5 million, or 2 per cent. The business area's growth was organic. The business area's revenue was increased by the cost-based price adjustments of social and healthcare outsourcings as well as the start of operations of Pihlajalinna Seinäjoki. The provision of residential services for senior citizens and people with disabilities under the cooperation agreement between Pihlajalinna and the municipality of Laihia began on 1 September 2018.

The revenue of the Northern Finland business area amounted to EUR 9.1 (5.0) million, an increase of EUR 4.1 million, or 83 per cent. The business area's revenue was increased by the August 2017 acquisition of Caritas Lääkärit Oy and the start of operations at Pihlajalinna Oulu.

Revenue by customer group

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

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

July–September 2018

EUR million	7–9/2018	%	7–9/2017	%
Corporate customers	22.8	18	18.2	16
of which insurance company customers	5.3	4	5.4	5
Private customers	21.0	16	13.6	12
Public sector	85.7	66	80.8	72
Intra-Group sales	-13.2		-13.2	
Total consolidated revenue	116.3	100	99.4	100

Revenue from corporate customers during the quarter amounted to EUR 22.8 (18.2) million, an increase of EUR 4.6 million, or 25 per cent. Sales to insurance company customers declined by EUR 0.1 million, or 2 per cent. The revenue for the quarter was increased by the start-up of new clinics, Doctagon's staffing services, imaging services in Pirkanmaa and the acquisition of Linnan Klinikka. The use of digital services, and the Pihlajalinna occupational healthcare nurse telephone service in particular, has increased in corporate customer relationships.

Revenue from private customers during the quarter amounted to EUR 21.0 (13.6) million, an increase of EUR 7.4 million, or 54 per cent. The acquisition of the Forever fitness centre chain contributed significantly to the increase in revenue from private customers during the quarter. The revenue for the quarter was also increased by the expansion of the dental care network, fertility treatments, the acquisition of Linnan Klinikka and imaging services in Pirkanmaa.

Revenue from public sector customers during the quarter totalled EUR 85.7 (80.8) million, an increase of EUR 4.9 million, or 6 per cent. The majority of the growth was attributable to the acquisitions of Doctagon

and Kymijoen Työterveys. The revenue for the quarter was also increased by the cost-based price adjustments of social and healthcare outsourcings as well as the start of residential service provision in Laihia. Factors that had a negative effect on the revenue for the quarter included the termination of Omapihlaja health centre operations and Pappilanpuisto service housing unit with 24-hour assistance in Tampere and the contraction of reception centre operations.

January–September 2018

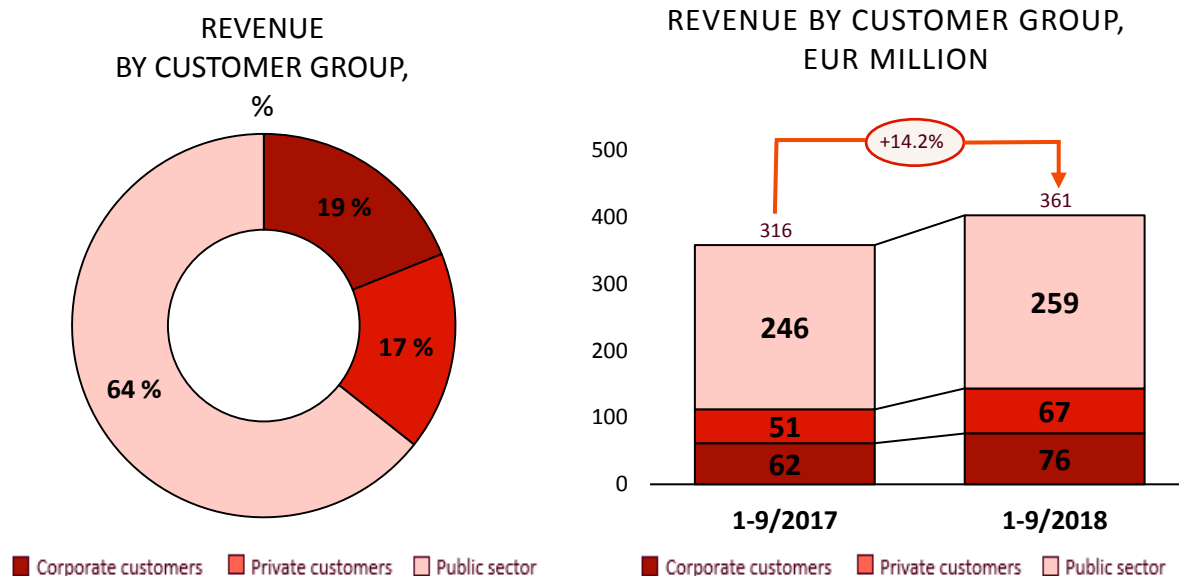
EUR million	1–9/2018	%	1–9/2017	%	1–12/2017	%
Corporate customers	76.2	19	61.6	17	82.6	17
of which insurance company customers	18.5	5	20.1	6	26.6	6
Private customers	67.4	17	50.6	14	68.0	14
Public sector	259.1	64	246.1	69	330.5	69
Intra-Group sales	-42.0		-42.2		-57.1	
Total consolidated revenue	360.8	100	316.1	100	424.0	100

Revenue from corporate customers during the review period amounted to EUR 76.2 (61.6) million, an increase of EUR 14.6 million, or 24 per cent. Sales to insurance company customers declined by EUR 1.6 million, or 8 per cent. The revenue for the review period was increased by the start-up of new clinics, Doctagon's staffing services, imaging services in Pirkanmaa and the acquisition of clinics in Oulu and Hämeenlinna. The use of digital services, and the Pihlajalinna occupational healthcare nurse telephone service in particular, became well established in corporate customer relationships during the review period.

Revenue from private customers during the review period totalled EUR 67.4 (50.6) million, an increase of EUR 16.8 million, or 33 per cent. The acquisition of the Forever fitness centre chain contributed significantly to the increase in revenue from private customers. The revenue for the review period was also increased by fertility treatments, the start-up of new clinics, the expansion of the dental care network, the acquisition of Linnan Klinikka in Hämeenlinna and imaging services in Pirkanmaa.

Revenue from public sector customers during the period amounted to EUR 259.1 (246.1) million, an increase of EUR 13.1 million, or 5 per cent. The majority of the growth was attributable to the acquisitions of Doctagon and Kymijoen Työterveys. The revenue for the review period was also increased by the cost-based price adjustments of social and healthcare outsourcings as well as the start of residential service provision in Laihia. Factors that had a negative effect on the revenue for the review period included the closure of Pappilanpuisto service housing unit with 24-hour assistance and the contraction of reception centre operations.

Revenue by customer group January–September 2018



Consolidated revenue and result

July–September 2018

Pihlajalinna's revenue for the third quarter amounted to EUR 116.3 (99.4) million, an increase of EUR 16.9 million, or 17.0 per cent. Growth in revenue due to M&A transactions was EUR 15.8 million, or 15.9 per cent. The most significant M&A transactions were the acquisitions of Doctagon Ab, the Forever fitness centre chain and Kymijoen Työterveys Oy in the first quarter.

Third quarter EBITDA amounted to EUR 10.7 (9.1) million, an increase of EUR 1.5 million, or 16.9 per cent. The start-up of new private clinics reduced EBITDA by EUR 0.8 million. EBITDA for the quarter was increased by the improved profitability of occupational healthcare services and the higher volumes of diagnostics. Profitability was negatively affected by a decline in surgical operations due to patient guidance by insurance companies. Transfer taxes and expert fees related to M&A transactions (IFRS 3 costs) reduced profitability by EUR 0.1 (0.2) million during the quarter.

M&A transactions had an impact of EUR 1.6 million on EBITDA for the quarter.

Adjusted EBITDA amounted to EUR 10.7 (9.0) million, an increase of EUR 1.6 million, or 18.0 per cent. EBITDA adjustments for the quarter totalled EUR 0.0 (-0.1) million.

Pihlajalinna's business operations are affected by a certain seasonality. Revenue from Pihlajalinna's complete social and healthcare outsourcings and other fixed-price services is recognised evenly over time. During the summer holidays, especially in July, the personnel costs are lower and profitability is improved. However, service demand by Pihlajalinna's private and corporate customers is lower, and profitability weaker, during the holiday season, especially in July–August. Quarterly seasonality has historically had a favourable impact on profitability in the third quarter.

Depreciation, amortisation and impairment for the quarter amounted to EUR 4.7 (3.7) million. Amortisation and impairment of intangible assets was EUR 1.8 (1.3) million, of which purchase price allocation (PPA)

amortisation was EUR 1.3 (1.0) million. Depreciation, amortisation and impairment of property, plant and equipment amounted to EUR 2.9 (2.3) million.

Pihlajalinna's operating profit for the quarter amounted to EUR 5.9 (5.5) million, an increase of EUR 0.5 million, or 8.6 per cent. The EBIT-to-revenue ratio (EBIT margin) for the quarter was 5.1 (5.5) per cent. Adjusted operating profit for the quarter amounted to EUR 5.9 (5.4) million, an increase of EUR 0.6 million, or 10.3 per cent. The adjusted EBIT margin was 5.1 (5.4) per cent.

Pihlajalinna's public specialised care revenue included in complete social and healthcare outsourcing amounted to EUR 21.6 (20.8) million for the quarter. The EBITDA of public specialised care amounted to EUR 1.4 (1.6) million and the operating profit amounted to EUR 1.3 (1.5) million. The cost accumulation of public specialised care involves random fluctuation. Individual cases falling within the scope of the hospital districts' pooling system for high-cost care 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 for the quarter totalled EUR -0.8 (-0.5) million. The quarter's profit before tax amounted to EUR 5.2 (5.0) million, an increase of EUR 0.2 million, or 3.8 per cent. Taxes in the income statement amounted to EUR -1.2 (-1.0) million. The profit for the quarter was EUR 4.0 (4.0) million. Earnings per share (EPS) was EUR 0.11 (0.09).

January–September 2018

Pihlajalinna's revenue for the review period amounted to EUR 360.8 (316.1) million, an increase of EUR 44.7 million, or 14.2 per cent. Growth in revenue due to M&A transactions was EUR 47.7 million, or 15.1 per cent. The most significant M&A transactions were the acquisitions of Doctagon Ab, the Forever fitness centre chain and Kymijoen Työterveys Oy.

EBITDA for the period was EUR 20.6 (25.2) million, a decrease of EUR 4.6 million, or 18.4 per cent.

The start-up of new private clinics reduced EBITDA by EUR 3.1 million. Profitability during the review period was also weighed down by a decline in surgical and appointment operations due to patient guidance by insurance companies, the contraction of reception centre operations and the high costs of public specialised care. Transfer taxes and expert fees related to M&A transactions (IFRS 3 costs) reduced profitability by EUR 1.6 (0.6) million during the period.

M&A transactions had an impact of EUR 4.5 million on EBITDA for the period.

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

Adjusted EBITDA was EUR 21.2 (25.6) million, a decrease of EUR 4.4 million, or 17.0 per cent. EBITDA adjustments for January–September totalled EUR 0.6 (0.4) million.

Depreciation, amortisation and impairment for the period amounted to EUR 13.7 (10.6) million. Amortisation and impairment of intangible assets was EUR 5.2 (3.9) million, of which purchase price allocation (PPA) amortisation was EUR 3.8 (2.8) million. Depreciation, amortisation and impairment of property, plant and equipment amounted to EUR 8.5 (6.7) million.

Pihlajalinna's operating profit for the period amounted to EUR 6.8 (14.6) million, a decrease of EUR 7.7 million, or 53.0 per cent. The EBIT-to-revenue ratio (EBIT margin) for the review period was 1.9 (4.6) per cent.

The adjusted operating profit for the period amounted to EUR 7.5 (15.1) million, a decrease of EUR 7.6 million, or 50.2 per cent. The adjusted EBIT margin was 2.1 (4.8) per cent.

Pihlajalinna's public specialised care revenue included in complete social and healthcare outsourcings amounted to EUR 64.7 (63.5) million for the review period. The EBITDA of public specialised care amounted to EUR 0.1 (0.9) million and the operating result amounted to EUR -0.1 (0.7) 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 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 for the review period totalled EUR -2.1 (-1.3) million. The period's profit before tax amounted to EUR 4.8 (13.3) million, an decrease of EUR 8.6 million, or 64.3 per cent. Taxes in the income statement amounted to EUR -1.5 (-2.8) million. Profit for the review period was EUR 3.3 (10.6) million. Earnings per share (EPS) was EUR 0.05 (0.34).

Market and legislation review

The legislation related to the reform of Finland's regional government, healthcare and social services is in parliament in late 2018. Under the target timetable, the responsibility for organising the reforms as well as healthcare and social services would be transferred to the counties on 1 January 2021. The first county elections are planned for May 2019.

According to current information, the counties will adopt service vouchers and personal budgets on 1 January 2022. Private health and social services centres approved by the counties and the counties' own health and social services centres will begin operating on 1 January 2023. Dental care units will also begin operations at the same time in all counties. Health and social services centres may begin operations earlier, at the county's request, provided that the relevant criteria are met.

According to an estimate by the Ministry of Social Affairs and Health, the size of the freedom-of-choice market would be approximately EUR 5.4 billion (of which health and social services centres would account for roughly EUR 1.9 billion, service vouchers for roughly EUR 1.6 billion, personal budgets for roughly EUR 1.5 billion and dental care units for roughly EUR 0.4 billion). According to the ministry's calculations, private service providers' share of primary care services would increase from the current level of 7 per cent to an estimated 26 per cent. In specialised care, their share would increase from five to six per cent. At the beginning of October, the Ministry of Social Affairs and Health confirmed that service voucher pilots will continue in 2019.

Pihlajalinna's view is that there will be opportunities for the private sector to complement the public sector's services, particularly in basic-level specialised care and non-urgent specialised care, as the population ages and the public sector cuts and centralises specialised care in fewer units. This will present private operators with the opportunity to increase their share of specialised care service production.

Due to the planned policies related to health and social services, municipalities are presently seeking social and healthcare service solutions primarily on a property-driven basis. Pihlajalinna will assess projects on a case-by-case basis and pursue projects in which the company can leverage regional synergies. Pihlajalinna started the provision of residential services to the municipality of Laihia in the beginning of September 2018 at the properties acquired from the municipality.

Activity in the outsourcing market has increased as the decision on health and social services reform has been delayed. Kristiinankaupunki has initiated negotiation procedures to outsource part of its social and healthcare services to a joint venture between the municipality and a service provider. Ruovesi municipality is in negotiations to join the Mänttä-Vilppula partnership area.

The situation in the private market remains unchanged. The occupational healthcare market is expected to grow if municipalities and other public sector entities decide to divest the occupational healthcare providers they currently own. For example, the City of Kotka sold Kymijoen Työterveys to Pihlajalinna in January 2018. Demand among private individuals who pay for their services themselves fluctuates to some extent, which is still visible in the weak demand for dental care.

Consolidated statement of financial position and cash flow

At the end of the review period, Pihlajalinna Group's total statement of financial position was EUR 336.2 (243.8) million. Consolidated cash and cash equivalents stood at EUR 27.6 (27.8) million.

The Group's net cash flow from operating activities during the review period amounted to EUR 6.8 (18.5) million. Net cash flow from operating activities for the quarter totalled EUR 3.8 (4.2) million. Taxes paid during the review period amounted to EUR -3.9 (-3.7) million. The change in net working capital was EUR -10.0 (-2.7) million during the review period. The change in net working capital during the quarter was EUR -5.6 (-3.3) million. Cash flow from operating activities during the review period was reduced by the lower EBITDA and the decrease of trade and other payables. Cash flow from operating activities during the third quarter was reduced by the decrease of trade and other payables.

Net cash flow from investing activities totalled EUR -47.8 (-14.8) million. Subsidiary acquisitions had an impact of EUR -33.8 (-9.1) million on net cash flow from investing activities during the review period. Investments in property, plant and equipment and intangible assets during the review period totalled EUR -14.5 (-6.0) million, and proceeds from the disposals of property, plant and equipment totalled EUR 0.4 (0.2) million.

The Group's cash flow after investments (free cash flow) was EUR -41.0 (3.7) million.

Net cash flow from financing activities totalled EUR 31.5 (-3.5) million. The Group withdrew EUR 111.5 (14.5) million in new loans and repaid its financial liabilities, including changes in credit limits, by a total of EUR 65.0 (5.4) million. Pihlajalinna Plc distributed dividends of EUR 3.6 (3.1) million in the spring. Dividends of EUR 0.5 (2.8) million were distributed to non-controlling interests during the review period. Repayments of financial lease liabilities totalled EUR 2.5 (2.4) million and interest paid and other financial expenses amounted to EUR 1.9 (1.4) million. Changes in non-controlling interests had a net effect of EUR -6.4 (-2.9) million on cash flow. In June, Pihlajalinna increased its holdings in municipal companies.

The Group's gearing was 75.5 (41.7) per cent at the end of the review period. Interest-bearing net debt amounted to EUR 96.3 (43.4) million. The Group's gearing for the period was particularly increased by acquisitions, which had a combined cash flow effect of EUR -29.7 (-8.6) million. The Group also paid EUR -4.0 (-0.5) million in contingent considerations (earn-out payments) during the review period.

During the review period, the return on capital employed was 5.2 (11.4) per cent and return on equity was 5.8 (13.3) per cent.

Financing arrangements

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

The financing arrangement includes the customary leverage (ratio of net debt to pro forma EBITDA) and gearing covenants. The Group met the set covenants on 30 September 2018.

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

At the end of the review period, Pihlajalinna had a total of EUR 44.0 million in unused committed credit limits.

Acquisitions, divestments and capital expenditure

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

A summary of the acquisitions made during the review period is presented in the tables section of the Interim Report.

Gross investments, including acquisitions, totalled EUR 87.9 (20.5) million in the review 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 4.1 (5.6) million during the review period. Capital expenditure relating to the opening of new units totalled EUR 12.4 (1.3) million. Gross investments associated with M&A transactions totalled EUR 71.5 (13.6) million.

The Group's investment commitments related to development, additional and replacement investments amounted to approximately EUR 0.6 million.

Pihlajalinna will develop a new assisted living facility in Laihia, under a subletting model, with capacity for 60 residents. The facility is due to be completed in autumn 2019. Pihlajalinna has also made a commitment to acquire an assisted living facility from the municipality of Laihia, after the completion of the new facility. In addition, Pihlajalinna has made a commitment to renovate two smaller care homes that it acquired previously. Pihlajalinna has made a commitment to acquire the real estate shares of its private clinic in Joensuu. The real estate shares were acquired in October 2018.

Pihlajalinna's expansion will continue in spite of the postponement of the potential reform of health and social services. During the 2017 financial year, Pihlajalinna announced its plan to open new units in 10 new locations by 2020. The expansion will be primarily achieved by acquisitions and municipal projects from now on. No new surgical units will be started next year.

Acquisitions of non-controlling interests

In June 2018, Pihlajalinna increased its holdings in municipal group companies. Pihlajalinna now owns 81 per cent of the shares of Mäntänvuoren Terveys Oy and Kolmostien Terveys Oy as well as 90 per cent of the shares of Jokilaakson Terveys Oy. In addition, the company signed a conditional agreement with the Kuusiokunnat municipalities according to which it will increase its holding in Kuusiolinna Terveys Oy to 97 per cent by the end of the year.

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

Company	Pihlajalinna's holding, 1 January 2018	Pihlajalinna's holding, 30 September 2018	First year of service provision under the current contract	Duration of contract (years)
Jokilaakson Terveys Oy	51%	90%	internal service provision	internal service provision
Kuusiolinna Terveys Oy	51%	51% (will increase to 97% after the parties have signed a separate entry into force document)	2016	10+5
Mäntänvuoren Terveys Oy	66%	81%	2016	10+5
Kolmostien Terveys Oy	71%	81%	2015	10+5

Research and development

Development costs that fulfilled the criteria for capitalisation amounted to EUR 0.4 (0.0) million during the review period.

In financial year 2018, development activities will focus on the continued development of digital services and mobile services and their deployment across all customer groups. Further focus areas in development include the customer relationship programme, business intelligence and the EU General Data Protection Regulation.

Personnel

At the end of the review period, the number of personnel was 5,867 (4,767), an increase of 1,100 persons or 23 per cent. During the review period, the Group's personnel averaged 4,460 (3,881) persons as full-time equivalents, an increase of 579 persons or 15 per cent. The Group's employee benefit expenses totalled EUR 155.1 (130.5) million for the period, an increase of EUR 24.6 million or 19 per cent.

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

Management changes and Management Team

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

Joni Aaltonen, CEO

Minna Elomaa, Head of Business Operations, Southern Finland

Tero Järvinen, Head of Business Operations, Ostrobothnia

Teija Kulmala, Head of Business Operations, Mid-Finland

Ville Lehtonen, CFO

Siri Markula, Head of Communications and IR, until 12 October 2018

Perttu Monthan, CDO

Sanna Määttänen, Head of Service and Product Development
Pauliina Rannikko, Head of HR and General Counsel, until 14 December 2018
Pauli Waroma, CMO

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

Marko Savolainen was appointed as Pihlajalinna's General Counsel. He will take up his post and join the Group Management Team on 14 December 2018.

Board of Directors

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

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

Committees nominated by the Board

Audit Committee: Seija Turunen (chairman), Matti Bergendahl, Leena Niemistö and Kati Sulin
Remuneration Committee: Mikko Wirén (chairman), Timo Everi, Gunvor Kronman and Jari Sundström.

Shareholders' Nomination Board

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

- Jari Eklund, Group Director and Board member, LocalTapiola General Mutual Insurance Company and LocalTapiola Mutual Life Insurance Company
- Mikko Wirén, Managing Director, MWW Yhtiö Oy
- Antti Kuljukka, CEO, Fennia Mutual Insurance Company
- Hanna Hiidenpalo, Director, Chief Investment Officer, Elo Mutual Pension Insurance Company

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

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

Remuneration of the members of the Board of Directors

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

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

Auditors and auditing

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

Shares and shareholders

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

At the end of the review 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 13,991 (11,335) 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	7–9/2018	7–9/2017	1–9/2018	1–9/2017	1–12/2017
No. of shares outstanding at the end of the period	22,620,135	20,613,146	22,620,135	20,613,146	20,613,146
Average no. of shares outstanding during the period	22,620,135	20,613,146	22,090,819	20,613,146	20,613,146
Highest price, EUR	12.00	17.75	15.28	18.42	18.42
Lowest price, EUR	10.68	15.33	10.66	15.33	12.60
Average price, EUR*	11.31	16.47	12.58	17.14	16.30
Closing price, EUR	10.78	15.98	10.78	15.98	13.34
Share turnover, 1,000 shares	1,016	1,053	5,353	3,571	5,189
Share turnover, %	4,5	5.1	24.2	17.3	25.2
Market capitalisation at the end of the period, EUR million	243.8	329.4	243.8	329.4	274.0

* average share price weighted by trading volume

Board authorisations

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

The Annual General Meeting of 5 April 2018 authorised the Board of Directors to decide on the issuance of shares and other special rights entitling to shares referred to in Chapter 10, Section 1 of the Finnish Companies Act. Pursuant to the authorisation, the share issue may be carried out as a directed share issue. The authorisation is for a maximum of 3,091,971 shares. The authorisation concerns both the issuance of new

shares and the transfer of the company's own shares. The authorisation will remain in force until the end of the next AGM, however, no longer than until 30 June 2019.

Risks and uncertainties in business operations

Pihlajalinna uses a risk management tool for the active 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 segments of social and healthcare services but, on the other hand, the Group's extensive operations in different segments may partially balance out the effects of reforms. The Group closely monitors political decision-making processes.

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

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

The Group's trade receivables include EUR 3.3 (2.2) million in substantially delayed payments from a significant customer. The matter concerns a contractual dispute under civil law. According to the assessment of Pihlajalinna's management, the municipality in question has no grounds for withholding payment. Pihlajalinna's management further expects that the customer will pay the receivables in full.

At the end of September 2018, goodwill on Pihlajalinna's statement of financial position amounted to EUR 163.0 (101.9) million. Pihlajalinna checks annually, and whenever events or circumstances suggest potential impairment, 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.

Flagging notifications

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

Date	Shareholder	Limit	Holding total, %	Number of shares at the time of the flagging notice
26.9.2018	Fennia Group (Fennia Mutual Insurance Company and Fennia Life)	Over 10%	10.02%	2,265,586
24.5.2018	Fennia Group (Fennia Mutual Insurance Company and Fennia Life)	Over 5%	6.03%	1,364,252
14.3.2018	LocalTapiola Group (LocalTapiola General Mutual Insurance Company and LocalTapiola Mutual Life Insurance Company)	Under 25%	23.76%	5,375,350
15.2.2018	LocalTapiola Group (LocalTapiola General Mutual Insurance Company and LocalTapiola Mutual Life Insurance Company)	Over 25%	26.07%	5,373,026

Current incentive schemes

On 14 May 2018, the Board of Directors of Pihlajalinna Plc approved the establishment of a share-based long-term incentive programme for the key employees of Pihlajalinna.

The programme includes a three-year scheme and none of the share rewards received by the key employees thereunder may be sold or transferred prior to the year 2021. The key employee shall, in addition, make an investment in Pihlajalinna shares as a precondition for participation in the programme.

The programme consists of a matching share plan which is based on the aforementioned individual share investment and which has one-year retention period (the calendar year 2018) as well as a performance matching plan consisting of two- and three-year performance periods, comprising the calendar years 2018–2019 and 2018–2020 respectively.

The 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 2019. Both the invested shares and the matching shares will be subject to a two-year transfer restriction.

The performance matching plan comprises separate two- and three-year performance periods. The potential share rewards will be delivered after the respective performance periods during the calendar years 2020 and 2021 respectively if the performance targets set by the Board of Directors are achieved. 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 operating profit of Pihlajalinna Group and key operative targets.

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

If all the eligible key employees within the maximum number of participants referred to below participate in the programme by fulfilling the investment precondition and if the performance targets set for the two

performance periods are fully achieved, the maximum aggregate amount of share rewards that may be delivered based on the programme is approximately 840,000 shares (gross before the deduction of the applicable payroll tax).

The Board of Directors has as of now selected approximately 20 key employees as eligible for participation in the programme. The number of key employees eligible for participation in the programme, including the persons selected as of now and possible additional participants, is approximately 65 persons.

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

Events after the review period

Pihlajalinna's Head of HR and General Counsel Pauliina Rannikko has resigned from the company's service. She will continue in her current position and remain in the Management Team until 14 December 2018. Marko Savolainen has been appointed as General Counsel at Pihlajalinna. He will start in his new role and join the Group Management Team on 14 December 2018.

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.

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

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

The 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 2017, taking into account the new and amended standards and interpretations that became effective on 1 January 2018. The calculation formulas for key financial figures and alternative performance measures as well as the justifications for their presentation are provided in Pihlajalinna's financial statements release 2017 and the report by the Board of Directors.

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

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

Impacts of future IFRS standards

Pihlajalinna will adopt IFRS 16 Leases as of the beginning of the financial year starting on 1 January 2019.

- **IFRS 16 Leases.** The new standard replaces IAS 17 and related interpretations. 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 (USD 5,000 at maximum). At the end of the review period, the Group's operating leases totalled EUR 87.8 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 adoption of the standard will have significant impacts on Pihlajalinna's financial statements. The change will also have effects on balance sheet-based indicators, such as gearing. The adoption of the standard will not have an impact on the Group's cash flow or Group's financial arrangement covenant calculation.

During the review period, Pihlajalinna chose a system that facilitates its adoption of the standard and began the deployment project. According to preliminary estimates, on 30 September 2018, the Group's leases pursuant to IFRS 16 (the value of right-of-use assets) would have totalled EUR 80.3 million and the corresponding lease liabilities would have amounted to EUR 81.2 million.

Tables

1.1.–30.9.2018

Consolidated statement of comprehensive income

EUR million	7–9/2018 3 months	7–9/2017 3 months	1–9/2018 9 months	1–9/2017 9 months	2017 12 months
Revenue	116.3	99.4	360.8	316.1	424.0
Other operating income	0.5	0.5	2.4	1.1	2.3
Materials and services	-42.8	-40.7	-141.1	-132.1	-175.5
Employee benefit expenses	-48.7	-41.2	-155.1	-130.5	-175.4
Other operating expenses	-14.5	-8.9	-46.5	-29.6	-42.3
Share of profit in associated companies and joint ventures	0.0	0.1	0.0	0.3	0.3
EBITDA	10.7	9.1	20.6	25.2	33.3
Depreciation, amortisation and impairment	-4.7	-3.7	-13.7	-10.6	-14.2
Operating profit (EBIT)	5.9	5.5	6.8	14.6	19.1
Financial income	0.0	0.0	0.1	0.1	0.2
Financial expenses	-0.8	-0.5	-2.2	-1.4	-1.9
Profit before taxes	5.2	5.0	4.8	13.3	17.4
Income tax	-1.2	-1.0	-1.5	-2.8	-3.4
Profit for the period*	4.0	4.0	3.3	10.6	14.1
Total comprehensive income for the period	4.0	4.0	3.3	10.6	14.1
Total comprehensive income for the period attributable:					
To the owners of the parent company	2.3	1.9	1.1	7.1	9.5
To non-controlling interests	1.7	2.1	2.2	3.5	4.6
Earnings per share calculated on the basis of the result for the period attributable to the owners of the parent company (EUR)					
Basic and diluted	0.11	0.09	0.05	0.34	0.46

* The Group has no other comprehensive income items

Consolidated statement of financial position

EUR million	30.9.2018	30.9.2017	31.12.2017
ASSETS			
Non-current assets			
Property, plant and equipment	71.2	57.7	61.9
Goodwill	163.0	101.9	103.9
Other intangible assets	22.1	16.7	16.6
Interests in associates	0.0	3.0	3.0
Available-for-sale financial assets	0.1	0.0	0.1
Other receivables	1.7	2.7	1.6
Deferred tax assets	3.7	2.2	2.2
Total non-current assets	261.8	184.3	189.3
Current assets			
Inventories	2.5	2.2	2.2
Trade and other receivables	41.9	28.0	24.0
Current tax assets	2.4	1.5	1.1
Cash and cash equivalents	27.6	27.8	37.1
Total current assets	74.4	59.5	64.3
Total assets	336.2	243.8	253.6
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	87.9	87.9
Retained earnings	1.5	3.7	2.8
Result for the review period	1.1	7.1	9.5
	119.2	98.8	100.3
Non-controlling interests	8.3	5.2	5.6
Total equity	127.5	104.0	105.9
Non-current liabilities			
Deferred tax liabilities	6.4	5.5	5.5
Financial liabilities	120.3	68.7	66.3
Other non-current liabilities	1.5	1.7	1.7
Provisions	0.7	0.8	0.8
Total non-current liabilities	128.9	76.7	74.3
Current liabilities			
Provisions	0.1		
Trade and other payables	71.0	54.1	61.8
Current tax liabilities	2.4	2.2	1.3
Financial liabilities	6.4	6.9	10.3
Total current liabilities	79.8	63.1	73.4
Total liabilities	208.7	139.8	147.7
Total equity and liabilities	336.2	243.8	253.6

Consolidated statement of changes in equity

EUR million	Equity attributable to owners of the parent company			Non-controlling interests	Equity Total
	Share capital	Reserve for invested unrestricted equity	Retained earnings		
Total equity, 1 Jan 2017	0.1	87.9	9.7	3.2	101.0
Profit for the period			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 NCI without a change in control			-2.8	-0.1	-2.9
Total changes in ownership interests			-2.8	-0.1	-2.9
Total equity, 30 Sep 2017	0.1	87.9	10.8	5.2	104.0

Total equity, 31 Dec 2017	0.1	87.9	12.3	5.6	105.9
IFRS 15 adoption			0.0		0.0
IFRS 9 adoption			0.0		0.0
Total equity, 1 Jan 2018	0.1	87.9	12.3	5.6	105.9
Profit for the period			1.1	2.2	3.3
Total comprehensive income for the period			1.1	2.2	3.3
Directed share issue		28.6			28.6
Dividends paid			-3.6	-1.2	-4.8
Investments in Group companies				2.4	2.4
Total transactions with owners		28.6	-3.6	1.2	26.1
Changes in NCI without a change in control			-7.2	-0.6	-7.8
Total changes in ownership interests			-7.2	-0.6	-7.8
Total equity, 30 Sep 2018	0.1	116.5	2.6	8.3	127.5

Consolidated statement of cash flows

EUR million	7-9/2018 3 months	7-9/2017 3 months	1-9/2018 9 months	1-9/2017 9 months	2017 12 months
Cash flow from operating activities					
Cash receipts from sales	117.3	101.0	360.1	318.3	423.8
Cash receipts from other operating income	0.4	0.5	1.2	0.7	1.5
Operating expenses paid	-112.6	-95.8	-350.7	-297.0	-386.0
Operating cash flow before financial items and taxes	5.1	5.7	10.6	22.0	39.3
Interest received	0.0	0.1	0.1	0.2	0.2
Taxes paid	-1.3	-1.7	-3.9	-3.7	-4.6
Net cash flow from operating activities	3.8	4.2	6.8	18.5	34.9
Cash flows from investing activities					
Investments in tangible and intangible as-sets	-2.1	-3.1	-14.5	-6.0	-10.1
Proceeds from disposal of property, plant and equipment and intangible assets and prepayments	0.2	0.0	0.4	0.2	0.2
Changes in other investments	0.0		0.0	0.0	-0.1
Changes in loan receivables					0.3
Dividends received			0.0	0.1	0.1
Acquisition of subsidiaries less cash and cash equivalents at date of acquisition	-0.2	-5.3	-33.8	-9.1	-8.9
Disposal of subsidiaries less cash and cash equivalents at date of disposal	0.1		0.1		
Net cash flow from investing activities	-2.0	-8.4	-47.8	-14.8	-18.5
Cash flows from financing activities					
Changes in non-controlling interests	0.0	-3.0	-6.4	-2.9	-4.0
Proceeds from borrowings	5.0	9.5	111.5	14.5	14.5
Repayment of borrowings	-5.0	0.3	-65.0	-5.4	-6.4
Repayment of financial lease liabilities	-0.9	-0.8	-2.5	-2.4	-3.2
Interest and other operational financial ex-penses	-0.7	-0.5	-1.9	-1.4	-1.8
Dividends paid and other profit distribution		-0.5	-4.1	-5.9	-5.9
Net cash flow from financing activities	-1.5	5.1	31.5	-3.5	-6.9
Changes in cash and cash equivalents	0.2	0.8	-9.5	0.2	9.5
Cash at the beginning of the review period	27.4	27.0	37.1	27.5	27.5
Cash at the end of the review period	27.6	27.8	27.6	27.8	37.1

Contingent liabilities and commitments

EUR million	30.9.2018	30.9.2017	31.12.2017
Collateral given on own behalf			
Pledged collateral notes	1.5	1.1	1.3
Sureties	2.2	0.3	3.1
Rental deposits	1.7	1.3	1.6
Collateral given on behalf of associated companies			
Sureties	0.0	3.2	
Other contingent liabilities			
Lease commitments	87.8	39.6	50.1

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

The Group's investment commitments related to development, additional and replacement investments amount to approximately EUR 0.6 million.

Pihlajalinna will develop a new assisted living facility in Laihia, under a subletting model, with capacity for 60 residents. The facility is due to be completed in autumn 2019. Pihlajalinna has also made a commitment to acquire an assisted living facility from the municipality of Laihia, after the completion of the new facility. In addition, Pihlajalinna has made a commitment to renovate two smaller care homes that it acquired previously. Pihlajalinna has made a commitment to acquire the real estate shares of its private clinic in Joensuu. The real estate shares were acquired in October 2018.

Related party transactions

EUR million	1-9/2018	1-9/2017	2017
Key management personnel			
Rents paid	0.7	0.7	1.1
Services procured	1.1	1.3	1.3
Trade payables	0.1	0.1	0.1
Other liabilities		0.1	
Associated companies and joint ventures			
Services sold		0.0	0.0
Services procured	0.0	0.6	1.0
Rents received	0.0	0.2	0.2
Interest and commissions received		0.1	0.1
Dividends received		0.1	0.1
Trade payables		0.1	0.1
Interest and provision receivables		0.0	
Loan receivables		1.3	

Changes in property, plant and equipment

EUR million	30.9.2018	30.9.2017	31.12.2017
Acquisition cost at the beginning of the period	93.1	69.6	69.6
Additions	13.1	17.6	22.8
Business combinations	5.0	1.5	2.9
Transfers between items	0.8	0.0	0.3
Disposals	-0.8	-2.1	-2.4
Acquisition cost at the end of the period	111.3	86.6	93.1
Accumulated depreciation at the beginning of the period	-31.2	-24.1	-24.1
Depreciation and amortisation for the review period	-8.5	-6.7	-9.0
Transfers between items	-0.9	0.0	-0.3
Accumulated depreciation on disposals	0.5	1.9	2.1
Accumulated depreciation at the end of the period	-40.0	-28.9	-31.2
Carrying amount at the end of the period	71.2	57.7	61.9

Changes in intangible assets

EUR million	30.9.2018	30.9.2017	31.12.2017
Acquisition cost at the beginning of the period	137.8	120.7	120.7
Additions	3.2	1.8	3.0
Business combinations	66.5	12.1	14.1
Transfers between items	0.2	0.0	
Acquisition cost at the end of the period	207.7	134.6	137.8
Accumulated depreciation at the beginning of the period	-17.3	-12.1	-12.1
Depreciation and amortisation for the review period	-5.2	-3.9	-5.2
Transfers between items	-0.1		
Accumulated depreciation at the end of the period	-22.6	-16.0	-17.3
Carrying amount at the end of the period	185.1	118.6	120.5

Acquired business operations, total

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

EUR million	1-9/2018
Consideration transferred:	
Cash	34.9
Value of issued shares	28.6
Contingent consideration	0.1
Total acquisition cost	63.6
At the date of acquisition, the preliminary values of assets acquired and liabilities assumed were as follows:	
Property, plant and equipment	5.0
Intangible assets	7.4
Available-for-sale financial assets	0.1
Deferred tax assets	0.1
Inventories	0.2
Trade and other receivables	7.6
Cash and cash equivalents	5.2
Total assets	25.5
Deferred tax liabilities	-1.4
Interest-bearing financial liabilities	-4.8
Other liabilities	-9.8
Total liabilities	-16.0
Preliminary net assets	9.5
Goodwill generated in the acquisition:	
Consideration transferred	63.6
Previous holding measured at fair value	4.0
Share of the acquisition allocated to non-controlling interests	1.1
Net identifiable assets of acquirees	-9.5
Preliminary goodwill	59.1
Transaction price paid in cash:	34.9
Cash and cash equivalents of acquirees	-5.2
Preliminary effect on cash flow*	29.7
*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	29.7
Contingent consideration paid during the financial year	4.0
Total	33.7

The expenses related to the aforementioned acquisitions, a total of EUR 1.3 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 39.5 million and total operating profit of EUR 2.0 million) are included in the consolidated statement of comprehensive income.

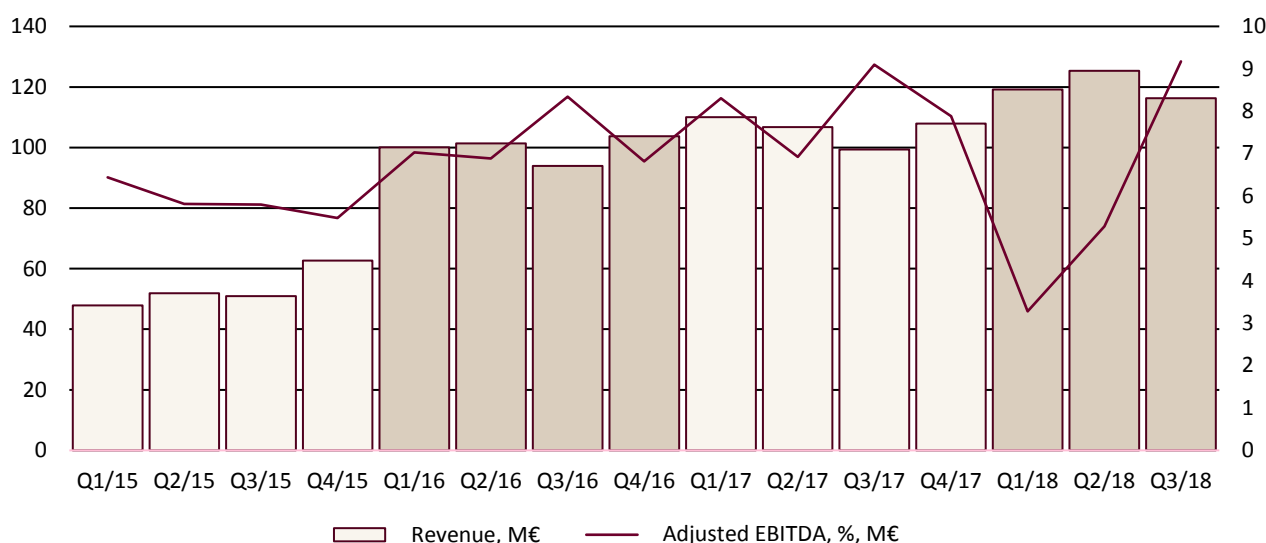
Pro forma

Had the acquisitions of 2018 been consolidated since the beginning of the financial year 2018, the consolidated revenue for the review period would have amounted to EUR 369.5 million and operating profit for the period would have totalled EUR 7.6 million.

Quarterly information

EUR million	Q3/18	Q2/18	Q1/18	Q4/17	Q3/17	Q2/17	Q1/17	Q4/16
INCOME STATEMENT								
Revenue	116.3	125.3	119.2	107.9	99.4	106.7	110.0	103.7
EBITDA	10.7	5.6	4.3	8.1	9.1	7.1	8.9	7.1
Adjusted EBITDA	10.7	6.6	3.9	8.5	9.0	7.4	9.1	7.1
Adjusted EBITDA, %	9.2	5.3	3.3	7.9	9.1	6.9	8.3	6.8
Depreciation and amortisation	-4.7	-4.8	-4.2	-3.6	-3.7	-3.4	-3.5	-3.2
Operating profit (EBIT)	5.9	0.8	0.1	4.6	5.5	3.7	5.4	3.9
Adjusted operating result (EBIT)	5.9	1.9	-0.3	4.9	5.4	4.0	5.7	3.9
Adjusted operating result (EBIT), %	5.1	1.5	-0.3	4.6	5.4	3.7	5.2	3.7
Financial income	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Financial expenses	-0.8	-0.7	-0.7	-0.5	-0.5	-0.4	-0.4	-0.3
Profit before taxes	5.2	0.2	-0.6	4.1	5.0	3.3	5.0	3.5
Income tax	-1.2	-0.3	0.0	-0.6	-1.0	-0.7	-1.1	-0.5
Profit for the period	4.0	-0.1	-0.7	3.5	4.0	2.7	3.9	3.0
Share of the result for the period attributable to owners of the parent company	2.3	0.0	-1.3	2.4	1.9	2.0	3.2	2.4
Share of the result for the period attributable to non-controlling interests	1.7	-0.1	0.6	1.1	2.1	0.7	0.7	0.6
EPS	0.11	0.00	-0.06	0.12	0.09	0.10	0.15	0.12
Personnel at the end of the period (NOE)	5,867	5,918	5,638	4,753	4,767	4,898	4,519	4,407
Change in personnel during the quarter	-51	280	885	-14	-131	380	112	-63

Revenue and adjusted EBITDA margin by quarter



Tax footprint

EUR million	1-9/2018	2017
Direct tax payable for the period		
Income tax (business income tax)	3.3	4.3
Employer's pension contribution	21.9	25.7
Social security contributions	1.1	1.6
Employer's unemployment insurance contribution	3.6	4.0
Contribution to accident insurance and group life insurance	0.8	0.9
Employer contributions, total	27.4	32.1
Property taxes	0.0	0.1
Transfer taxes	1.2	0.4
Direct tax payable for the period, total	31.9	36.8
Value added tax of acquisitions payable by the company		
Value added taxes, estimate	9.3	9.0
Tax for the period		
Withholding taxes	33.6	35.3
Employee's pension contributions, notional	10.7	9.5
Employee's unemployment insurance contributions, notional	2.6	2.3
Payroll tax, total	46.9	47.1
Net value added tax	0.4	1.8
Total tax for the period	47.3	48.9
Revenue	360.8	424.0
Profit before taxes	4.8	17.4
Average number of personnel (FTE)	4,460	3,879
Public subsidies	0.7	0.8

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

EUR million	7-9/2018 3 months	7-9/2017 3 months	1-9/2018 9 months	1-9/2017 9 months	2017 12 months
EBITDA	10.7	9.1	20.6	25.2	33.3
Adjustments to EBITDA					
Closing down of dental clinics				0.1	0.3
Closing down of Surgical Operations clinic					0.1
Subsidiary's previous holding at fair value		-0.1	-1.0	-0.1	-0.3
Conciliation agreement concerning the Group's facility expenses				0.2	0.2
Dismissal-related expenses			0.6	0.2	0.4
Gain on the disposal of business	-0.1		-0.1		
Change in fair value of contingent consideration	0.1		1.1		
Adjustments to EBITDA in total	0.0	-0.1	0.6	0.4	0.7
Adjusted EBITDA	10.7	9.0	21.2	25.6	34.1
Depreciation, amortisation and impairment	-4.7	-3.7	-13.7	-10.6	-14.2
Adjustments to depreciation, amortisation and impairment					
Closing down of dental clinics				0.1	0.1
Adjustments to depreciation, amortisation and impairment in total	0.0	0.0	0.0	0.1	0.1
Adjusted operating result (EBIT)	5.9	5.4	7.5	15.1	20.0
Operating profit (EBIT)	5.9	5.5	6.8	14.6	19.1

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

EUR million	7-9/2018 3 months	7-9/2017 3 months	1-9/2018 9 months	1-9/2017 9 months	2017 12 months
Other operating income	-0.1	-0.1	-1.0	-0.1	-0.3
Employee benefit expenses			0.6	0.2	0.4
Other operating expenses	0.1		1.1	0.3	0.7
EBITDA adjustment items total	0.0	-0.1	0.6	0.4	0.7
Depreciation, amortisation and impairment				0.1	0.1
Operating profit adjustment items total	0.0	-0.1	0.6	0.5	0.9

Pihlajalinna's financial reporting and Annual General Meeting in 2019

Financial Statements Bulletin 2018: Friday, 15 February 2019

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

Interim Report January–March: Friday, 3 May 2019

Half-year Report January–June: Thursday, 15 August 2019

Interim Report January–September: Tuesday, 5 November 2019

Pihlajalinna Plc's Annual General Meeting is scheduled for Thursday, 4 April 2019, in Tampere, Finland.

Briefing

Pihlajalinna Plc will hold a briefing for analysts and the media on Thursday, 1 November 2018 at 10:00 a.m. in the Paavo Nurmi room at Hotel Kämp, Pohjoisesplanadi 29, 00100 Helsinki, Finland.

Helsinki, 31 October 2018

Pihlajalinna Plc's Board of Directors

Further information

Joni Aaltonen, CEO, +358 40 524 7270

Ville Lehtonen, CFO, +358 40 759 7084

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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.