

ANNUAL REPORT 2019

**KAUAN  
ELÄKÖÖN  
ELÄMÄ!**



**Pihlajalinna**

# Annual report 2019

<b>Pihlajalinna in brief</b> .....	<b>2</b>	<b>Partnership</b> .....	<b>23</b>
<b>From the Chairman of the Board of Directors</b> .....	<b>4</b>	<b>Impact maps</b> .....	<b>26</b>
<b>From CEO</b> .....	<b>5</b>	<b>Board of Directors</b> .....	<b>30</b>
<b>Operational environment</b> .....	<b>6</b>	<b>Management Team</b> .....	<b>31</b>
<b>Business and strategy</b> .....	<b>8</b>	<b>Financial year 2019</b>	
Digital and remote services .....	10	Report by the Board of Directors .....	33
Customer groups .....	12	Financial statements .....	55
<b>Responsibility</b> .....	<b>14</b>	Auditor's report .....	101
Quality and safety of care .....	15	<b>Information for shareholders</b> ...	<b>105</b>
Economic responsibility .....	16		
Responsibility for personnel .....	18		
Data protection and information security .....	21		

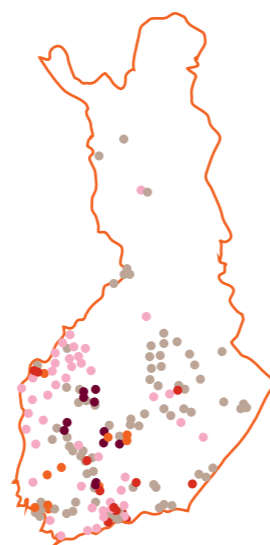
## Pihlajalinna in brief

Pihlajalinna is one of Finland's leading providers of social, healthcare and well-being services. The Group's customers include private individuals, businesses, insurance companies and public sector entities, such as municipalities and joint municipal authorities.

### PIHLAJALINNA

- Market leader in the complete outsourcing of social and healthcare services in Finland
- The Group pays all of its taxes to Finland

- Headquarter in Kehräsaari, Tampere
- Extensive range of services offered to both private and public sector customers
- Strong geographical presence in Pirkanmaa, South Ostrobothnia, Central Finland, Pohjois-Savo and the Helsinki Metropolitan Area
- Aims to be the most valued healthcare and social services company in Finland
- Listed on the main list of Nasdaq Helsinki in 2015

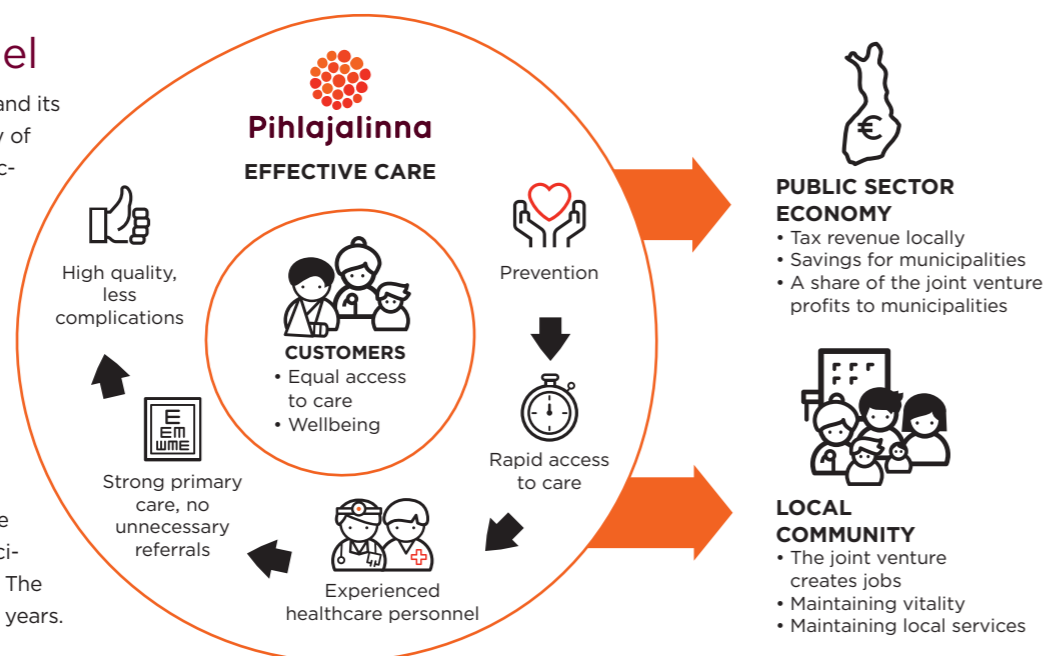


### PIHLAJALINNA BUSINESS LOCATIONS 2019

- Private clinic, Surgical operation, Dental clinic, Occupational healthcare
- Social and healthcare outsourcing
- Residential service
- Fitness centre
- Responsible doctor and remote service

## Pihlajalinna model

The Pihlajalinna operating model and its social effects culminate in our way of working in cooperation with municipalities. When a joint venture of Pihlajalinna and a municipality is responsible for producing the municipality's social and healthcare services on a long-term agreement, the company has a strong incentive to promote health and to adopt effective operating models. Approximately 44 per cent of Pihlajalinna's revenue comes from complete outsourcing agreements for municipal social and healthcare services. The average agreement period is 10+5 years.



# Timeline 2019

### REVENUE / M€

**518.6**

(2018: 487.8)

**+6.3 %**

### ADJUSTED OPERATING PROFIT / M€

**20.8/4 %**

(2018: 14.4 M€ 3.0 %)

**target over 7 %**

### NET DEBIT / EBITDA

**3.5**

31 Dec 2019  
(31 Dec 2018: 3.9)

**target below 3**

### ADJUSTED EBITDA / M€

**55.1**

(2018: 45.9)

### EARNINGS PER SHARE / €

**0.15**

(2018: 0.16)

### NUMBER OF PERSONNEL

**5815**

31 Dec 2019  
(31 Dec 2018: 5,850)





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Pihlajalinna is a force of renewal in Finnish healthcare.

## From the Chairman of the Board of Directors

The planning of the structural reform of healthcare and social services continues, and Finland's current government aims to submit a proposal to the parliament by the end of 2020. If implemented, the reform will require amendments to approximately a hundred laws and decrees. If the planned reform is put into action, it is scheduled to take effect in 2023. Uncertainty continues to be created by the potential problems associated with the planned reform with respect to the Constitution of Finland and assigning a special position to the Helsinki Metropolitan Area. We still hope that the reform will go through. Our society needs it. In many municipalities, the prolonged state of uncertainty has clearly put a stop to development and essential investments. At the same time, the county organisations that were already dissolved at one point and the current hospital districts have made significant investments in the future model despite the fact that its detailed content remains uncertain.

The year 2019 was characterised by public concerns about care for the elderly, with the impacts having been very significant to several private-sector service providers. The nursing ratio in the elderly care sector will be raised to 0.7 from the previous minimum regulatory recommendation of 0.5. Ensuring adequate care personnel through legislation is a positive development. It seems like that the higher nursing ratio higher nursing ratio is already required of private sector operators now, while public sector service providers are set to be offered a transition period that could be several years long. At the same

time, private sector units are required to have premises that are of substantially higher quality than the public sector.

The discussion in 2019 was characterised to an exceptional degree by the juxtaposition of the private and public sectors and new public structures instead of a focus on ensuring that customers receive the best possible care and that the legally stipulated number of various healthcare professionals is available in the first place. One good example of this is the planned increase of personnel in primary care by one thousand physicians. Completing medical school takes a minimum of six years and, roughly speaking, one physician in ten will end up working permanently in a public sector health centre. This means that achieving the goal would take at least six years and we would need to train 10,000 more physicians compared to the current level. The challenge is further increased by the physicians representing the large generations reaching retirement age.

To put it in simple terms, achieving the government's current goals will require a significant change in operating methods as well as a clear change in resource allocation in healthcare and social services to ensure that the human resources and financial resources are sufficient to meet the future needs of the ageing population.

In November 2019, after careful consideration, Pihlajalinna Plc's Board of Directors decided to recommend that the tender offer made by Mehiläinen is accepted, and all of the company's significant shareholders have indicated their favourable stance towards the merger. We believe that the merger will be advan-

tageous to customers, personnel, shareholders and all Finns. The realisation of the merger will create a company in Finland that has sufficiently broad shoulders to serve the demanding client organisations of municipalities, hospital districts and the future counties as well as export Finnish social and healthcare expertise to the international market. Together, we have the opportunity to provide treatment and care of even higher quality for the needs of an ageing Finland.

The tender offer by Mehiläinen comes at a time when Pihlajalinna has managed to overcome the challenges of the past couple of years and looks confidently to the future. When I started Pihlajalinna in 2001, my aim was to create a company that will challenge the highly traditional social and healthcare industry in both the public and the private sector. The company's growth into one of the leaders in its field in Finland has exceeded our wildest expectations. Together with our tremendous personnel, customers and management, we have created something completely new and exceptional in our industry.

Pihlajalinna is a force of renewal in Finnish healthcare, and that is a responsibility that we are happy to maintain going forward, even when the merger is realised. In my opinion, society must provide an opportunity for the innovative development of social and healthcare services. The provision of high-quality and ethical care without unnecessary delays must be a shared goal for all of us.

### MIKKO WIRÉN

Chairman of the Board of Directors



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Pihlajalinna has expanded its network of clinics in recent years.

## From the CEO

The year 2019 had several phases. The healthcare and social welfare reform ran aground, but the new government again included it in its government programme. Pihlajalinna has expanded its network of clinics in recent years also with an eye on the healthcare, social welfare and regional government reform. With the efficiency improvement programme we started in August, we reassessed the network of clinics and also reviewed the resources allocation of our operations from the perspective of profitability. We closed a few small clinics, but also opened new clinics during the year as planned in provincial centres, such as Rovaniemi and Vaasa.

Municipalities have clearly become more active, and several negotiations on outsourcing projects have been started. The willingness of municipalities to make their own social and healthcare service decisions and safeguard their own social and healthcare services took concrete shape in the partial outsourcing agreement we signed with the city of Kristiinankaupunki in December. The term of the contract is at least 15 years but not more than 20 years. According to the tendering documentation, the value of the agreement is approximately EUR 90 million, not taking index adjustments into account. Service production will start at the beginning of 2021.

The government's new healthcare and social welfare reform programme has good focal points from the point of view of Pihlajalinna: the key is to invest in

rapid access to care. We consider this a good objective, and achieving it will only be possible if the services and operating models of all social and healthcare service providers are utilised.

Pihlajalinna aims at being a partner to the public sector. Accordingly, we signed cooperation agreements with the Hospital District of Pirkanmaa and the Heart Hospital, for example. The cooperation took concrete shape in a new service for evaluating cardiovascular symptoms, the pilot phase of which began in February 2020.

Pihlajalinna increased its ownership in municipal joint ventures in 2019. Pihlajalinna now owns 90 per cent of Kuusiolinna Terveys Oy, 91 per cent of Mäntänvuoren Terveys Oy and 96 per cent of Kolmostien Terveys Oy. We have also signed an agreement with the city of Mänttä-Vilppula regarding the acquisition of three social and healthcare service buildings.

The revenue of occupational healthcare increased by more than 25 per cent year-on-year. Profitability was improved by an increase in the share of fixed-price services and the development of operating models. The total number of private customers in occupational healthcare continued to grow and reached approximately 200,000. The growth outlook in occupational healthcare services remains good.

From the perspective of private clinic operations, partnerships with insurance companies developed favourably in 2019. Pihlajalinna signed a cooperation agree-

ment with Pohjola Insurance Ltd in May. Based on a highly successful pilot project, Pohjola Insurance approved Pihlajalinna as a national service provider under its multi-supplier model. We aim to further strengthen the cooperation with insurance companies and improve Pihlajalinna's market position as a nationwide partner of insurance companies.

Our national network of clinics puts us in a strong position in large tendering processes for occupational healthcare services. We are also able to provide highly comprehensive services to private customers and insurance company customers. In locations where we do not yet have a physical presence, we can serve customers through the provision of remote services or by using the responsible doctor model. In the public sector, our strength lies in capitation-based social and healthcare services. Pihlajalinna's partnerships with municipalities and hospital districts have shown that the costs of public services can be reduced while making it faster to access care.

In the fourth quarter, Mehiläinen Yhtiöt Oy announced a cash tender offer recommended by the Board of Directors of Pihlajalinna Plc for all shares in Pihlajalinna Plc. Together, the two companies are even better positioned to provide effective healthcare and high-quality residential services and develop a digital service offering.

### JONI AALTONEN

CEO

## OPERATING ENVIRONMENT

Public-private  
partnerships as  
a solution

After years of planning and preparation, the structural reform of social and healthcare services in Finland reached a dead end in spring 2019. Nevertheless, the reform still is on the new government's agenda, and new preparations are currently being made. The objectives of the reform are to reduce inequalities in health and wellbeing, safeguard equal and quality health and social services for all and improve the availability and accessibility of services, especially at the basic level. Further objectives are to ensure the availability of skilled labour, respond to the challenges of changes in society and curb the growth of costs. The structural reform of health and social services will be based on 18 counties and five collaboration areas.

The focus of the healthcare and social welfare system will be shifted towards basic-level services and prevention to reduce the need for specialised care and demanding special services. Counties will mainly organise social and healthcare services as public services, with the private and third sectors serving as supplementary service providers.

**Aiming for rapid access to care**

Pihlajalinna's view is that partnerships between the public sector and private corporations are a good solution for satisfying the growing demand for services. As a provider of a wide range of social and healthcare services, Pihlaja-

linna can offer a complete and effective care chain to individual customers as well as the municipalities that organise the services. As the market leader in municipal outsourcing, Pihlajalinna also has the strongest experience and expertise in operating under fixed pricing.

Pihlajalinna's partnerships with municipalities and hospital districts have shown that the costs of public services can be reduced while making it faster to access care. Fast access to care has also been highlighted as a key objective in the government programme. Pihlajalinna considers this to be a good objective, and achieving it will only be possible if the services and operating models of all social and healthcare service providers are utilised.

**Growing need for services**

The demand for social and healthcare services is growing in Finland due to factors such as the ageing of the population. More than 50 per cent of municipal revenue is spent on social and healthcare services and two out of three Finnish municipalities reported a deficit in 2018. The population is ageing rapidly and the proportion of over 75-year-olds is set to grow by more than 50 per cent by 2030. According to the most recent population forecast by Statistics Finland, 15 years from now there will be no counties in Finland where the birth rate exceeds the death rate if the birth rate were to remain at the current level.

This presents challenges related to the organisation of social and healthcare services.

Regulators have tried to slow down the outsourcing of social and healthcare services by implementing interim legislation that restricts complete outsourcing measures. In spite of these restrictions, municipalities have looked to ensure the provision of local services to residents by entering into various partnerships with private producers.

**A changing division of responsibilities**

From 2010 to 2017, private social and healthcare service production grew at an average annual rate of 4.1 per cent. In 2017, private operators produced social and healthcare services for approximately EUR 5.9 billion. The growth in the market for private operators has mainly stemmed from the changing division of responsibilities between public and private producers.

The amount of health insurance policies continues to grow. The private occupational healthcare market is expected to grow as many municipalities and other public sector entities are interested in divesting the occupational healthcare providers they currently own.

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Fast access to care has also been highlighted as a key objective in the government programme.

## BUSINESS AND STRATEGY

# Easily accessible services

**P**ihlajalinn's business starts from its mission: we help Finns to live a better life. In order to realise this mission, Pihlajalinn has expanded to new operating locations and built a broader range of services. This allows Pihlajalinn to respond to people's needs by providing easily accessible local and remote services.

In 2019, Pihlajalinn opened private clinics in Vaasa, Rovaniemi and the Sello shopping centre in Espoo. A few smaller clinics were closed down as part of the efficiency improvement programme. Pihlajalinn also expanded its operations to new locations through acquisitions.

Pihlajalinn did not open any new surgical units during the year. The current surgical units are located in Helsinki, Tampere, Turku, Oulu, Kuopio, Joensuu, Seinäjoki and Jämsä.

Over the past few years, Pihlajalinn has expanded its range of services and competencies from the treatment of illnesses to wellbeing services and prevention. A broad range of services enables the company to grow in different operating environments and to diversify risks. Pihlajalinn aims to take on a significant role in all types of services: insurance-based services, services paid for by customers and publicly funded services.

### Digital and remote services in public sector

Pihlajalinn continues to develop its digital and remote services, which are allocated to different customer groups, by taking the customers' needs into account. The development of digital and remote services is particularly effective in supporting the fixed-price business that constitutes the majority of Pihlajalinn's operations. Under the fixed-price model, the service provider, municipality and customer all share the same objective: keeping people healthy and maintaining their functional capacity.

The remote doctor's appointment service that was previously offered to occupational healthcare customers and private customers was expanded in

2019 to the primary care operations of joint ventures in Parkano, Kihniö, Mänttä-Vilppula and Juupajoki. Customers can start using the remote consultation service by downloading the Pihlajalinn health application.

The remote doctor and responsible doctor services are also complemented by the eDiabetes service introduced in 2019. The virtual diabetes clinic represents a solution for diabetes treatment in primary care. Pihlajalinn's physician takes overall responsibility for the diabetes treatment of patients who are treated with the help of the service. The physician is paired with a diabetes nurse designated by the municipality at the patient's local health centre.

### Mehiläinen announced a recommended cash tender offer

In November 2019, Mehiläinen Yhtiöt Oy and Pihlajalinn Plc entered into a combination agreement pursuant to which Mehiläinen makes a voluntary recommended public cash tender offer for all issued and outstanding shares in Pihlajalinn. In the tender offer, Pihlajalinn's shareholders are offered a cash consideration of EUR 16.00, which puts the total value of Pihlajalinn's shares at approximately EUR 362 million. The non-conflicted members of the Board of Directors of Pihlajalinn have unanimously decided to recommend that the shareholders of Pihlajalinn accept the tender offer. The offer period began in January 2020 and, according to the

knowledge we have right now, it will end in July 2020.

### Improvement of operational efficiency

Pihlajalinn has two long-term financial targets. The ratio of net debt to EBITDA is currently in line with the target. The target for the operating profit (EBIT) margin is more than seven per cent of revenue. In 2019, the adjusted operating profit (EBIT) was 4.0 per cent of revenue.

Pihlajalinn began planning an efficiency improvement programme in summer 2019. The objective of the efficiency improvement programme is to enhance operational efficiency and support the achievement of the long-term operating profit target. The efficiency improvement programme aims to achieve annual cost savings of approximately EUR 17 million. A non-recurring expense and impairment totalling EUR 7.4 million was recognised in relation to the efficiency improvement programme and reported as an adjustment item affecting comparability. The Group held cooperation negotiations as part of the efficiency improvement programme. Pihlajalinn also revised its operating structure, management system and the structure of the Management Team.

Pihlajalinn's previous operating structure had four geographical business areas: Mid-Finland, Southern Finland, Ostrobothnia and Northern Finland. Each business area had a Head of Business Operations responsible for its performance. In the revised operating structure, the Chief Operating Officer (COO) is in charge of the profitability and resources of business operations. The Group has one operating segment.

**VISION**  
We will be the most valued company in the healthcare and social services sector in Finland

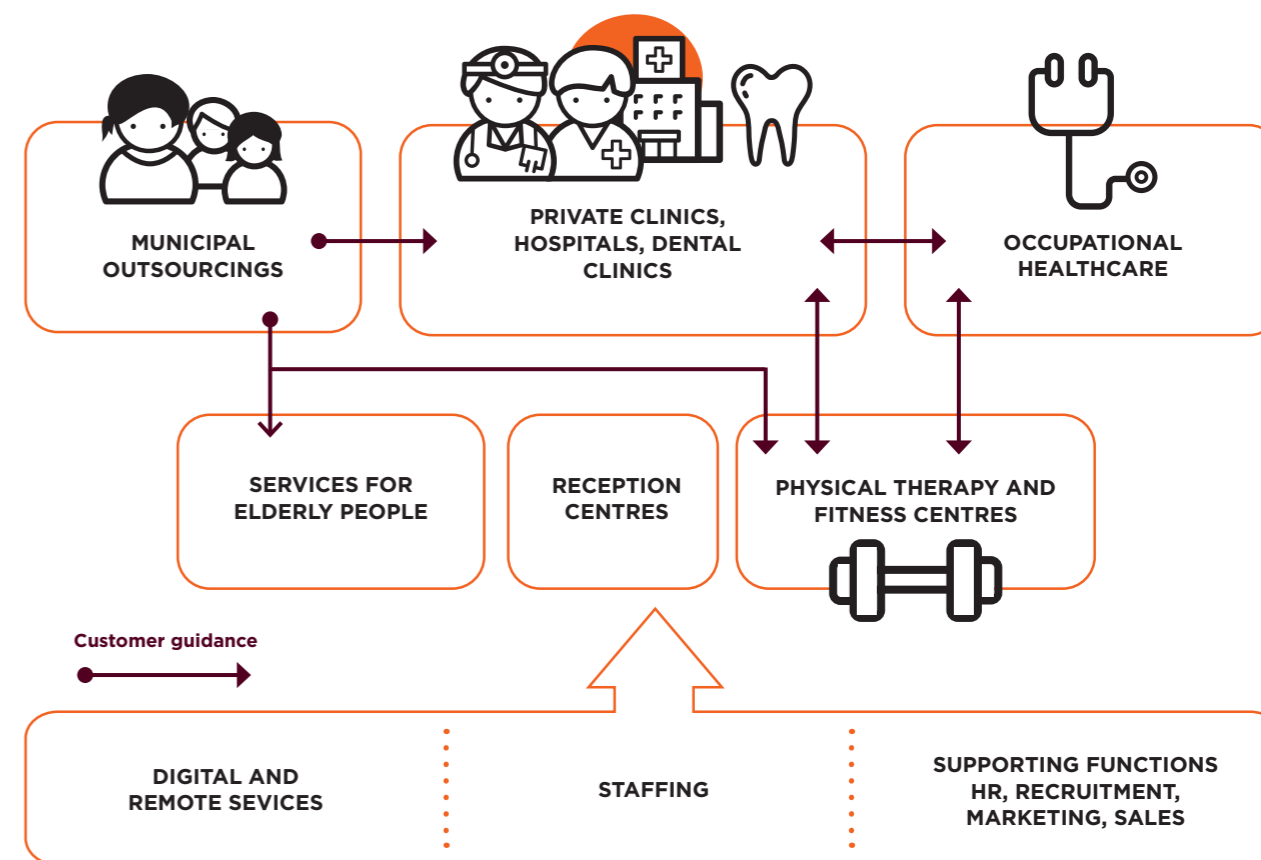
**MISSION**  
We help Finns to live a better life

**VALUES**  
Ethics, energy and open-mindedness

Target:  
**NET DEBT**  
**BELOW 3x**  
EBITDA

Target:  
**OPERATING PROFIT (EBIT)**  
**EXCEEDING 7%**  
of revenue

## Pihlajalinn services 2019



## Trends and megatrends that boost business growth



### The situation in the public sector

Finland's economic situation has been weak for years and the public sector has become indebted. Especially municipalities have run into difficulties as the costs of care have increased and, at the same time, tax revenue has decreased. Economic difficulties have led to the public sector's willingness to outsource services and seek more efficient ways to produce effective services.



### Ageing

In Finland, the population is ageing faster than in any other European country. According to the forecast of Statistics Finland, the number of citizens over 65 will total almost 1.3 million by 2020 and reach 1.5 million by 2030. As those over 65 use the majority of social and healthcare services, the demand for and the costs of the services are expected to increase.



### Lifestyle diseases and the distribution of wellbeing

Previously, people fell ill with viral and infectious diseases, for instance, while nowadays the most common diseases among Finns are lifestyle-related. For the working-age population, the most common factors leading to death are tumours, diseases of the circulatory system and use of alcohol. In Finland, health inequalities are relatively large and depend on the level of education, among other factors. In order to curb costs, there needs to be emphasis on prevention and rapid access to care.



### Interest in health and wellbeing

On average, Finns smoke less, eat more healthily and exercise more in leisure time. Wellness trends also drive consumer habits, such as nutrition-related choices and the use of health and sports services. The development of lifestyle choices has been fastest among those with higher education.



### The increase in the number of voluntary insurance policies

The number of voluntary medical expenses insurance policies has clearly increased in recent years. The reasons behind this include concern about the availability of public services and the need to ensure rapid access to care. At the beginning of 2018, nearly 1.2 million Finns had a voluntary medical expenses insurance policy. We assume that the demand for voluntary insurance policies will continue to grow at least until 2020.



### Individuality, freedom of choice and expression of will

People expect healthcare services to be more effective and of higher quality. The need for individual solutions has increased and technology has strengthened this trend. The majority of Finns want to increase freedom of choice in social and healthcare services. An increasing number of people have sought to ensure their freedom of choice with a medical expenses insurance policy, for instance.

## BUSINESS AND STRATEGY

# Pihlajalinna's health application: a modern addition to the service selection

**M**äntänvuoren Terveys, a joint venture between Pihlajalinna and the city of Mänttä-Vilppula, started using the smartphone-enabled Pihlajalinna health application in May 2019. Remote consultation services via the health application are available to the residents of Mänttä-Vilppula for the normal customer fee charged by the health centre.

Pihlajalinna's health application allows customers to quickly contact a nurse via video or chat regardless of their location. The nurse then assesses the need for treatment and refers the customer to a physician, if necessary.

The first months of testing the health application went smoothly. Using the new service channel has been convenient, with customers now having the ability to contact nurses and physicians from home, for example.

To date, the health application has been implemented by two joint ventures between Pihlajalinna and Finnish municipalities: Kolmostien Terveys, which operates in Parkano and Kihniö, and Mäntänvuoren Terveys, which provides social and healthcare services in Mänttä-Vilppula and Juupajoki.

Juha-Matti Sihvonen, CEO of Mäntänvuoren Terveys, says that the application is a modern addition to the service selection.

"Treatment is now immediately available, and being attended to is no longer dependent on your physical location."

### Treatment for acute skin and eye symptoms directly via the application

Depending on the situation, the customers are referred to further treatment. In many cases, this means a traditional appointment with a physician. The application makes it faster and easier to establish first contact with the treatment provider and initiate treatment for a variety of acute health problems that can be easily diagnosed remotely. These include eye infections, rashes and urinary tract infections, among other conditions.

The health application also facilitates many aspects of further treatment. For example, the application allows the customer to conveniently deal with medication-related issues that do not require a face-to-face appointment

with a physician. Physicians can easily provide information on the side effects and correct dosing of medications as well as renew prescriptions.

In many cases, the chat function is sufficient to facilitate the service encounter but, in certain situations, photos can be added to the chat or a video link can be established to augment the conversation between the customer and the physician. This particularly applies to health issues whose diagnosis requires the physician to evaluate superficial symptoms, as in the case of rashes and eye problems. A video link is also helpful when an oral conversation makes it easier for the customer to understand the information provided the physician.

There have been only minor problems related to the adoption of the new service channel. The hope is that the user base will expand.

"It would be nice if more customers would discover this application. We expect that this would reduce congestion at peak times in the health centre's traditional appointment services, enabling faster access to care," Juha-Matti Sihvonen concludes.

## Digital development is seen as an important aspect of work

### Pihlajalinna's health application has received good feedback from customers as well as employees.

Linda Seppäläinen, a Mänttä-based practical nurse, began having eye symptoms in the middle of her working day. She had redness, a burning sensation and discharge from her eyes. When she described her symptoms to a colleague, the suggestion to try Pihlajalinna's health application came up.

"I'm not great with technology, but my colleague told me it's easy to download the application. I verified my

identity using my online banking credentials and created a code for signing up for the service," Seppäläinen explains.

Using the health application's chat function turned out to be very convenient. She first used the service to select her region. A nurse then assessed the situation and connected her to a physician. Using a video link, it was determined that her symptoms were caused by an eye infection.

Seppäläinen's case is just one of many instances where the health application speeds up the customer's care path. Seppäläinen's positive experiences are echoed by Pihlajalinna's nurse Hanna Repo, who says the application has been well received by the employees.

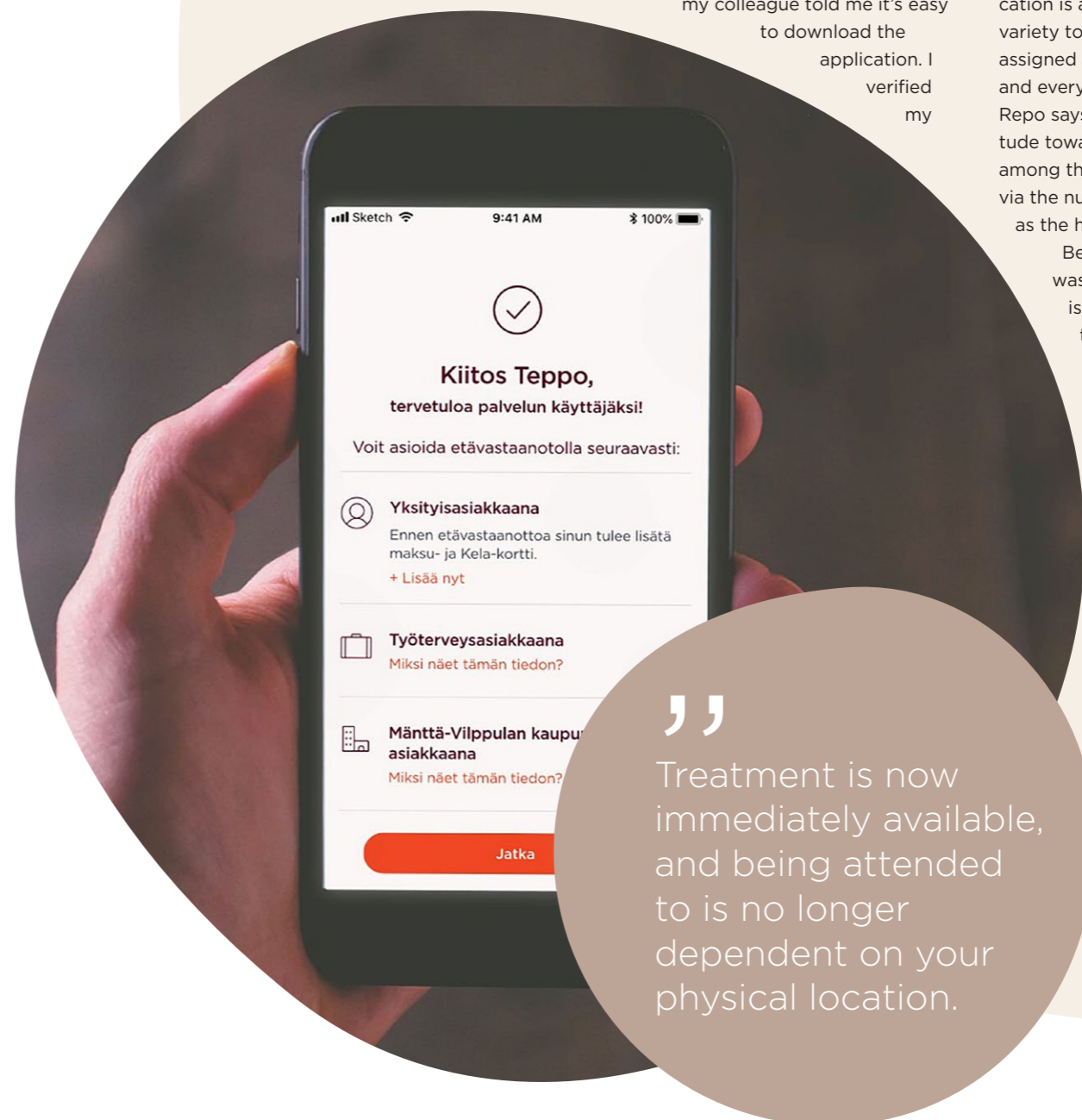
"We have found that using this application is a nice way to bring some variety to our work. Each nurse gets assigned a chat shift about once a week, and everyone is always happy to do it," Repo says, describing the positive attitude towards the new service channel among the nurses who serve customers via the nurse telephone service as well as the health application.

Before the health application was deployed, training was organised for the employees to try the application in a demo environment. According to Repo, there have been no problems with the new service.

"It's very simple and convenient to use. The customers have also been satisfied. At the end of the chat conversation, most customers send very grateful messages."

Repo finds digital development interesting and an important aspect of her job.

"The employees have had their voices heard in the development of this application. I hope and believe that the customer volumes of the health application will only grow in the future," Repo says.



# Customer groups

**P**ihlajalinna'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 organ-

isations 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.

## Private customers

REVENUE M€

**97.8**

(93.0 M€)

↗ +5.1 %

SHARE OF  
GROUP REVENUE

**17 %**

(17 %)

## Corporate customers

REVENUE M€

**122.1**

(106.3 M€)

↗ +14.8 %

SHARE OF  
GROUP REVENUE

**21 %**

(19 %)

## Public sector

REVENUE M€

**360.6**

(346.0 M€)

↗ +4.2 %

SHARE OF  
GROUP REVENUE

**62 %**

(63 %)

## Health coaching produces significant results

**The Finnish Centre for Pensions, an occupational healthcare customer of Pihlajalinna, has chosen health coaching as its solution for fulfilling the statutory obligation to maintain and promote the functional capacity of its employees. The decision stems from a strong desire to invest in employee wellbeing.**

The Finnish Centre for Pensions is a statutory developer, expert and service provider in the field of pension insurance. The organisation has more than 300 employees. Having highly competent, motivated and healthy employees is a strategic priority for the Finnish Centre for Pensions. According to Outi Lehmus, HR Manager at the Finnish Centre for Pensions, the organisation has emphasised the role of prevention in occupational healthcare for a long time.

"We are an expert organisation and expertise resides in people. If we don't take good care of our people, we don't have expertise," Lehmus explains.

As early as 2015, the Finnish Centre for Pensions recognised the need for a more comprehensive understanding of potential health-related challenges at the organisational level as well as the individual level.

"Age-based health examinations were previously one of the tools we used for health monitoring. While they may be effective with some people, our experience was that, on a large scale, they do not facilitate the necessary progress for things," Lehmus says.

The Finnish Centre for Pensions has also conducted various occupational health surveys in connection with workplace surveys. However, the target group of the surveys changes from one year to the next, which means that they do not provide a sufficiently comprehensive view of the situation faced by the organisation as a whole.

### Towards a health coaching model

Led by Leena Rajamäki, the occupational health nurse responsible for the

Finnish Centre for Pensions, work began on planning a health coaching model focused on maintaining employee health. Pihlajalinna had the opportunity to participate in the development and implementation of the health coaching following a tendering process for the Finnish Centre for Pensions' occupational health services.

As part of the coaching, the decision was made to start using ActPRO Wellness 360, a survey aimed at providing employees with the opportunity to evaluate and monitor their own wellbeing. The Finnish Centre for Pensions has sent the survey to its employees three times now, with response rates in the range of 60–70 per cent. This means that the survey has enabled the collection of an extensive amount of data. The results support the Finnish Centre for Pensions in effectively targeting its actions aimed at maintaining and promoting employee wellbeing.

The support provided under the health coaching model can include individual support, group support and combinations thereof. The process always starts with a motivating interview that, in itself, helps employees identify their existing skills for maintaining a high level of wellbeing. The employee's own motivation for the development of wellbeing is also assessed and, based on that assessment, the appropriate forms of support are selected together with the employee.

The services used under the health coaching model always include support for health promotion, although they may also be focused on the treatment of a diagnosed condition.

"The results of the survey are used at the individual level as well as the organisational level. Where necessary, we can create personalised coaching paths for the employees but, at the same time, we can select various themes for the organisation to focus on," says Leena Rajamäki, the occupational health nurse responsible for the Finnish Centre for Pensions.

### A focus on supporting recovery

Based on the survey results obtained in 2017, the Finnish Centre for Pensions began to focus particularly on supporting employee recovery. Already in the following year, the recovery index showed an

improvement of seven percentage points compared to the previous survey.

"When you focus on a theme simultaneously from multiple perspectives, you get good results," Leena Rajamäki points out.

Outi Lehmus notes that, in 2018, the costs of occupational healthcare per employee had decreased by as much as EUR 200–300 compared to 2016. In addition, the emphasizing in preventive measures has worked out excellent. In the year 2019 the proportion of occupational healthcare costs eligible for Kela reimbursement under reimbursement category was 68 per cent. Of Kela's two reimbursement categories, reimbursement category I covers the costs of prevention and activities that maintain work ability. Reimbursement category II consists of preventive occupational as well as the costs of general practitioner level medical care and other healthcare costs.

Lehmus points out that cost savings in occupational healthcare are the sum of many factors, but the health coaching model is certainly among them.

The employees of the Finnish Centre for Pensions have also indicated their satisfaction with their occupational health services.

"The occupational healthcare always receives positive feedback in our employee satisfaction surveys. The employees have been pleased with the way their employer looks after them and cares for them," Lehmus says.

Lehmus and Rajamäki both praise the smooth cooperation between Pihlajalinna and the Finnish Centre for Pensions. They highlight the diverse expertise of Pihlajalinna's occupational healthcare professionals and specialists. The activities implemented by the Finnish Centre for Pensions in cooperation with Pihlajalinna under the health coaching model have included a sleep apnea screening project and, in the second phase of the programme focused on recovery, coaching projects that utilise sleep tracking technology in the form of the Oura smart ring.

In the planning and development of health coaching, the Finnish Centre for Pensions has found it important that their partner has the necessary agility.

"We have a lot of experience and insight regarding our organisation, so we need a flexible and agile partner that genuinely listens to the customer," Outi Lehmus concludes.

RESPONSIBILITY

Responsibility for  
the health and  
wellbeing of Finns

Pihlajalinna has a responsible mission: helping Finns to live a better life. It is easier, more inexpensive and more straightforward for the body to keep a person healthy rather than cure someone who is already ill. With this in mind, Pihlajalinna has developed services that focus on keeping people healthy.

Pihlajalinna bears responsibility for the health and wellbeing of the Finnish people, the use of society's funds and the payment of taxes to Finland, for employees, and for the appropriate storage and processing of customer data. Pihlajalinna places the highest priority on ensuring the quality, safety and effectiveness of services,

looking after its personnel and assuring the data protection and privacy of its customers.

Thousands of Pihlajalinna professionals look after the health and wellbeing of hundreds of thousands of Finns every day. Without the trust of customers and society, Pihlajalinna cannot realise its mission.

Listening to stakeholders

Pihlajalinna maintains close contact with its stakeholders. Feedback is continuously collected from customers, personnel and partners in various ways. Their feedback helps Pihlajalinna evaluate its performance and determine which aspects of Pihlajalinna's operations are most important from the stakeholders' perspectives. Stakeholder expectations regarding Pihlajalinna's responsibility have been surveyed by theme-focused interviews.

The stakeholders have defined the following as Pihlajalinna's key themes of responsibility:

1. Quality and safety of care
2. Customer satisfaction
3. Effectiveness of operations (treatment and prevention)
4. Employees
5. Health and wellbeing among Finns
6. Good governance
7. How we store and process customer information
8. Transparency
9. The use of society's funds and paying taxes to Finland
10. Human rights



RESPONSIBILITY

Quality and safety of care

To make it possible for Pihlajalinna to realise its mission of helping Finns to live a better life, we constantly improve our operations, develop more effective social and healthcare services and monitor the quality of care and service. We want to be a responsible industry pioneer that provides rapid and easy care where and when our customers need it.

Pihlajalinna's goal is to satisfy the relevant regulatory requirements every day, in every unit. All of the Group's healthcare services are scientifically proven and medically effective. The Group aims to improve the effectiveness of its services by ensuring quick access to care. The Group's operations are based on laws and decrees, regulations issued by the authorities, the Current Care Guidelines and Pihlajalinna's own operating guidelines. Pihlajalinna ensures quality

and safety through self-monitoring and guidelines, personnel training and the recruitment of highly competent professionals.

Responsibility for the quality of Pihlajalinna's social and healthcare services is borne by the Medical Director, the directors in charge of healthcare, the chief medical officers and the individuals in charge of units. The management continuously monitors quality indicators and targets, develops operations and takes action in response to any non-compliance. Results, targets and the progress of implemented measures are regularly monitored in management reviews, in management teams and in unit meetings.

Notifications, feedback and non-compliances are handled primarily locally but, when necessary, at the Group's management level and together with authorities.

Data protection officers are responsible for handling reports pertaining to information security. Feedback is received from customers during the provision of care and services, through direct contact, through an electronic survey sent after appointments, through websites and social media as well as from employees in accordance with Pihlajalinna's feedback process. Patient ombudsmen provide assistance and advice on matters concerning the application of the Patient Act.

Pihlajalinna's private clinics, hospitals, dental clinics, special residential services and departments 2 and 4 of Joki-laakso Hospital use the ISO 9001 quality management system. The objective of certification is to further develop and improve the units' daily operations. They also help improve risk management and ensure that statutory requirements and self-monitoring objectives are met.

Medical key figures 2019

**0.61** COMPLAINTS\* **0.18** OFFICIAL COMPLAINTS\*

**1,140,708** TOTAL NUMBER OF VISITS

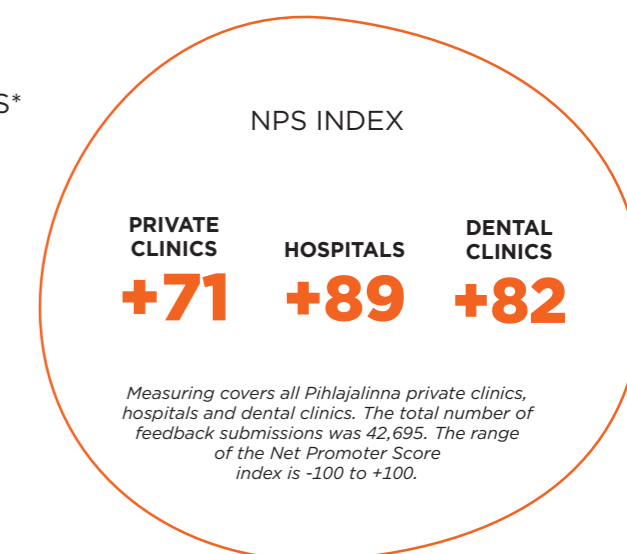
**0.07** SURGICAL INFECTIONS \*\* (DEEP INFECTIONS)

**1.31 %** PATIENT INJURY NOTIFICATIONS

**20 %** ACCORDING TO THE PATIENT INSURANCE CENTRE'S DECISIONS, THE PATIENT WAS ENTITLED TO COMPENSATION

\* The number of complaints, official complaints and patient injury notifications per 100,000 visits. The patient injury notifications include cases in which the policyholder is Pihlajalinna Lääkärikeskukset Oy or Pihlajalinna Terveys Oy. The Group does not necessarily receive information about complaints, official complaints or patient injury notifications related to the operations of practitioners working at Pihlajalinna Group's clinics. The cases that the Group is aware of are reported in the statistics. Both the number of visits and complaints, official complaints and patient injury notifications encompass Pihlajalinna's private clinics, the Group's hospitals, occupational health centres, dental clinics and the Hattula health centre.

\*\* The surgical area infection percentage has been calculated in relation to the number of procedures in Pihlajalinna's hospitals.



OPEN FEEDBACK COMMENTS RELATED TO	Of all feedback	Negative	Positive	Development ideas/other
Technology issues	8 %	57 %	0 %	43 %
Quality of care	23 %	58 %	37 %	5 %
Invoicing	7 %	76 %	2 %	22 %
Meeting	13 %	54 %	43 %	3 %
Waiting time	9 %	94 %	3 %	4 %
Content of service	20 %	59 %	20 %	21 %
Other	19 %	41 %	2 %	57 %

RESPONSIBILITY

# Responsibility for the use of society's funds

Pihlajalinna is a Finnish listed company that is approximately 89 per cent in Finnish ownership. Pihlajalinna is headquartered in Tampere and all of its subsidiaries are registered in Finland.

At Pihlajalinna, responsible social and healthcare services are also efficient. Limited resources, such as tax revenue, must be converted into the highest possible amount of wellbeing.

Under the model developed by the company, Pihlajalinna establishes a joint venture with the municipality or joint municipal authority in question, with both parties owning a stake. The model benefits society and the joint venture's local community in many different ways. The municipality receives its share of the company's profits, which it can then use for any purpose it chooses. Furthermore, when the company produces a profit, part of that profit goes back to the local community in the form of tax revenue, as the companies are domiciled in the municipalities they operate in.

Local companies are important for the local business sector. The joint ventures not only produce social and healthcare services but they also strive to promote

the development of local vitality through their operations and choices. The municipal joint ventures acquire products and services needed in their service production from local businesses and make use of local expertise and circumstances in their service solutions.

In 2019, Pihlajalinna distributed total dividends of EUR 4,4 million to the partner municipalities of its joint ventures. For more information on Pihlajalinna's local impact, please refer to pages 26–29.

We focus on keeping people healthy

The significance of prevention and effective, fast care is continuously increasing in social care and healthcare. One of the underlying reasons is the change of the funding model from service-specific pricing more and more towards fixed pricing. This benefits everyone, as service providers have a strong incentive to develop more effective operating methods, such as digital services, and focus their operations on prevention.

Pihlajalinna's investments in digital services are reflected in the development of the health application, among other things. At the beginning of May

2019, Pihlajalinna launched the application for use by primary care customers of Mäntänvuoren Terveys in Mänttä-Vilppula and Juupajoki as well as Kolmostien Terveys in Parkano and Kihniö. The application enables fast and location-independent access to appointments with healthcare personnel. More information on the health application is provided on pages 10–11.

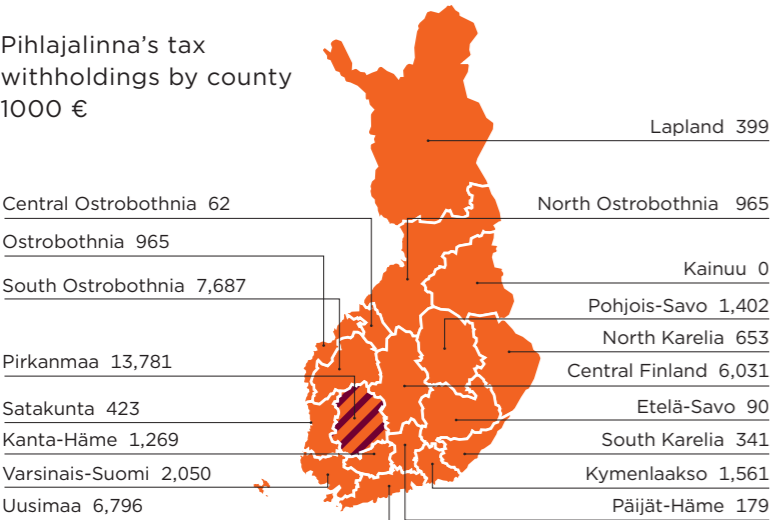
Slightly over half of Pihlajalinna's business is fixed-price business. In fixed pricing, Pihlajalinna is not paid for a single MRI image, for instance, but for assuming responsibility for an individual's healthcare services. This is why Pihlajalinna builds services that focus on keeping people healthy.

The model developed by Pihlajalinna for municipal services is based on keeping people as healthy as possible through prevention, quick and effective primary care as well as immediate specialised care available locally. This reduces the need for expensive specialised care.

Pihlajalinna's ownership structure

31.12.2019	HOLDING
Foreign ownership	0,03 %
Nominee-registered	10,90 %
Finnish ownership (direct)	89,07 %

Pihlajalinna's tax withholdings by county 1000 €



”

The significance of prevention and effective, fast care is continuously increasing.

RESPONSIBILITY

# All taxes paid to Finland

Pihlajalinna Group's tax footprint

EUR million	2019	2018
<b>Direct tax payable for the period</b>		
Income tax (business income tax)	4.1	5.1
Employer's pension contributions	31.0	29.4
Social security contributions	2.1	1.5
Employer's unemployment insurance contributions	2.6	4.3
Contribution to accident insurance and group life insurance	0.8	0.9
Employer contributions, total	36.4	36.1
Property taxes	0.1	0.1
Transfer taxes	0.2	1.2
<b>Direct tax payable for the period, total</b>	<b>40.8</b>	<b>42.4</b>
<b>Value added tax of acquisitions payable by the company</b>		
Value added taxes, estimate	<b>12.3</b>	<b>12.4</b>
<b>Tax for the period</b>		
Withholding taxes	45.1	44.7
Employee pension contributions, deferred	13.0	11.7
Employee unemployment insurance contributions, notional	2.7	3.3
Payroll tax, total	60.8	59.7
Net value-added tax	0.9	0.6
<b>Total tax for the period</b>	<b>61.7</b>	<b>60.3</b>
Revenue	518.6	487.8
Profit before taxes	6.3	10.0
Average number of personnel (FTE)	4,515	4,618
Public subsidies	0.7	1.3

DIRECT TAX PAYABLE FOR THE PERIOD, TOTAL M€

40.8  
(42.4)

TOTAL TAX FOR THE PERIOD M€

61.7  
(60.3)



## RESPONSIBILITY

# Highly competent, motivated and healthy employees

**H**aving professional, highly competent, motivated and healthy personnel is essential for Pihlajalinna's business operations. In social and healthcare services, the personnel play a key role in the provision of high-quality services and the creation of customer value. Wellbeing at work as well as the availability and commitment of personnel also has a significant impact on the company's profit performance.

Pihlajalinna aims to develop the competence and wellbeing of its personnel in order to strengthen the company's competitiveness both as an employer and in its business operations. Investing in good working conditions, employee competence and wellbeing while ensuring high-quality supervisory work help Pihlajalinna achieve its strategic goals.

Pihlajalinna respects internationally recognised human rights and the related agreements and regulations. Pihlajalinna also observes Finnish labour legislation and collective agreements at all of its operating locations. Pihlajalinna respects its employees' right to unionisation and trade union activities as well as develops cooperation based on trust and openness with employee representatives. Pihlajalinna does not condone discrimination based on employees' and practitioners' origin, nationality, religious beliefs, ethnicity, gender, age or any other such factor. The Group has an operating model against inappropriate treatment at work, which applies to everyone employed by Pihlajalinna Group.

### High-quality supervisory work is important

Pihlajalinna's efforts to develop supervisory work and leadership are aimed at ensuring that the organisation has highly competent and inspiring super-

visors who enable the success of their teams. High-quality supervisory work plays an important role in the day-to-day management and development of the Group's personnel and operations. Supervisory work is developed through Pihlajalinna's own supervisory training activities, which are organised regularly under the themes "Being a supervisor at Pihlajalinna", "Employment relationship competencies" and "Appreciative interaction". The training days are focused on supervisors' duties and responsibilities during the employment lifecycle, using a coaching-oriented approach to leadership, active caring and how to address observed problems with subordinates. All Pihlajalinna supervisors have an obligation to participate in the training and their training record is monitored.

In 2019, Pihlajalinna partnered with education institutions to organise training for a degree-based Qualification in First-Line Management. In addition, "Achieving successful change" training was organised for service managers, service coordinators and managers in partnership with an external service provider. Supervisors are also offered training related to HR systems.

At Pihlajalinna, feedback is seen as an important tool for the continuous development of operations and competence. Supervisors have the opportunity to receive feedback on their performance through the Pihlis Pulse survey, among other things. The survey is open to all of the Group's personnel and it was conducted three times in 2019.

### Active development of wellbeing at work

Pihlajalinna develops wellbeing at work among its personnel by, among other things, high-quality supervisory work, preventive occupational healthcare and

wellbeing projects. The implementation of the active caring model established in 2017 continued as part of supervisor training. The model involves agreeing on the responsibilities of the various parties concerned as well as operating methods aimed at resolving challenges related to work ability and performance in a proactive and systematic manner.

We updated the Pihlis Pulse survey in 2019. The role and objectives of the Pihlis Pulse survey were clarified and the questions were updated. Awareness of the survey among the personnel was improved with the help of an internal marketing campaign. The survey's response rate was previously 25 per cent, but it rose to 44 per cent in November.

Pihlis Pulse is a tool for engagement and the development of the operations of the work community. It encourages the personnel to engage in discussions in their teams and provides a source of inspiration for the development of jobs and the work community. The Pulse survey supports the identification of teams' strengths and weaknesses as well as the planning of development measures. Since it is conducted 3–4 times per year, the survey also enables the active monitoring of wellbeing at work and the employee experience. It also serves as a communication channel that promotes interaction between the management, supervisors and the personnel. The results of the Pulse survey are discussed by the Group Management Team and the progress of development measures is monitored regularly.

In 2019, the questions in the Pihlis Pulse survey were targeted even more specifically at areas of key importance to wellbeing at work, namely the respondent's own work, the operations of the work community and supervisory work. The respondents are also requested to

assess their own perceived work ability and their willingness to recommend Pihlajalinna as an employer. The results are easily visible to supervisors on the Qlik reporting platform used across the Group. Training was also arranged for supervisors on how to review the results with teams in a participatory manner.

Work ability is monitored not only by the work ability index derived from the Pihlis Pulse survey but also based on sickness-related absences. Multidisciplinary occupational healthcare teams, supervisors and the HR function work together to monitor the indicators and develop the Group's work communities and the work ability of the personnel.

Wellbeing projects in municipal outsourcing arrangements continued at Kuusioinla Terveystieteiden tutkimuskeskus and Mäntänvuoren Terveystieteiden tutkimuskeskus with "Appreciative work community" training aimed at all members of personnel and supervisors. The objectives of the training activities include strengthening the cohesion of the personnel and build a common operating culture.

### Safe work

The objective of Pihlajalinna's occupational safety and health activities is that every Pihlajalinna professional perceives their work as safe and that the safety of work and the working conditions is developed systematically, with action taken in response to any observed deficiencies. Further goals include the prevention of accidents and work-related illnesses. The indicators used in the monitoring include sickness-related absences, occupational accidents, safety observations, reports of

near misses and workplace climate assessments.

The occupational safety and health organisation was reformed at the beginning of the year to reflect the structure of the business organisation. Regional OSH committees, OSH delegates and OSH managers put the Group's OSH action plan into practice and set regional targets for their operations. The responsibility for the coordination of occupational safety and health lies with the HR team, whose objectives include the harmonisation of occupational safety and health cooperation practices in Pihlajalinna's various units.

Pihlajalinna introduced a new system for reporting safety observations in 2019. Near the end of the year, the Group organised a "Safe Company" campaign under which employees were trained and encouraged to observe their working environments, anticipate hazards and take immediate action in response to any observed deficiencies. A further goal is to share good practices that improve occupational safety. The occupational safety and health personnel have participated in basic and supplementary occupational safety and health training arranged outside the organisation. In the autumn, a theme day event was organised in cooperation with the insurance company to discuss how the threat of violence can be managed. Employees have also been provided internally with occupational safety-related training, such as fire and rescue drills. Occupational safety awareness has

been improved, for example, by publishing monthly occupational safety and health tips on current safety topics on the Group's intranet.

Occupational safety and health elections were held late in the year to elect occupational safety and health delegates for the term 2020–2021. The elections did not cover Kuusioinla Terveystieteiden tutkimuskeskus Oy, Laihia Hyvinvointi Oy and Forever fitness centres.

### Empowering employees

Pihlajalinna employees are empowered to exercise influence on their jobs and working environments in various ways, including the company's Together activities. Together is a Group-wide cooperation organisation involving Together representatives selected by employees as well as employee delegates and occupational safety and health delegates. The aim of the activities is to create a coherent company culture, develop dialogue and respond to the statutory requirements concerning employer-employee cooperation. Pihlajalinna's Together activities were revised at the beginning of 2019 to reflect the structure of the business organisation.

### Proactive human resource allocation

At Pihlajalinna, unit supervisors are responsible for HR and shift planning. Shift planning complies with the applicable legislation and collective agreements as well as the permits issued by the supervisory authorities. The planning is based on customer needs as well as fairness towards the personnel. Shifts are planned proactively, taking into account known

absences and part-time periods. Substitutes are generally hired in the case of



Personnel indicators

Indicator	2019	2018
Average number of personnel (FTE)	4,515	4,618
Practitioners	1,200	1,267
Wages and salaries including social security expenses, EUR million	222.0	208.4
Ratio of average annual pay to highest annual pay, %	8.7	5
Full-time/part-time/on-call personnel, %	55/17/28	62/17/21
Care personnel/other personnel/ doctors/administration, %	64/17/16/4	64/16/15/5
Equality and non-discrimination plan	valid	valid
Action plan against inappropriate treatment at work	valid	valid
Occupational accidents*/ work-related fatalities	281/0	327/0
Infringements against labour law	0	1

\* Occupational accidents include accidents that occurred at work and during commutes and work-related travel

absences. If the customer volume is lower than usual and the number of personnel is sufficient, a substitute is not hired. If the attempts to hire a necessary substitute for a short absence are unsuccessful, the supervisor concerned will see whether a substitute can be arranged from another unit through internal arrangements. Over-time is subject to the provisions of the collective agreements and records of hours worked are based on actual shifts worked.

Continuous development of competence

At Pihlajalinna, competence development primarily involves training and the sharing of internal knowledge. The focus is on learning on the job, which makes the roles of the manager and work community particularly significant. The Pihlajalinna Academy online learning environment is an important element of internal training.

The internal training activities aimed at physicians were revised in 2019. Starting from the beginning of 2020, medical remote lectures, among other things, are offered on a weekly basis. The physicians employed by Pihlajalinna can undertake specialisation training in, for example, general medicine, occupational healthcare and geriatrics as well as required training in areas related to their specialisation.

The Group has a uniform introductory training plan. The aim is that all new employees and practitioners, internally reassigned employees, employees taking up supervisory positions and those returning from extended leave receive introduc-

tory training related to the organisation and their specific job in accordance with the introductory training plan.

Professional training is provided by both Pihlajalinna's own experts and external training providers. Our recommendation is that an individual competence development plan should be drafted for each employee in their annual target-setting and development discussions.

Administrative organisation streamlined

Pihlajalinna held statutory cooperation negotiations in summer 2019, resulting in the termination of 180 positions and organisational reforms achieved by streamlining the administrative organisation, among other things. The HR organisation and processes were also restructured. The HR function was assigned responsibility for the recruitment of health-care personnel and other personnel. The recruitment of physicians is the joint responsibility of the regional organisation, Pihlajalinna's recruitment team, the recruitment team of the Group's subsidiary MediApu and the recruitment team for responsible doctor services. The payroll services team was transferred under the financial administration func-

tion. Cooperation between payroll services and HR functions was increased and shared processes were clarified and enhanced. A new Chief People and Culture Officer joined the Group in spring 2019.

Due to economic reasons and restructuring the operations a total of 11 cooperation negotiations were held within the Pihlajalinna Group in 2019, concerning 2482 employees in total. The negotiations resulted in 131 redundancies and, in addition, the termination of positions. 22 employees found new jobs within the group.

HR focus areas in 2019

- Support for the Group's efficiency improvement programme
- Change support for supervisors
- Development of work communities and wellbeing at work (including the renewal of the Pihlis Pulse survey)
- Improvement of the quality of HR data and the development of information management processes
- Wellbeing projects in municipal joint ventures
- Improvement of the efficiency of the integration process
- Development of cooperation with personnel representatives
- Preventive occupational safety and health

PERMANENT  
EMPLOYMENT  
85 %  
(75 %)

FIXED TYPE  
EMPLOYMENT  
15 %  
(25 %)

RESPONSIBILITY

Data protection and information security

Pihlajalinna's goal is to ensure the data protection of its customers and patients as well as secure the operation of IT systems, services and data networks that are critical for its operations, prevent their unauthorised use and the accidental or intentional corruption of data.

The Group prepares itself for disturbances and exceptional conditions so that operations can be continued with as little disruption as possible in all circumstances. Information security and data protection are monitored actively and deviations are processed quickly. Information security is established and maintained with state-of-the-art, up-to-date solutions.

Significant efforts were made to further enhance information security in 2019 by implementing continuous external monitoring of information security as well as the observation of devia-

Data protection and information security indicators

	Target	2019	2018	2017
Number of successful attempts to gain unauthorised access	0	0	6*	2*
Number of detected viruses and malware	Computers are free of viruses and malware	78 automatically removed viruses 1,988 automatically removed malware programs**	89 automatically removed viruses 2,884 automatically removed malware programs**	0
Volume of junk mail	Less than 1% of junk mail makes it through to users	Target achieved	Target achieved	Target achieved
Information security updates are current	All information security updates are installed within 24 hours of being released	90% of updates installed within one week of being released	90% of updates installed within one week of being released	Target not achieved, part of ongoing activity

tions in online networks. By introducing updated firewall technology and an online monitoring system for data traffic in the ICT infrastructure, we have also improved the detection of potential deviations in the systems environment.

\* The attempts to gain unauthorised access were detected quickly, the situation was normalised and the systems were subsequently updated.  
\*\* Updates to the system have enabled more accurate statistics and monitoring.

Information security practices



Training

The personnel receive regular training on data protection and information security. All Pihlajalinna professionals are required to complete general training on data protection, including an examination. Those who process patient data also need to take an additional examination concerning patient data. The personnel have access to up-to-date guidelines.



Risk assessment

Data protection and information security risks are assessed and analysed regularly and always in the new system specification phase and in connection with significant changes.



User rights management

In all systems, user rights and access management are centralised. System administrators determine the principles for granting user rights. The rights of external users are managed in a centralised manner.



Supervision and monitoring

The status of data protection and information security is reported in connection with internal and external audits. Technical information security is constantly assessed and separate information security inspections are made to the most critical environments. The general work related to data protection is led by a steering group and operational activities are led by the data protection and information security team.



Service provider monitoring

Suppliers and external service providers must commit to complying with information security requirements defined by the Group and suppliers are subject to regular audits. When external services change, information security requirements are reviewed.



Processing of deviations in information security

Pihlajalinna Group has defined procedures and tools for detecting deviations in information security. In addition, there are action plans for exceptional circumstances. Each deviation in information security is recorded and processed for further action.



Connection to the data network

A connection to Pihlajalinna Group's data network and associated services can only be formed with hardware and software managed or approved by data administration. In order to ensure information security, software and file formats used in the systems are supervised and, when necessary, restricted. The most significant systems only accept logins from the local area network. Two-factor authentication is used for logins from the wide area network.



## PARTNERSHIP

Partnership  
produces results

At Pihlajalinna, we believe that the well-functioning cooperation between the private service providers and public sector secures versatile and effective social and healthcare services for all Finns. Pihlajalinna is responsible for the full range of social and healthcare services for the residents of several municipalities. The Group is a trusted partner for many municipalities in primary care, specialised care, social and care services as well as physician recruitment. Pihlajalinna cooperates with approximately 100 municipalities in total.

As the only major private provider of social and healthcare services, Pihlajalinna has gained extensive experience in taking on overall responsibility for a large population. In 2019, Pihlajalinna was responsible for the social and healthcare services of approximately 90,000 residents in its partner municipalities. Thousands of Pihlajalinna professionals look after the health and wellbeing of Finns every day.

An efficient care chain between primary and specialised care ensures that Pihlajalinna's primary care customers receive effective care quickly. Customers can rest assured that their wellbeing is comprehensively looked after throughout the care chain.

Pihlajalinna's municipal partners have brought their social and healthcare service expenditure under control, diversified their local services and improved satisfaction among personnel and customers. In Pihlajalinna's operating model, the municipality is a genuine

partner rather than a mere client. The partner municipalities have increased their vitality and been able to pursue the digital transformation of their social and healthcare services faster than other municipalities.

#### Kristiinankaupunki selected Pihlajalinna as its partner

Kristiinankaupunki selected Pihlajalinna as the service provider of the city's partially outsourced social and healthcare services. The production of services is planned to begin on 1 January 2021.

The tendered acquisition concerns some of the city's social and healthcare services. The services to be outsourced include healthcare appointments, dental healthcare services, rehabilitation, child health clinics, physiotherapy, services for individuals and families, the psychosocial unit, and laboratory and X-ray services. The planned outsourcing utilises the joint venture model.

The population of Kristiinankaupunki is approximately 6,600 people. The duration of the contract is at least 15 years but not more than 20 years. According to the tendering, the annual value of the contract is approximately 6 million euros. Therefore, the value is approximately 90 million euros for 15 years without index increases. With

the option period taken into account, the total value is approximately 120 million euros without index increases. The estimated value of the contract is based on the current cost level of production of services.

By partially outsourcing its social and healthcare services, the city of Kristiinankaupunki aims to, for example, secure and develop social and healthcare services close to its residents, invigorate the city, preserve jobs and maintain cost-effectiveness.

### Pihlajalinna's services for the public sector

- Primary and specialised care services
- Complete social and healthcare outsourcing
- Partial outsourcing, such as health centre outsourcing
- Hospital outsourcing
- Emergency and on-call services
- Responsible doctor services and remote consultation services
- Occupational health services
- Residential services for the elderly and the disabled
- Reception centres
- Staffing services
- Solution services



PARTNERSHIP

# Laihia's smooth transition to the new service voucher model

**T**he municipality of Laihia secured the provision of residential services for the elderly and people with developmental disabilities under the service voucher model.

Established in September 2018, Laihian Hyvinvointi is a joint venture between Pihlajalinna and the municipality of Laihia. The joint venture produces residential services for the elderly and people with developmental disabilities in Laihia. The smooth transition to the new service voucher model and the newly renovated, modern facilities have been well received by the residents and the employees.

"When a customer applies for service housing, they need to send an application to the municipality's basic welfare unit. A social worker then makes the administrative decisions and determines whether the criteria are met. They then receive a service voucher and choose a service provider from a list of service providers selected by the municipality of Laihia as service voucher service providers," says Sari Koivula, Service Manager at Laihian Hyvinvointi, explaining the current process for residential services.

There are no other companies in Laihia providing residential services for the elderly and the disabled. However, there are other service providers approved by the municipality of Laihia in nearby municipalities, such as Ilmajoki, Vaasa and Seinäjoki.

A few years ago, the municipality of Laihia recognised the need for a change to ensure the continued provision of residential services in the municipality. This would not have been possible using the previous resources.

"We were concerned that residential services would no longer be locally available here," says Juha Rikala, Mayor of Laihia.

Rikala points out there were also worries about the properties used by the residential units. For example, the Isootupa residential unit for people with developmental disabilities was badly in need of renovation. The majority of the buildings were built in the 1970s and 1980s. One of the goals of the joint venture was to gain access to renovated premises for residential services.

## Active communication and training helped navigate the changes

Right from the start of the process, Pihlajalinna and the municipality of Laihia considered it is important that the changes are not visible to customer in negative ways. The municipality's decision-makers have indicated that the locals have been satisfied with the joint venture's operations. However, since the change did have an impact on the life of the customers, open interaction was a high priority.

"The Mayor organised several briefings for us, and Pihlajalinna's representatives also came over to hold briefings for us

and the family members of the residents," says Service Manager Sari Koivula.

According to Koivula, the employees have also received training on Pihlajalinna's values and operating principles and it has been ensured that everyone has a basic understanding of the service voucher process. With the help of these measures, the employees have been positively engaged in the changes.

## The residents enjoy the new premises

The joint venture's first year was focused on construction projects. The renovation of the Isootupa residential unit for people with developmental disabilities was completed in early summer 2019.

Service Coordinator Eila Talvitie says it has been a pleasure to see how the residents have taken to their new surroundings.

"I feel happy for the residents when I see how pleased they are about their rooms. The new rooms are more spacious and they also have en suite toilets and showers. Decorating the rooms has been a lot of fun for them," Talvitie says with a smile.

In October 2019, construction was completed on Marjapihlaja, a brand new care home with capacity for 60 residents. Its premises are similarly designed with today's needs in mind.

## The development of social services improves wellbeing

**Pihlajalinna started as a partner of the municipality of Liminka in autumn 2018. The social services development project clarified the employees' roles and the customers' service paths.**

"We had identified the need for this kind of service. Liminka has grown rapidly over the past couple of decades, and we haven't had time to stop and think about the structures and job descriptions of our social services in spite of the changes in our operating environment," says Elliisa Tornberg, Director of Social and Healthcare Services at the municipality of Liminka.

Social services cover a very broad range of services from childhood to old age. The services promote and strengthen wellbeing, as they often have a preventive effect. Liminka is home to about 10,300 people, with the 0-15 age group representing 35.9 per cent of the total. The average age of the municipality's residents is 31 years.

The work to develop social services in the municipality began in autumn 2018 with an analysis of the present situation. All of the employees of social services were interviewed for the analysis. They also discussed the municipality's existing services in groups. The information from the analysis process was then used in assessing the strengths and weaknesses, which served as the foundation for the development phase that began in March 2019.

The development effort also had a strong focus on the improvement of wellbeing at work, as engaging employees in the development of their work has a positive impact on occupational wellbeing. Coming up with ideas on the various aspects of one's work and how the job can be changed

is a process that increases wellbeing at work in itself.

"When you have your own role figured out, you shift your focus to your colleagues. When you understand your own tasks and the roles others play, you get to the heart of multidisciplinary cooperation. That is when the operations are efficient and there is no overlapping work," says Sirkka Viiala, Service Director for social services at Pihlajalinna.

## Aiming to increase the municipality's vitality

The social services development project in Liminka was completed in late October 2019. Whereas the focus in the spring had been on clarifying roles and service descriptions, in the autumn, a broader perspective was taken to look beyond social services and create more integrated service processes with healthcare services, services for the elderly and education services, among other areas. The aim was to bring the different fields closer, eliminate boundaries between sectors and work together to find a new approach to work.

People at the municipality of Liminka have been satisfied with their cooperation with Pihlajalinna.

"I'm pleased that we started this process and began updating our existing operating models. Putting the new principles into action will take some time, but this project has benefited from strong contributions from the personnel, the organisation and the decision-makers alike. The external funding we received for the development project is also an indication that we are on the right path," says Director of Social and Healthcare Services Elliisa Tornberg.

Ideally, private and public operators complement each other by engaging in development efforts for their part.

"Nevertheless, sometimes it's good to get an outside view of the structures. You don't need to reinvent the wheel. You need to engage in open discussion with various parties and listen to what they have to offer," Tornberg concludes.

”

Social services cover a very broad range of services from childhood to old age.

# Impact maps

## CORPORATE TAXES TO THE MUNICIPALITY / €

**319,837** (JT)  
**683,010** (JLT)

## WITHHOLDING TAXES TO THE MUNICIPALITY / €

**3,240,489** (JT)  
**1,668,808** (JLT)

## PIHLAJALINNA GROUP'S WITHHOLDING TAXES TO THE REGIONAL GOVERNMENT: CENTRAL FINLAND / €

**6,030,841**

## DIVIDENDS TO THE MUNICIPALITY / €

**0** (JT)

## DIVIDENDS TO THE CENTRAL FINLAND HOSPITAL DISTRICT / €

**100 000** (JLT)

## PIHLAJALINNA'S JOINT VENTURE DIVIDENDS TO PARTNER MUNICIPALITIES (MUNICIPALITIES, TOTAL) / €

**4 400 000**



## NUMBER OF EMPLOYEES

**487** (JT)  
**225** (JLT)

## EMPLOYMENT TYPE / %

**82** permanent (JT)  
**18** fixed-term (JT)  
**83** permanent (JLT)  
**17** fixed-term (JLT)

## AVERAGE AGE OF PERSONNEL

**46.7** (JT) **45.6** (JLT)  
Largest age group  
51-55 (JT)  
56-60 (JLT)

## THE WORK ABILITY INDEX, AVERAGE TOTAL SCORE

**8.0** (JT)  
**7.7** (JLT)

## LOCAL SUBCONTRACTORS

**82** (JT) **45** (JLT)  
Value of cooperation  
525,971 € (JT)  
111,315 (JLT)

## JÄMSÄN TERVEYS AND JOKILAAKSO HOSPITAL

**Jämsän Terveys (JT)** is a joint venture established between Pihlajalinna and the municipality of Jämsä. It has produced social and healthcare services for Jämsä starting from 1 September 2015 under an outsourcing agreement signed in spring 2015. The agreement period is 10 years. The company is responsible for providing primary and specialised care to 20,600 inhabitants in Jämsä.

**Jokilaakso Hospital** is a hospital that provides public specialised care. The hospital is part of the Pihlajalinna Group. The hospital's services are produced by Jokilaakson Terveys (JLT, established in 2010), a joint venture between Pihlajalinna and the Central Finland Hospital District.

## Board of Directors (JT)

**50 %** PIHLAJALINNA REPRESENTATIVES (3)  
**50 %** JÄMSÄ MUNICIPALITY REPRESENTATIVES (3)

## Ownership

**51 %** PIHLAJALINNA  
**49 %** JÄMSÄ MUNICIPALITY (JT)  
**90 %** PIHLAJALINNA  
**10 %** THE CENTR. FIN. HOSP. DIST. (JLT)

## Specialised care and services



22 SPECIALITIES, MOST SIGNIFICANT:  
ORTHOPAEDICS AND SURGERY  
INTERNAL MEDICINE // NEUROLOGY  
CARDIOLOGY // NEARLY 2,000  
SURGICAL OPERATIONS ANNUALLY

## Appointments with physicians

PRIMARY CARE: **16,881** (JÄMSÄ, KOSKENPÄÄ, LÄNKIPOHJA, KUOREVESI)  
EMERGENCY AND ON-CALL SERVICES: **11,825**  
SPECIALISED CARE: **16,754**  
DENTAL CARE: **16,741**  
MENTAL HEALTH CENTRE: **2,593**  
SUBSTANCE ABUSE CLINIC: **118**  
FAMILY SERVICE CENTRE: **2,432**

**82,865** DAYS OF CARE

**11** COMPLAINTS AND OFFICIAL COMPLAINTS

## Happy or not

5% 2% 11% **82%** (JT)  
5% 2% 7% **86%** (JLT)

## KOLMOSTIEN TERVEYS

Kolmostien Terveys is a joint venture established between Pihlajalinna and the municipality of Parkano. It has produced social and healthcare services for Parkano and Kihniö starting from 1 September 2015. The agreement period is 10 years and the agreement includes a five-year option. The company is responsible for providing primary care to 8,300 inhabitants in Parkano and Kihniö.

## Board of Directors

**50 %** PIHLAJALINNA REPRESENTATIVES (3)  
**50 %** PARKANO MUNICIPALITY REPRESENTATIVES (3)

## Ownership

**96 %** PIHLAJALINNA  
**4 %** PARKANO MUNICIPALITY

## Specialised care and services



GERIATRICS // GYNECOLOGY  
PSYCHIATRY // YOUTH PSYCHIATRY  
NEUROLOGY // INTERNAL MEDICINE  
RADIOLOGY // GENERAL MEDICINE

**24,414** APPOINTMENTS WITH PHYSICIANS

**64,992** DAYS OF CARE

**10** COMPLAINTS AND OFFICIAL COMPLAINTS

## Happy or not

5% 2% 6% **87%**

## CORPORATE TAXES TO THE MUNICIPALITY / €

**76,799**

## WITHHOLDING TAXES TO THE MUNICIPALITY / €

**2,261,977**

## PIHLAJALINNA GROUP'S WITHHOLDING TAXES TO THE REGIONAL GOVERNMENT: PIRKANMAA / €

**13,781,278**

## DIVIDENDS TO THE MUNICIPALITY / €

**0**

## PIHLAJALINNA'S JOINT VENTURE DIVIDENDS TO PARTNER MUNICIPALITIES (MUNICIPALITIES, TOTAL) / €

**4,400,000**



## NUMBER OF EMPLOYEES

**350**

## EMPLOYMENT TYPE / %

**84** permanent  
**26** fixed-term

## AVERAGE AGE OF PERSONNEL

**43.4**  
Largest age group  
56-60

## THE WORK ABILITY INDEX, AVERAGE TOTAL SCORE

**8.0**

## LOCAL SUBCONTRACTORS

**74**  
Value of cooperation  
404,274 €

CORPORATE TAXES TO THE MUNICIPALITY / €  
**800,699**

WITHHOLDING TAXES TO  
THE MUNICIPALITY / €  
**7,066,576**

PIHLAJALINNA GROUP'S  
WITHHOLDING TAXES TO THE REGIONAL  
GOVERNMENT: SOUTH OSTROBOTHNIA / €  
**7,686,996**

DIVIDENDS TO THE MUNICIPALITIES / €  
**2,891,000**

PIHLAJALINNA'S JOINT VENTURE  
DIVIDENDS TO PARTNER  
MUNICIPALITIES  
(MUNICIPALITIES, TOTAL) / €  
**4,400,000**



NUMBER OF EMPLOYEES

**1,062**

EMPLOYMENT  
TYPE / %

**85**  
permanent

**15**  
fixed-term

AVERAGE AGE  
OF PERSONNEL

**43.9**

Largest age group  
56-60

THE WORK ABILITY INDEX,  
AVERAGE TOTAL SCORE

**7.9**

LOCAL  
SUBCONTRACTORS

**197**

Value of cooperation  
2,631,802 €

## KUUSIOLINNA TERVEYS

Kuusiolinna Terveys Oy is a joint venture established by Pihlajalinna and the municipalities of Alavus, Ähtäri, Kuortane and Soini. The agreement period is 10 years and the agreement includes a five-year option. It has produced social and healthcare services for the sub-region since 1 January 2016. The company is responsible for providing primary care to 22,700 inhabitants in total.

### Board of Directors

**50 %**

PIHLAJALINNA  
REPRESENTA-  
TIVES (4)

**50 %**

THE MUNICIPALITY  
REPRESENTATIVES (4)

### Ownership

**90 %**

PIHLAJALINNA

**10 %**

ALAVUS, KUOR-  
TANE, ÄHTÄRI AND  
SOINI TOTAL

### Specialised care and services



14 MOST SIGNIFICANT SPECIAL  
SERVICES: INTERNAL MEDICINE  
GERIATRICS // CARDIOLOGY  
ORTHOPAEDICS AND SURGERY  
UROLOGY // ENT

### Appointments with physicians

APPOINTMENTS WITH PHYSICIANS AND  
EMERGENCY AND ON-CALL SERVICES **37,180**

SPECIALISED CARE **2,693**

DENTAL CARE **18,814**

OUTPATIENT PSYCHIATRIC CLINIC **1,443**

FAMILY SERVICE **4,127**

**12** COMPLAINTS AND OFFICIAL  
COMPLAINTS

**172,253** DAYS OF CARE

### Happy or not



8% 3% 10% **79%** ALAVUS

4% 2% 9% **85%** ÄHTÄRI

## MÄNTÄNVUOREN TERVEYS

Mäntänvuoren Terveys Oy is a joint venture established in 2013 between the municipality and Pihlajalinna. The current agreement between the municipality and Pihlajalinna is valid until 2026, followed by a five-year option period. Mäntänvuoren Terveys is responsible for providing social and healthcare services to 11,700 customers in Mänttä-Vilppula and Juupajoki.

### Board of Directors

**50 %**

PIHLAJALINNA  
REPRESENTATI-  
VES (3)

**50 %**

MÄNTTÄ-VILPPULA  
MUNICIPALITY  
REPRESENTATIVES (3)

### Ownership

**91 %**

PIHLAJALINNA

**9 %**

MÄNTTÄ-VILPPULA  
MUNICIPALITY

### Specialised care and services



GERIATRICS // SURGERY  
PLASTIC SURGERY // PSYCHIATRY  
INTERNAL MEDICINE CARDIOLOGY  
LUNG DISEASES // DIALYSIS UNI

**82 197** DAYS OF CARE

**21 921** APPOINTMENTS  
WITH PHYSICIANS

**8 977** DENTIST  
APPOINTMENTS

### Happy or not



6% 3% 9% **82%**

CORPORATE TAXES TO THE MUNICIPALITY / €  
**970,753**

WITHHOLDING TAXES TO  
THE MUNICIPALITY / €  
**2,602,304**

PIHLAJALINNA GROUP'S  
WITHHOLDING TAXES TO THE REGIONAL  
GOVERNMENT: PIRKANMAA / €  
**13,781,278**

DIVIDENDS TO THE MUNICIPALITY / €  
**1,400,300**

PIHLAJALINNA'S JOINT VENTURE  
DIVIDENDS TO PARTNER  
MUNICIPALITIES  
(MUNICIPALITIES, TOTAL) / €  
**4,400,000**



NUMBER OF EMPLOYEES

**395**

EMPLOYMENT  
TYPE / %

**83**  
permanent

**17**  
fixed-term

AVERAGE AGE  
OF PERSONNEL

**43.1**

Largest age group  
56-60

THE WORK ABILITY INDEX,  
AVERAGE TOTAL SCORE

**7.7**

LOCAL  
SUBCONTRACTORS

**67**

Value of cooperation  
2,495,501 €

# Board of Directors



## MIKKO WIRÉN

Chairman of  
the Board of Directors

b. 1972, Lic.Med.,  
Member of the Board of  
Directors since 2016



## LEENA NIEMISTÖ

Vice Chairman of  
the Board of Directors

b. b. 1963, D.Med.Sc., Specialist in  
Physiatrics, Member of the Board  
of Directors since 2014  
Board Professional  
Independent of major shareholders



## MATTI JAAKOLA

b. 1955, M.Sc. (Econ.),  
Member of the Board of  
Directors since 2019  
Board Professional,  
management consultant  
Independent of the Company  
and its major shareholders



## HANNU JUVONEN

b. 1955, Lic.Med., Specialist,  
MBA, Member of the Board of  
Directors since 2019  
Practitioner, management  
consultant  
Independent of the Company  
and its major shareholders



## MIKA MANNINEN

b. 1975, M.Sc. (Econ.),  
Member of the Board of  
Directors since 2019  
Group CFO, Fennia Group  
Independent of the Company



## KATI SULIN

b. 1974, Master of Arts,  
Member of the Board of  
Directors since 2018  
Chief Digital Officer (CDO)  
at DNA Plc  
Independent of the Company



## SEIJA TURUNEN

b. 1953, M.Sc. (Econ.),  
Member of the Board of  
Directors since 2016  
Board Professional  
Independent of the Company  
and its major shareholders

# Management Team



## JONI AALTONEN

CEO

b. 1970, BBA  
Employed by the Company  
since 2008



## TEIJA KULMALA

Group COO, CEO of Jämsän  
Terveys Oy and Jokilaakson  
Terveys Oy

b. 1969, MD,  
Specialist in obstetrics and  
gynaecology, eMBA  
Employed by the Company  
since 2016



## TARJA RANTALA

CFO

b. 1972, M.Sc. (Econ.)  
Employed by the company  
since 2014



## ELINA HELIÖ

Chief People and Culture Officer

b. 1972, Master of Laws  
with court training  
Employed by the Company  
since 2019



## SANNA MÄÄTTÄNEN

Chief Business Development  
Officer and Chief Information  
Officer

b. 1967,  
Specialist in geriatrics, eMBA  
Employed by the Company  
since 2012



## MARKO SAVOLAINEN

Chief Legal Officer

b. 1967, Master of Laws  
with court training  
Employed by the Company  
since 2017



For more information on  
the members of Pihlajalinna  
Plc's Board of Directors and  
Management Team, please  
refer to Corporate Governance  
in the Investors section at:  
[http://investors.pihlajalinna.  
fi/corporate-governance](http://investors.pihlajalinna.fi/corporate-governance)

# Report by the Board of Directors 1 Jan–31 Dec 2019

## CONTENTS

Joni Aaltonen, CEO of Pihlajalinna .....	34
Revenue by region.....	34
Revenue by customer group .....	35
Consolidated revenue and result .....	36
Seasonal variation.....	37
Market and legislation review .....	37
Consolidated statement of financial position and cash flow.....	38
Financing arrangements .....	38
Acquisitions and capital expenditure .....	39
Acquisitions of non-controlling interests .....	39
Changes in Group structure.....	40
Research and development .....	40
Personnel.....	40
Management Team .....	40
Board of Directors.....	40
Shareholders' Nomination Board.....	40
Committees nominated by the Board .....	40
Remuneration of the members of the Board of Directors.....	41
Board authorisations .....	41
Auditors and auditing .....	41
Shares and shareholders.....	41
Mehiläinen's cash tender offer for all shares in Pihlajalinna Plc.....	41
Risk management .....	41
Risks and uncertainties in business operations .....	42
Segment reporting .....	43
Flagging notifications .....	43
Current incentive schemes.....	43
The Board of Directors' proposal for profit distribution .....	43
Pihlajalinna's outlook for 2020 .....	44
Corporate Governance Statement .....	44
Statement of non-financial information.....	44
Events after the balance sheet date.....	44
Key financial figures.....	46
Share-related information .....	46
Quarterly information.....	47
Calculation of key financial figures and alternative performance measures.....	48
Reconciliations of alternative performance measures.....	49
Shares and shareholders.....	53
Shareholding of the management .....	54
Signatures to the Report by the Board of Directors and the Financial Statements .....	100

PIHLAJALINNA PLC

REPORT BY THE BOARD OF DIRECTORS  
AND FINANCIAL STATEMENTS

2019



PIHLAJALINNA PLC 2617455-1

# Report by the Board of Directors for the financial year 1 Jan–31 Dec 2019

## Joni Aaltonen, CEO of Pihlajalinna:

The revenue for the fourth quarter amounted to EUR 133.8 million, an increase of EUR 6.8 million. Organic revenue growth was 3.1%. The volume and profitability of occupational health services and sales to insurance companies developed favourably during the fourth quarter. Profitability was affected by the costs of public specialised care were concentrated towards the end of the year. Strong investments in ensuring the quality of residential services for senior citizens following stricter requirements imposed by the authorities increased the personnel expenses. Permanent changes in the requirements of the authorities have an impact on Pihlajalinna's agreement prices.

The year 2019 had several phases. The healthcare and social welfare reform ran aground, but the new Government again included it in its government programme. Pihlajalinna has expanded its network of clinics in recent years also with an eye to the healthcare and social welfare reform. With the efficiency improvement programme, we reassessed the network of clinics and also reviewed the resourcing of operations from the point of view of profitability. We closed a few small clinics, but also opened new clinics in provincial centres, such as Rovaniemi and Vaasa, as planned.

Municipalities have clearly become more active, and several negotiations on outsourcing projects have been started. Municipalities' will to make their own social and healthcare service decisions and safeguard their own social and healthcare services became concrete in the partial outsourcing agreement concluded with the city of Kristiinankaupunki in December. The term of the contract is at least 15 years but not more than 20 years. According to the tendering documentation, the value of the agreement is approximately EUR 90 million, not taking index adjustments into account. The service production begins on 1 January 2021.

Pihlajalinna increased its holdings in municipal joint ventures during the fourth quarter, which strengthens the earnings per share. Pihlajalinna now has a holding of 90% in Kuusiolinna Terveys Oy, with the municipalities of Alavus, Ähtäri, Kuortane and Soini having a holding of 10%. Pihlajalinna has a 91% holding in Mäntänvuoren Terveys Oy and the city of Mänttä-Vilppula a holding of 9%. Furthermore, Pihlajalinna agreed on the procurement of three social and healthcare service buildings with the city of Mänttä-Vilppula. Already earlier in the year under review, Pihlajalinna increased its holding in Kolmostien Terveys Oy. Pihlajalinna has a 96% holding in the company, the city of Parkano a 4% holding.

The government's new healthcare and social welfare reform programme has good focal points from the point of view of Pihlajalinna: the key matter is investing in rapid access to care. Pihlajalinna aims at being a partner to the public sector. Therefore, we signed cooperation agreements with the Hospital District of Pirkanmaa and Heart Hospital. The cooperation becomes concrete in a new service for investigating heart-related symptoms, which will begin in February 2020.

The revenue of occupational healthcare increased by more than 25% year-on-year. The increase in the share of fixed-price services and development of operating models improved profitability. The total number of private customers increased to almost 200,000. The growth outlook in occupational healthcare services remains good.

From the point of view of private clinic operations, partnerships with insurance companies developed favourably during 2019. Pihlajalinna signed a cooperation agreement with Pohjola Insurance Ltd in May. Based on the highly successful pilot project, Pohjola Insurance has approved Pihlajalinna as a national service provider for its multi-supplier model. We aim to further strengthen the cooperation with insurance companies and improve Pihlajalinna's market position as a nationwide partner of insurance companies.

During the fourth quarter, Mehiläinen Yhtiöt Oy announced a cash tender offer recommended by the Board of Directors of Pihlajalinna Plc for all shares in Pihlajalinna Plc. Together, these two companies are even better positioned to provide effective healthcare and high-quality residential services and develop a digital service offering.

The merger is currently under review by the Finnish Competition and Consumer Authority. Based on currently available information, the tender offeror expects to obtain the approval of the authorities and complete the tender offer towards the end of the second quarter of 2020 or at the latest during the third quarter of 2020. Even if the merger does not take place, Pihlajalinna is in a good position thanks to its good public-sector references and operating models, well-known private clinics in the provinces and extensive insurance company partnerships.

## Revenue by region

Pihlajalinna reports its revenue based on the following geographical regions: Southern Finland, Mid-Finland, Ostrobothnia and Northern Finland.

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

## October–December 2019

EUR million	10-12/2019	%	10-12/2018	%	change
Southern Finland	31.1	21	29.5	21	1.6
Mid-Finland	82.5	55	79.3	56	3.2
Ostrobothnia	30.0	20	28.6	20	1.4
Northern Finland	3.9	3	3.2	2	0.7
Other operations	1.9	1	2.0	1	-0.1
Intra-Group sales	-15.8		-15.7		-0.1
<b>Total consolidated revenue</b>	<b>133.8</b>	<b>100</b>	<b>127.0</b>	<b>100</b>	<b>6.8</b>

Revenue for Southern Finland for the quarter amounted to EUR 31.1 (29.5) million, an increase of EUR 1.6 million, or 5.5 per cent. Revenue increased in South West Finland and the Helsinki Metropolitan Area as a result of increasing demand and expansion of the Forever fitness centre chain.

Revenue in Mid-Finland amounted to EUR 82.5 (79.3) million, an increase of EUR 3.2 million, or 4.1 per cent. The revenue increased as a result of the acquisition of Terveyspalvelu Verso in Savo, price adjustments implemented in accordance with the service agreements of social and healthcare outsourcing arrangements and sales to insurance companies.

Revenue for Ostrobothnia amounted to EUR 30.0 (28.6) million, an increase of EUR 1.4 million, or 5.0 per cent. The revenue increased mainly due to a price adjustment to the service agreement on the social and healthcare outsourcing of the Kuusikunnat municipalities.

Revenue in Northern Finland amounted to EUR 3.9 (3.2) million, an increase of EUR 0.7 million, or 22.4 per cent. In particular, increased demand for occupational health services increased the area's revenue.

## January–December 2019

EUR million	2019	%	2018	%	change
Southern Finland	118.2	20	107.6	20	10.6
Mid-Finland	324.1	56	311.9	57	12.3
Ostrobothnia	115.7	20	108.8	20	6.9
Northern Finland	14.7	3	12.3	2	2.4
Other operations	7.7	1	4.8	1	2.9
Intra-Group sales	-61.8		-57.6		-4.2
<b>Total consolidated revenue</b>	<b>518.6</b>	<b>100</b>	<b>487.8</b>	<b>100</b>	<b>30.8</b>

The full-year revenue for Southern Finland amounted to EUR 118.2 (107.6) million, an increase of EUR 10.6 million, or 9.9 per cent. Revenue increased in South West Finland and the Helsinki Metropolitan Area in particular as a result of increasing demand and expansion of the Forever fitness centre chain. Sales to

insurance companies also increased. The growth in fertility treatments in the Helsinki Metropolitan Area reached 13 per cent during the financial year.

Revenue in Mid-Finland amounted to EUR 324.1 (311.9) million, an increase of EUR 12.3 million, or 3.9 per cent. The acquisition of Terveyspalvelu Verso in Savo, price adjustment of social and healthcare outsourcing and growth in the offering of services for senior citizens in Pirkanmaa as well as increased demand for occupational health services contributed to the increase in the revenue for the area. In addition, the volumes of special needs residential services and sales to insurance companies increased. On the other hand, terminated agreements on health centre outsourcing and reception centre operations decreased the revenue.

Revenue for Ostrobothnia amounted to EUR 115.7 (108.8) million, an increase of EUR 6.9 million, or 6.3%. Revenue for the area was increased by providing residential services for the elderly and mentally disabled in Laihia and price adjustments in accordance with the social and healthcare service agreement. In addition, the expansion of the Forever fitness centre chain to Vaasa increased the volumes in the area.

Revenue in Northern Finland amounted to EUR 14.7 (12.3) million, an increase of EUR 2.4 million, or 19.5 per cent. In particular, increased demand for occupational health services increased the area's revenue.

## Revenue by customer group

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

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

## October–December 2019

EUR million	10-12/2019	%	10-12/2018	%	change
Corporate customers	32.8	22	29.6	21	3.1
<i>of which insurance company customers</i>	7.9	5	6.7	5	1.2
Private customers	24.9	17	24.5	17	0.4
Public sector	91.9	61	88.5	62	3.4
Intra-Group sales	-15.8		-15.7		-0.1
<b>Total consolidated revenue</b>	<b>133.8</b>	<b>100</b>	<b>127.0</b>	<b>100</b>	<b>6.8</b>

Revenue from corporate customers amounted to EUR 32.8 (29.6) million, an increase of EUR 3.1 million, or 10.5 per cent.

Sales to insurance company customers increased by EUR 1.2 million, or 18.1 per cent. The revenue for the quarter was increased by the nationwide Stora Enso account, which began on 1 January 2019, and the acquisition of Terveyspalvelu Verso in late 2018.

Revenue from private customers amounted to EUR 24.9 (24.5) million, an increase of EUR 0.4 million, or 1.6 per cent. The expansion of the Forever fitness centre chain increased the revenue from private customers.

Revenue from the public sector amounted to EUR 91.9 (88.5) million, an increase of EUR 3.4 million, or 3.8 per cent. The revenue increased as a result of the price adjustment of social and healthcare outsourcing pursuant to the service agreements and growth in the offering of services for senior citizens. The sales of occupational health services to public sector customers increased following the acquisition of Terveyspalvelu Verso.

January–December 2019

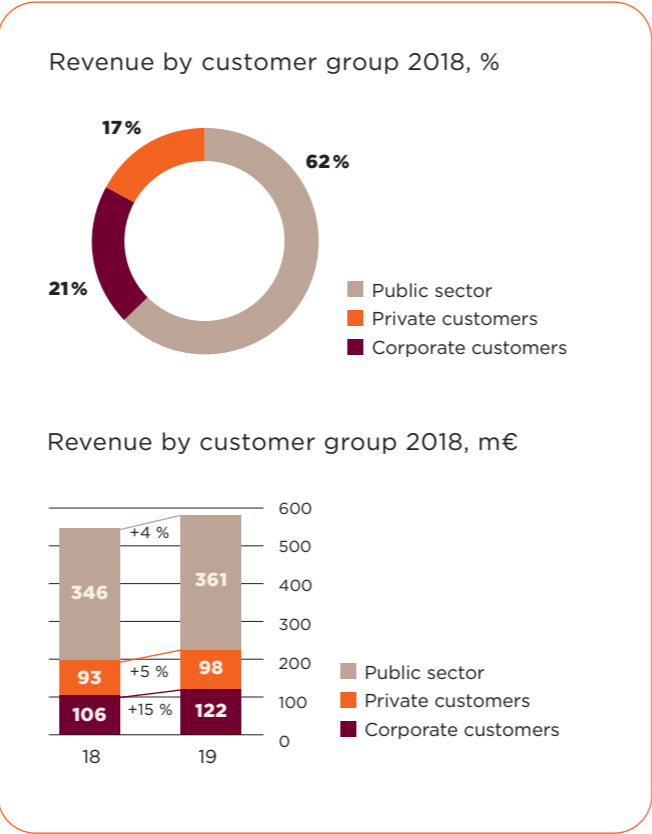
EUR million	2019	%	2018	%	change
Corporate customers	122.1	21	106.3	19	15.7
of which insurance company customers	27.6	5	25.2	5	2.4
Private customers	97.8	17	93.0	17	4.8
Public sector	360.6	62	346.0	63	14.5
Intra-Group sales	-6.8		-57.6		-4.2
<b>Total consolidated revenue</b>	<b>518.6</b>	<b>100</b>	<b>487.8</b>	<b>100</b>	<b>30.8</b>

Revenue from corporate customers amounted to EUR 122.1 (106.3) million, an increase of EUR 15.7 million, or 14.8 per cent. Sales to insurance company customers increased by EUR 2.4 million, or 9.6 per cent. The revenue for the review period was increased by the Stora Enso account, which began on 1 January 2019, the acquisition of Terveyspalvelu Verso in late 2018 and the favourable development of corporate customer accounts, particularly in the Turku region.

Revenue from private customers amounted to EUR 97.8 (93.0) million, an increase of EUR 4.8 million, or 5.1 per cent. Revenue increased mainly following the acquisition and expansion of the Forever fitness centre chain. In addition, sales of the Turku, Oulu and Seinäjoki clinics in particular to private customers developed favourably.

Revenue from the public sector amounted to EUR 360.6 (346.0) million, an increase of EUR 14.5 million, or 4.2 per cent. The revenue increased as a result of Pihlajalinna's responsible doctor services, the price adjustment of social and healthcare outsourcing pursuant to the service agreements, growth in the offering of services for senior citizens as well as the start of residential services provision in Laihia in September 2018.

Revenue by customer group 2019



Consolidated revenue and result

October–December 2019

Pihlajalinna's revenue for the quarter amounted to EUR 133.8 (127.0) million, an increase of EUR 6.8 million, or 5.4 per cent, compared to the corresponding period last year. Organic revenue growth was EUR 3.9 million, or 3.1 per cent. Growth in revenue due to M&A transactions was EUR 2.9 million, or 2.2 per cent. The most significant of the M&A transactions was the acquisition of Terveyspalvelu Verso in late 2018.

EBITDA was EUR 12.3 (14.1) million, a decrease of EUR 1.8 million, or 12.9 per cent. The volume and profitability of occupational health services and sales to insurance companies developed favourably during the fourth quarter. Profitability was affected by the costs of public specialised care were concentrated towards the end of the year. Strong investments in ensuring the quality of residential services for senior citizens following stricter requirements imposed by the authorities increased the personnel expenses. Permanent changes in the requirements of the authorities have an impact on Pihlajalinna's agreement prices.

Adjusted EBITDA was EUR 14.4 (14.6) million, a decrease of EUR 0.1 million, or 0.8 per cent. EBITDA adjustments amounted to EUR 2.1 (0.4) million. The adjustments are associated with contingent assets pursuant to IAS 37 and costs resulting from the implementation of the tender offer.

Depreciation, amortisation and impairment amounted to EUR 8.6 (8.2) million. Depreciation of intangible assets amounted to EUR 1.9 (1.9) million, of which depreciation related to purchase price allocations amounted to EUR 1.1 (1.3) million. Depreciation of

property, plant and equipment amounted to EUR 2.1 (1.8) million. For right-of-use assets, depreciation amounted to EUR 4.8 (4.4) million and impairment amounted to EUR -0.2 (0.0) million.

Pihlajalinna's EBIT was EUR 3.7 (5.9) million, a decrease of EUR 2.3 million. Adjusted EBIT amounted to EUR 5.6 (6.5) million, a decrease of EUR 0.9 million. The adjusted EBIT margin was 4.2 (5.1) per cent.

Pihlajalinna's revenue from public specialised care included in the complete outsourcing of social and healthcare services was EUR 22.3 (21.8) million. The EBITDA for public specialised care was EUR 0.6 (2.4) million with an EBIT of EUR 0.6 (2.3) million. The cost accumulation of public specialised care involves random fluctuation. In addition, individual cases falling within the scope of the hospital districts' pooling system for high-cost care, possible variable consideration and operational economy surplus refunds may influence the costs of specialised care considerably during the financial year, and between financial periods, in Pihlajalinna's municipal companies.

The group's net financial expenses amounted to EUR -1.0 (-1.0) million. Profit before taxes amounted to EUR 2.7 (4.9) million, a decrease of EUR 2.3 million. Taxes in the income statement amounted to EUR -0.6 (-1.3) million. The profit was EUR 2.1 (3.6) million. Earnings per share (EPS) was EUR 0.16 (0.11).

January–December 2019

Pihlajalinna's revenue for the financial year amounted to EUR 518.6 (487.8) million, an increase of EUR 30.8 million, or 6.3 per cent. Growth in revenue due to M&A transactions was EUR 17.4 million, or 3.6 per cent. The most significant factors contributing to the growth of revenue as a result of M&A transactions were the acquisition of Terveyspalvelu Verso in late 2018 and the acquisitions of the Forever fitness centre chain and Doctagon healthcare service company in the first quarter of 2018. Organic revenue growth was EUR 13.4 million, or 2.8 per cent.

In June 2019, the group launched an efficiency improvement programme to achieve annual cost savings of approximately EUR 17 million. The reduction in costs for the past financial year achieved through the efficiency improvement programme are estimated to be approximately EUR 5 million. A non-recurring expense and impairment totalling EUR 7.4 million was recognised in relation to the efficiency improvement programme and reported as an adjustment item affecting comparability.

EBITDA was EUR 47.8 (44.8) million, an increase of EUR 3.0 million, or 6.7%. EBITDA was affected by a non-recurring expense of EUR 4.2 million recorded due to the efficiency improvement programme, consisting of a restructuring provision of EUR 2.4 million and a provision of EUR 1.8 million concerning onerous contracts.

Adjusted EBITDA was EUR 55.1 (45.9) million, an increase of EUR 9.2 million, or 20.1%. EBITDA adjustments amounted to EUR 7.3 (1.1) million. The volume and profitability of occupational health services and sales to insurance companies developed in line with the objectives during the fourth quarter. Profitability was burdened by primary care and social care services in the complete outsourcing of social and healthcare services. Strong investments in ensuring the quality of residential services for senior citizens following stricter requirements imposed by the authorities increased the personnel expenses. Permanent changes in the

requirements of the authorities have an impact on Pihlajalinna's agreement prices. Moreover, challenges in dental care and terminated agreements on health centre outsourcing and reception centre operations burdened the profitability for the financial year.

Depreciation, amortisation and impairment amounted to EUR 37.7 (31.6) million, an increase of EUR 6.1 million. Depreciation of intangible assets amounted to EUR 7.4 (7.1) million, of which depreciation related to purchase price allocations amounted to EUR 4.6 (5.1) million. Depreciation of property, plant and equipment amounted to EUR 7.7 (7.5) million. For right-of-use assets, depreciation amounted to EUR 19.3 (17.0) million and impairment amounted to EUR 3.2 (0.0) million.

Pihlajalinna's EBIT was EUR 10.2 (13.2) million, a decrease of EUR 3.0 million. EBIT was weighed down by non-recurring expenses amounting to EUR 7.4 million recognised in relation to the efficiency improvement programme and reported as an adjustment item affecting comparability. Adjusted EBIT amounted to EUR 20.8 (14.4) million, an increase of EUR 6.4 million. The adjusted EBIT margin was 4.0 (3.0) per cent.

Pihlajalinna's revenue from public specialised care included in the complete outsourcing of social and healthcare services was EUR 88.2 (86.4) million. The EBITDA for public specialised care was EUR 3.8 (2.5) million with an EBIT of EUR 3.5 (2.2) million. The cost accumulation of public specialised care involves random fluctuation. In addition, individual cases falling within the scope of the hospital districts' pooling system for high-cost care, possible variable consideration and operational economy surplus refunds may influence the costs of specialised care considerably during the financial year, and between financial periods, in Pihlajalinna's municipal companies.

The group's net financial expenses amounted to EUR -3.9 (-3.8) million. Profit before taxes amounted to EUR 6.3 (9.5) million. Taxes in the income statement amounted to EUR -1.8 (-2.7) million. The profit was EUR 4.5 (6.8) million. Earnings per share (EPS) was EUR 0.15 (0.16).

Seasonal variation

Pihlajalinna's business operations are to a certain extent influenced by seasonal fluctuations. Pihlajalinna's complete outsourcing for social and healthcare services and other fixed-price invoicing is accompanied by a steady period of recognition of revenue as income. During the summer holidays, especially in July, staff costs related to such agreements are reduced and profitability improves mainly due to wage accruals. On the other hand, service demand by Pihlajalinna's private and corporate customers is lower and profitability is weaker during holiday seasons, especially in July, August and December. At the quarterly level, seasonal fluctuations have historically had a positive effect on profitability for the third quarter of the year.

Market and legislative review

The Finnish social and healthcare service field is currently in a waiting state. The healthcare and social welfare reform is included in the Government programme, but municipalities taking initiative, for example, indicates that not everyone has faith in the completion of the reform during this government term any more.

In October 2019, the government issued additional information about the planned healthcare and social welfare reform. The objectives of the reform will be to reduce inequalities in health and wellbeing, safeguard equal and quality health and social services for all and improve the availability and accessibility of services, especially at the basic level. Further objectives are to ensure the availability of skilled labour, respond to the challenges of changes in society and curb the growth of costs.

The structural reform of health and social services will be based on 18 counties and five collaboration areas. The counties will be responsible for organising health and social services as well as rescue services. The structural reforms are based on the desire to ensure equal availability of services throughout Finland.

The focus of the healthcare and social welfare system will be shifted towards basic-level services and prevention to reduce the need for specialised care and demanding special services. Counties will mainly organise social and healthcare services as public services, with the private and third sectors serving as supplementary service providers.

Pihlajalinna's view is that partnerships between the public sector and private corporations are a good solution for satisfying the growing demand. During the past decade, services provided by private operators have increased strongly in care services and specialised care services. In specialised care, for example, private service providers' production increased by 15.3 per cent annually in 2014–2017. This development has taken place without government guidance or decisions. There are major regional differences in access to specialised care. A private service provider can significantly increase the speed of access to care, as every Finn has the right to quality services and high service availability.

More than 50 per cent of municipal revenue is spent on social and healthcare services and two out of three Finnish municipalities reported a deficit in 2018. The population is ageing rapidly and the proportion of over 75-year-olds is set to grow by more than 50 per cent by 2030. The annual margins of Pihlajalinna's partner municipalities have developed very favourably under joint venture structures compared to their peer municipalities. According to the most recent population forecast by Statistics Finland, 15 years from now there will be no counties in Finland where the birth rate exceeds the death rate if the birth rate were to remain at the current level. This presents challenges related to the organisation of social and healthcare services.

Activity has increased among municipalities, as they do not want to just wait for a potential reform but to ensure social and healthcare services and jobs. Several municipalities have commenced talks about outsourcings. The most recently announced were the plan of the municipalities in the Päijät-Häme district to outsource their health centre operations with a joint venture model.

The private market situation remains the same and the amount of health insurance policies continues to grow. The private occupational healthcare market is expected to grow as many municipalities and other public sector entities are interested in divesting the occupational healthcare providers they currently own.

Consolidated statement of financial position and cash flow

At the end of the review period, Pihlajalinna Group's total statement of financial position amounted to EUR 438.4 (436.8) million. Consolidated cash and cash equivalents amounted to EUR 27.0 (36.3) million.

Net cash flow from operating activities in the quarter amounted to EUR 19.8 (24.2) million. Taxes paid amounted to EUR -1.1 (-1.6) million. The change in net working capital was EUR 8.6 (11.5) million.

The net cash flow from operating activities during the financial year amounted to EUR 36.8 (41.2) million. Taxes paid amounted to EUR -4.7 (-5.5) million. The change in net working capital was EUR -6.2 (1.6) million.

Net cash flow from investing activities totalled EUR -19.5 (-60.1) million for the financial year. Acquired business operations had an impact of EUR -4.9 (-40.9) million on net cash flow from investing activities. Investments in property, plant and equipment and intangible assets totalled EUR -15.4 (-19.6) million, and proceeds from the disposals of property, plant and equipment totalled EUR 0.8 (0.4) million.

The group's cash flow after investments (free cash flow) was EUR 17.4 (-18.8) million.

Net cash flow from financing activities during the financial year totalled EUR -26.7 (18.1) million. The change in financial liabilities, including changes in credit limits, amounted to EUR 7.7 (49.4) million. Payments for financial lease liabilities amounted to EUR -22.7 (-16.3) million, and interest paid and other financial expenses amounted to EUR -3.8 (-3.5) million. The net effect of the change in non-controlling interests on cash flow was EUR -1.3 (-6.4) million. In April 2019, Pihlajalinna Plc paid a total of EUR 2.3 (3.6) million in dividends. A total of EUR 4.4 (1.4) million in dividends was paid to non-controlling interests.

The Group's gearing was 181.7 (136.6) per cent. Interest-bearing net debt amounted to EUR 192.7 (178.0) million. The Group paid EUR 1.5 (4.0) million in contingent considerations (earnout payments) during the financial year.

Return on capital employed was 2.9 (4.6) per cent and return on equity was 3.8 (5.7) per cent.

Financing arrangements

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

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

The group has credit limit agreements valid until further notice, totalling EUR 10 million. The notice period of the credit

limit agreements is one month. At the end of the review period, Pihlajalinna had a total of EUR 29.5 million in unused committed credit limits.

When the voluntary recommended public cash tender offer of Mehiläinen Yhtiöt Oy materialises, the provision on change of control in Pihlajalinna's financing arrangements will apply. According to the provision, the funding providers are entitled to terminate the financing arrangement prematurely following a material change of control. After the announcement of the final result of the tender offer, Pihlajalinna and the funding providers have 30 business days to agree on the impacts of the change of control on the financing arrangement.

Acquisitions and capital expenditure

Acquired entity	Month of acquisition	Industry	Domicile
Klaari Oy (Fit1 fitness centre chain) and its subsidiaries Fit1 Fitness-club Länsi-Suomi Oy, 100% of the share capital	February 2019	Fitness centres	Espoo, Vaasa
Dalmed Oy, 100% of the share capital	April 2019	Occupational healthcare services	Kemiö
Kouvola Työterveys ry (business operations)	June 2019	Occupational healthcare services	Kouvola
Aurinkoristeys, i.e. the occupational healthcare units of the town of Raisio (business operations)	September 2019	Occupational healthcare services	Raisio, Naantali

Gross investments, including acquisitions, amounted to EUR 44.1 (160.0) million. The Group's gross investments in property, plant and equipment and intangible assets, which consisted of development investments, additional investments and replacement investments required for growth, amounted to EUR 12.6 (13.1) million during the financial year. Gross investments in connection with the opening of new units amounted to EUR 9.4 (9.3) million. Gross investments in relation to M&A transactions amounted to EUR 3.8 (79.3) million. Gross investments in right-of-use assets amounted to EUR 18.4 (58.4) million.

Pihlajalinna constructed a new assisted living facility for senior citizens in Laihia, under a subletting model, with capacity for 60 residents. The facility was commissioned at the end of October 2019. Pihlajalinna also acquired an assisted living facility from the municipality of Laihia in October. During the financial year, Pihlajalinna also renovated two smaller care homes that it acquired previously. The total value of the deal was approximately EUR 8.4 million.

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

At the end of the financial year, Pihlajalinna agreed on the procurement of three social and healthcare service buildings with Mänttä-Vilppula. The transaction will be completed by 31 December 2020. The total value of the deal is estimated at EUR 4–7 million, depending on the development plan of the buildings.

Acquisitions of non-controlling interests

At the end of the financial year, Pihlajalinna increased its holding in Kuusiolinna Terveys, a joint venture with the municipalities of Alavus, Ähtäri, Kuortane and Soini, and in Mäntänvuoren Terveys Oy, a joint venture with the city of Mänttä-Vilppula.

Following the share transactions in Kuusiolinna Terveys, Pihlajalinna holds 90% of Kuusiolinna Terveys Oy while the municipalities' holding is 10%. The shareholder and service agreements of Kuusiolinna Terveys Oy remain unchanged. Transactions were made with the municipalities of Alavus, Ähtäri and Soini, to which Pihlajalinna paid a total of EUR 16.3 million for the shares.

Following the share transactions in Kuusiolinna Terveys, Pihlajalinna holds 91% of Kuusiolinna Terveys Oy while the holding of the City of Mänttä-Vilppula is 9%. The shareholder and service agreements of Mäntänvuoren Terveys Oy remain unchanged. Pihlajalinna paid EUR 2 million to the City of Mänttä-Vilppula for the shares.

In February 2019, the City of Parkano sold 15 per cent of its shareholdings in Kolmostien Terveys to Pihlajalinna. Pihlajalinna paid EUR 1.2 million to the City of Parkano for the shares.

Company	Pihlajalinna's holding, 31 December 2018	Pihlajalinna's holding, 31 December 2019	First year of service production under the current contract	Duration of contract (years)
Jokilaakson Terveys Oy	90 %	90 %	internal service provision	internal service provision
Jämsän Terveys Oy	51 %	51 %	2015	10
Kuusiolinna Terveys Oy	51 %	90 %	2016	15
Mäntänvuoren Terveys Oy	81 %	91 %	2016	15
Kolmostien Terveys Oy	81 %	96 %	2015	15
Laihian Hyvinvointi Oy	81 %	81 %	2018	service voucher

Changes in Group structure

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

Merged company	Target company	Month of acquisition
Pihlajalinna Tampere Oy	Pihlajalinna Lääkärikeskukset Oy	1 January 2019
Doctagon Ab	Pihlajalinna Terveys Oy	1 January 2019
Anula Oy	Linnan Klinikka Oy	1 January 2019
Hammaslääkäripalvelu Savodent Oy, HammasPirta Oy, Paimion Hammaslääkäripalvelu Oy and Salon Hammas-lääkärikeskus Oy	Tampereen Hammaspiste Oy (currently Pihlajalinna Hammasklinikat Oy)	1 January 2019
Hammaslääkärikeskus Mandibula Oy	Mandibula Raisio Oy	28 February 2019
Mandibula Raisio Oy	Pihlajalinna Hammasklinikat Oy	1 March 2019
Pihlajalinna Kymijoki Oy	Pihlajalinna Lääkärikeskukset Oy	3 June 2019
Ala-Malmin Hammaslääkärit Oy, Salon Lääkintälaboratorio Oy and Someron Lääkäriasema Oy	Pihlajalinna Lääkärikeskukset Oy	1 September 2019
Pihlajalinna Oulu Oy	Pihlajalinna Madetojanpuisto Oy (currently Pihlajalinna Oulu Oy)	1 September 2019
Etelä-Pohjanmaan Sydäntutkimuspalvelu Oy	Kompassi Lääkärikeskus Oy	1 September 2019
Pihlajalinna Parainen Oy	Pihlajalinna Turku Oy	3 September 2019
Fit1 Fitnessclub LänsiSuomi Oy	Klaari Oy	30 November 2019
Dalmed Oy	Pihlajalinna Turku Oy	31 December 2019

Research and development

Development costs that fulfilled the criteria for capitalisation amounted to EUR 0.5 (1.3) million during the financial year.

In the financial year 2019, development operations focused on a remote service model for municipal residents for use in social and healthcare outsourcing and mobile solutions, operating model for fixed-price occupational healthcare agreements (occupational healthcare portal) and sports clinic and social and healthcare centre concepts.

Personnel

At the end of the financial year, the number of personnel was 5,815 (5,850), a decrease of 35 persons or one per cent. The Group's personnel averaged 4,515 (4,618) persons as full-time equivalents, a decrease of 103 persons or 2 per cent. The Group's employee benefit expenses totaled EUR 222.0 (208.4) million, an increase of EUR 13.6 million or 6 per cent.

The number of Pihlajalinna personnel increased by approximately 150 due to the expansion of operations during the financial year. On 15 August 2019, Pihlajalinna announced that the co-operation negotiations that commenced in June had been completed. The negotiations resulted in the termination of some 180 positions, mainly through dismissals. Some of these redundancies took the form of retirement and other staffing reductions not offset through reorganising operations.

Management Team

At its meeting on 14 August 2019, Pihlajalinna Plc's Board of Directors appointed a new Management Team as part of the company's efficiency improvement programme. CEO Joni Aaltonen serves as the Chairman of the Management Team. The Management Team also includes COO Teija Kulmala, CFO Tarja Rantala, General Counsel Marko Savolainen, Head of Human Resources Elina Heliö and Head of Service Development and CIO Sanna Määttänen.

The management team positions of the following persons were discontinued on 15 August 2019: Minna Elomaa (Head of

Business Operations, Southern Finland), Tero Järvinen (Head of Business Operations, Ostrobothnia), Ville Lehtonen (CFO), Stefan Wentjärvi (Head of Sales, Head of Business Operations,

Northern Finland) and Pauli Waroma (Head of Marketing and Communications).

Board of Directors

The Annual General Meeting on 4 April 2019 confirmed the number of the members of the Board of Directors as seven. Leena Niemistö, Kati Sulin, Seija Turunen and Mikko Wirén were re-elected and Matti Jaakola, Hannu Juvonen and Mika Manninen were elected as new members of the Board of Directors for a term of office ending at the conclusion of the next Annual General Meeting.

The Annual General Meeting elected Mikko Wirén as the Chairman of the Board and Leena Niemistö as the Vice-Chairman.

Shareholders' Nomination Board

The Shareholders' Nomination Board is comprised of the following representatives:

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

Committees nominated by the Board

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

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

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

Remuneration of the members of the Board of Directors

The Annual General Meeting held on 4 April 2019 decided that the remuneration of the Board of Directors be kept unchanged, except for a reduction in the remuneration of the Vice-Chairman, and that the following annual remuneration be paid to the members of the Board of Directors to be elected at the General Meeting for the term of office ending at the close of the Annual General Meeting 2020: to the full-time Chairman of the Board of Directors EUR 250,000 per year, to the Vice-Chairman EUR 36,000 per year, and to the other members of the Board of Directors EUR 24,000 per year.

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

Board authorisations

The Annual General Meeting on 4 April 2019 authorised the Board of Directors to decide on the acquisition of a maximum of 2,061,314 shares, which is approximately 9 per cent of the group's current share volume. Under this authorisation, the acquisition of the group's own shares is only permitted using unrestricted equity. Targeted share acquisition is possible. The authorisation is effective until the next Annual General Meeting, or until 30 June 2020 at the latest.

The Annual General Meeting also authorised the Board of Directors to decide on a share issue and other special rights conferring an entitlement to shares under Chapter 10, Section 1 of the Limited Liability Companies Act. The amount of shares to be issued cannot exceed 3,091,971 shares, which corresponds to approximately 14 per cent of all the shares in the group. The authorisation concerns both the issuance of new shares and the sale or transfer of the group's own shares. The authorisation permits a targeted share issue. The authorisation is effective until the next Annual General Meeting, or until 30 June 2020 at the latest.

Auditors and auditing

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

Shares and shareholders

At the end of the financial period, Pihlajalinna Plc's share capital entered in the Trade Register amounted to EUR 80,000 and the total number of shares outstanding was 22,620,135. The company has one share series, with each share entitling its holder to one vote at the Annual General Meeting. All shares bestow their holders with equal rights to dividends and other distribution of the company's assets. At the end of the financial year, the company had 11,752 (13,372) shareholders. The company does not hold any treasury shares. A list of the largest shareholders is available on the company's investor website at investors.pihlajalinna.fi.

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

Share-related information	10-12/2019	10-12/2018	2019	2018
No. of shares outstanding at the end of the period	22,620,135	22,620,135	22,620,135	22,620,135
Average no. of shares outstanding during the period	22,620,135	22,620,135	22,620,135	22,224,236
Highest price, EUR	15.88	11.06	15.88	15.28
Lowest price, EUR	10.40	8.56	8.70	8.56
Average price, EUR*	14.68	9.56	12.77	12.18
Closing price, EUR	15.28	8.62	15.28	8.62
Share turnover, 1,000 shares	2,127	830	4,062	6,182
Share turnover, %	9.4	3.7	18.0	27.8
Market capitalisation at the end of the period, EUR million	345.6	195.0	345.6	195.0

\* average share price weighted by trading volume

Mehiläinen's cash tender offer for all shares in Pihlajalinna Plc

On 5 November 2019, Mehiläinen Yhtiöt Oy and Pihlajalinna Plc entered into a combination agreement, pursuant to which Mehiläinen made a voluntary recommended public cash tender offer for all issued and outstanding shares in Pihlajalinna.

In the tender offer, Pihlajalinna's shareholders are offered a cash consideration of EUR 16.00 for each issued and outstanding share in Pihlajalinna. The consideration includes a premium of approximately 46.0 per cent compared to the closing price of the Pihlajalinna share on the official list of Nasdaq Helsinki on 4 November 2019. The non-conflicted members of the Board of Directors of Pihlajalinna unanimously decided to recommend that the shareholders of Pihlajalinna accept the tender offer.

The Finnish Financial Supervisory Authority approved the tender offer document on 8 January 2020. The offer period commenced on 9 January 2020 at 9:30 a.m. (Finnish time) and it will expire on 19 March 2020 at 4:00 p.m. (Finnish time) at the earliest, unless extended or discontinued in accordance with, and subject to, the terms and conditions of the tender offer and applicable laws and regulations. Currently, the tender offer is expected to be completed towards the end of the second quarter of 2020 or at the latest during the third quarter of 2020. Any extension of the offer period will be announced by way of a stock exchange release as soon as practically possible.

Risk management

In its risk management, Pihlajalinna's aim is to operate as systematically as possible and incorporate risk management in normal business processes. Furthermore, the group invests in quality management systems and the management of occupational safety and health risks. Pihlajalinna's Risk Management Policy defines and categorises the group's risks and

describes the goals of risk management. In addition, it defines risk management principles, operating methods and responsibilities.

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

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

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

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

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

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

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

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

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

**Risks and uncertainties in business operations**

The most essential risks and uncertainties affecting the group's operations are connected to the complete outsourcing agreements on social and healthcare service, material amendments to legislation, opening new locations, success in 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, which began in spring 2017, was completed with regard to income taxation (the Act on the Taxation of Business Profits and Income from Professional Activity) and value added taxes (Value Added Tax Act) without notable sanctions. For withholding taxes (Tax Prepayment Act), the audit reports are still pending approval by the Tax Office for Major Corporations. No material consequences are expected.

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, and the agreements may involve

variable consideration. The cost accumulation of public specialised care involves random fluctuation. In addition, individual cases falling within the scope of the hospital districts' pooling system for high-cost care and operational economy surplus refunds may influence the costs of specialised care considerably during the financial year, and between financial periods, in Pihlajalinna's municipal companies.

**Possible items that may, according to the management's estimate, influence the profitability of complete outsourcing agreements with a delay:**

The City of Jämsä has taken legal action against Jämsän Terveys Oy over the service agreement. The dispute concerns the provision on price adjustments pursuant to the service agreement. The difference of opinion regarding the determination of the annual price totalled approximately EUR 1.8 million at the time of the financial statements. Moreover, the balance sheet of Jämsän Terveys Oy includes other receivables amounting to a total of EUR 3.1 million from the City of Jämsä, associated with the increased costs of specialised care and increased regulatory requirements for services for senior citizens. According to the management's estimate, the customer will pay the receivables in full.

Kuusiolinna Terveys Oy has trade and other receivables totalling EUR 4.5 million from a client. The protocol on interpretation signed with the municipalities of Alavus, Ähtäri and Soini in conjunction with the share transactions also agreed on the charging principles of the variable consideration. The outstanding receivables are associated with increased regulatory requirements for services for senior citizens, costs of specialised care and the calculation of net expenditure. A share transaction has not yet been completed with Kuortane, and no corresponding protocol on interpretation has been signed. According to the management's estimate, the client will pay the receivables in full, as the majority of the client's shareholders have agreed on the charging principles.

Mäntänvuoren Terveys Oy has trade and other receivables totalling EUR 1.2 million from a client. The receivables are associated with increased regulatory requirements for services for senior citizens and the calculation of net expenditure pursuant to the previous agreement. A social and healthcare service property transaction that will be completed in 2020 has been agreed upon with the client. According to the management's estimate, the customer will pay the receivables in full in conjunction with the completion of the property transaction.

Kolmostien Terveys Oy has trade and other receivables of EUR 0.4 million from a client relating to the increased regulatory requirements for services for senior citizens. According to the management's estimate, the customer will pay the receivables in full.

On the date of the financial statements, the Group's receivables include a total of EUR 1.6 million (EUR 2.8 million at the end of 2018) in service provider refunds for public sector specialised care cost accruals, estimated on a municipality-specific basis. According to the group management's view, under the service agreements, the refunds of cost accruals are payable to Pihlajalinna because they were accumulated during Pihlajalinna's service provision and liability for costs. In addition, the group has a total of EUR 0.2 million of overdue receivables from Kihniö and Juupajoki.

**Goodwill impairment:**

At the end of the financial year, goodwill on Pihlajalinna's statement of financial position amounted to EUR 173.6 (169.9) million. Pihlajalinna checks annually and, if necessary, quarterly, that the carrying amount of goodwill does not exceed the fair value. During the financial year, Pihlajalinna observed no indications of the carrying amount of goodwill being greater than its estimated recoverable amount. If negative changes were to occur in the development of Pihlajalinna's profit and growth, this could lead to an impairment of goodwill. This could have an unfavourable impact on Pihlajalinna's operating result and equity.

**Segment reporting**

Pihlajalinna reformed its management system and the structure of its Management Team as part of its efficiency improvement programme. In conjunction with the reform, some of the Management Team positions were discontinued. In addition, the company also established an operations management team as a new management team level directed by the COO Teija Kulmala. The changes took effect on 15 August 2019.

Pihlajalinna's previous operating structure had four geographical business areas: Mid-Finland, Southern Finland, Ostrobothnia and Northern Finland. Each business area was managed by a Head of Business Operations responsible for its performance, who is in charge of their area's business operations and service offering for both the private and the public sector. In the revised operating structure, COO Teija Kulmala is in charge of the profitability and resources of business operations and the Group has one operating segment.

**Flagging notifications**

During the financial year, Pihlajalinna did not receive any flagging notifications under Chapter 9, section 5 of the Securities Markets Act:

**Current incentive schemes**

At its meeting on 14 February 2019, the Board of Directors approved the terms of a share-based long-term incentive programme for Pihlajalinna Group's senior management (LTI 2019). The incentive programme is effective from 1 January 2019 onwards and it is aimed at the CEO, the Management Team and other key employees selected for inclusion in the programme. In the initial stage, 25 key employees were selected for the programme. LTI 2019 includes an overall five-year plan period and none of the share rewards received by the key employees thereunder may be sold or transferred prior to the year 2022. The key employee shall, in addition, make an investment in Pihlajalinna shares as a precondition for participation in the programme. At the end of the investment period, i.e. 2019, 23 key employees fulfilled the minimum investment requirement of the scheme.

The fixed matching share plan includes a commitment period from the beginning of 2019 until the payment of the fixed matching share incentive in 2020. In this scheme, the company matches each participant's share investments with additional shares at a fixed rate. The additional shares will be delivered in 2020, and they are subject to a transfer restriction.

The performance- and quality-based matching share plan includes three one-year performance periods (the calendar years 2019–2021), during which the participants can earn

performance-based additional shares, provided that the company reaches the performance objectives set by the Board of Directors. Based on each individual performance period, the participant can earn a maximum of two additional shares for three shares invested without consideration (gross before the deduction of the applicable payroll tax). The performance-based share rewards will be delivered after the respective performance periods in springs 2020, 2021 and 2022. These matching shares will be subject to a two-year transfer restriction.

The performance criteria applied to the performance- and quality-based matching share plan for the first performance period 2019 were the adjusted EBIT of Pihlajalinna Group and key operative and qualitative indicators. No performance- and quality-based share rewards materialised for the performance period 2019 pursuant to the matching share plan, as the minimum objectives set for the programme were not achieved.

The LTI 2019 plan includes terms and conditions relating to change in control. According to them, the cash tender offer announced by Mehiläinen for all of the shares in Pihlajalinna on 5 November 2019 will result in the payment of the fixed matching share plan in full if the transaction is completed. The transfer restriction of the shares expires immediately when the outcome of the tender offer is announced in the execution of the tender offer.

The terms and conditions of the incentive scheme include special provisions for any change of control. Based on Mehiläinen's public tender offer, the above-mentioned provisions on change of control apply.

According to the fixed matching share plan, a total of 108,000 matching shares fall due to the 23 key employees who met the investment requirement if the change in control takes place. The fair value of the matching shares is EUR 1.7 million in accordance with the cash tender offer. An expense of EUR 0.3 million has been allocated to the financial year 2019 due to the share-based reward paid due to the change in control.

**The Board of Directors' proposal for profit distribution**

The Board of Directors proposes that no dividend be paid for the financial year that ended on 31 December 2019 due to the tender offer made by Mehiläinen. Should the tender offer lapse, the Board of Directors will re-evaluate the matter.

**Calculation of the parent company's distributable funds:**

EUR	31 December 2019
Reserve for invested unrestricted equity	183,190,483.50
Retained earnings	21,915,498.62
Profit for the period	2,328,952.90
Capitalised development costs	-1,017,078.36
<b>Total</b>	<b>206,417,856.66</b>

Pihlajalinna Plc's Annual General Meeting is scheduled for Wednesday, 15 April 2020 in Tampere, Finland. The Board of Directors will decide on the notice of the General Meeting and the included proposals at a later date.

The annual report for 2019, including the Board of Directors' report and the financial statements, was published on the company's investor website at investors.pihlajalinna.fi in week 12.

Pihlajalinna's outlook for 2020

Pihlajalinna's consolidated revenue for 2020 is expected to increase from the 2019 level. Adjusted EBIT is expected to increase compared to 2019.

On 5 November 2019, Mehiläinen Yhtiöt Oy and Pihlajalinna Plc entered into a combination agreement, pursuant to which Mehiläinen made a voluntary recommended public cash tender offer for all issued and outstanding shares in Pihlajalinna. The offer period commenced on 9 January 2020. In the tender offer, Pihlajalinna's shareholders are offered a cash consideration of EUR 16.00 for each outstanding share in Pihlajalinna. Currently, the tender offer is expected to be completed towards the end of the second quarter of 2020 or at the latest during the third quarter of 2020.

Corporate Governance Statement

Pihlajalinna published its Corporate Governance Statement separately on the company's investor website at investors.pihlajalinna.fi at the same time as the Board of Directors' report during week 12. Up-to-date information about compliance with and deviations from the Corporate Governance Code is maintained on the investor site at investors.pihlajalinna.fi.

Statement of non-financial information

Pihlajalinna published its statement of non-financial information separately on the company's investor website at investors.pihlajalinna.fi at the same time as the Board of Directors' report during week 12.

Events after the balance sheet date

**Mehiläinen Yhtiöt Oy launched a cash tender offer recommended by the Board of Directors of Pihlajalinna Plc for all shares in Pihlajalinna Plc on 9 January 2020**

On 5 November 2019, Mehiläinen Yhtiöt Oy and Pihlajalinna Plc announced that they had entered into a combination agreement pursuant to which Mehiläinen made a voluntary recommended public cash tender offer for all issued and outstanding shares in Pihlajalinna.

The Finnish Financial Supervisory Authority approved the tender offer document on 8 January 2020. The acceptance period for the tender offer, or the offer period, commenced on 9 January 2020 at 9:30 a.m. (Finnish time) and it will expire on 19 March 2020 at 4:00 p.m. (Finnish time) at the earliest, unless extended or discontinued in accordance with, and subject to, the terms and conditions of the tender offer and applicable laws and regulations. Currently, the tender offer is expected to be completed towards the end of the second quarter of 2020 or at the latest during the third quarter of 2020. The offeror will extend the offer period in accordance with, and subject to, the terms and conditions of the tender offer and applicable laws in order to satisfy the closing conditions, including obtaining merger control clearance. Any extension of the offer period will be announced by way of a stock exchange release as soon as practically possible.

The tender offer document has been available in Finnish as of 9 January 2020 at the head office of Mehiläinen, address Pohjoinen Hesperiankatu 17 C, 6th floor, 00260 Helsinki, Finland, Nordea Bank Plc's head office, address Satamaradankatu 5, 00020 Nordea, Finland, and at Nasdaq Helsinki, address Fabianinkatu 14, 00130 Helsinki, Finland. An electronic version of the tender offer document has been available in Finnish as of 9 January 2020 on

the internet at [ostotarjous.mehilainen.fi](http://ostotarjous.mehilainen.fi), [investors.pihlajalinna.fi/public-tender-offer](http://investors.pihlajalinna.fi/public-tender-offer) and at [nordea.fi/osakkeet](http://nordea.fi/osakkeet), and in English as of 9 January 2020 at [ostotarjous.mehilainen.fi](http://ostotarjous.mehilainen.fi), [investors.pihlajalinna.fi/public-tender-offer.aspx?sc\\_lang=en](http://investors.pihlajalinna.fi/public-tender-offer.aspx?sc_lang=en) and [nordea.fi/equities](http://nordea.fi/equities).

**Statement of the Board of Directors of Pihlajalinna Plc on the voluntary public cash tender offer of Mehiläinen Yhtiöt Oy**

The Board of Directors of Pihlajalinna issued a statement on the tender offer as required by chapter 11, section 13 of the Finnish Securities Markets Act (746/2012, as amended) on 3 January 2020.

Tender offer in brief

- The cash consideration offered is EUR 16.00 for each share in Pihlajalinna. The consideration includes a premium of approximately
- 46 per cent compared to the closing price of the Pihlajalinna share on the official list of Nasdaq Helsinki Ltd (hereinafter referred to as "Nasdaq Helsinki") on 4 November 2019, being the last trading day before the announcement of the Tender Offer;
  - 50.1 per cent compared to the volume-weighted average trading price of the Pihlajalinna share on the official list of Nasdaq Helsinki during the 3 months immediately preceding the announcement of the Tender Offer; and
  - 52.7 per cent compared to the volume-weighted average trading price of the Pihlajalinna share on Nasdaq Helsinki during the 12 months immediately preceding the announcement of the Tender Offer.

The consideration offered is subject to the terms and conditions of the tender offer. According to the terms and conditions of the tender offer, should the number of issued and outstanding shares in Pihlajalinna change as a result of a share issue, reclassification, stock split or any other similar transaction with dilutive effect, or should Pihlajalinna distribute a dividend or otherwise distribute funds or any other assets to its shareholders, or should a record date with respect to any of the foregoing occur prior to the completion of the tender offer, the offered consideration will be reduced accordingly on a euro-for-euro basis.

It is the intention of Mehiläinen, subject to Mehiläinen acquiring more than ninety per cent (90%) of the issued and outstanding shares and voting rights in Pihlajalinna, to initiate mandatory redemption proceedings in accordance with the Finnish Limited Liability Companies Act (624/2006, as amended) to acquire the remaining shares in Pihlajalinna, and thereafter to cause Pihlajalinna's shares to be delisted from Nasdaq Helsinki as soon as reasonably practicable.

As required under applicable laws, Mehiläinen has, and will have at the completion of the tender offer, access to debt and equity funding in sufficient amounts to finance the payment of the aggregate offer price for all of the issued and outstanding shares in Pihlajalinna in connection with the Tender Offer (including in any mandatory redemption proceedings in accordance with the Limited Liability Companies Act). The debt financing is subject to customary certain funds financing conditions.

LocalTapiola General Mutual Insurance Company, MWW Yhtiö Oy, Fennia Mutual Insurance Company, LocalTapiola Mutual Life Insurance Company, Elo Mutual Pension Insurance Company, Leena Niemistö, funds advised by Fondita Fund Management Company Ltd., Ilmarinen Mutual Pension Insurance Company,

Fennia Life Insurance Company Ltd. as well as certain other major shareholders of Pihlajalinna, have irrevocably undertaken to accept the Tender Offer, subject to certain customary conditions. Such undertakings concern approximately 63.2 per cent of the shares and votes in Pihlajalinna in the aggregate.

The completion of the Tender Offer is conditional on the fulfillment or waiver of certain conditions on or by the date on which offeror announces the final result of the tender offer. These conditions include the receipt of all necessary regulatory approvals and that the tender offer has been approved with regard to shares representing, together with any other shares otherwise acquired by the Offeror prior to or during the offer period, more than ninety per cent of the issued and outstanding shares and voting rights in Pihlajalinna.

Statement of the board of directors

The Board of Directors believes that the offer price offered to the shareholders of Pihlajalinna is fair based on an assessment of the issues and factors that the Board of Directors has concluded to be material in evaluating the tender offer. The Board of Directors of Pihlajalinna recommends that the shareholders of Pihlajalinna accept the tender offer.

The Board of Directors further notes that according to offeror's notice, the offer period of the tender offer is intended to be extended so that the offeror expects that the tender offer would be completed towards the end of second quarter of 2020 or at the latest during the third quarter of 2020. The offer period may therefore be somewhat long. Pursuant to the Securities Market Act, the offer period may for special reasons be more than ten (10) weeks, provided that the business operations of the target company are not hindered for longer than reasonable. A notice of closing of the offer period shall be disclosed at least two (2) weeks prior to the closure of the offer period.

The Board of Directors notes that shareholders of Pihlajalinna should also consider the risks related to not accepting the Tender Offer. In case the condition of completion regarding reaching at least 90% of shares and votes would be waived, the completion of the tender offer would reduce the number of shareholders in Pihlajalinna and the number of shares that would otherwise be publicly traded. Depending on the number of shares validly tendered in the tender offer, this could have an adverse effect on the liquidity and value of the shares.

**The European Commission has referred the handling of the combination between Mehiläinen Yhtiöt Oy and Pihlajalinna Plc to the Finnish Competition and Consumer Authority**

The European Commission decided on 28 January 2020 to refer the handling of the authority approval of Mehiläinen's tender offer to the Finnish Competition and Consumer Authority (hereinafter referred to as the "FCCA").

**Mehiläinen Yhtiöt Oy submitted a formal merger control notification regarding the public tender offer by Mehiläinen Yhtiöt Oy for the shares in Pihlajalinna Plc on 10 February 2020**

Mehiläinen Yhtiöt Oy submitted a formal merger control notification regarding the public tender offer by Mehiläinen Yhtiöt Oy for the shares in Pihlajalinna Plc on 10 February 2020.

According to the Finnish Competition Act, the the first phase of the notification proceedings may not take more than 23 working days. The Phase I Investigation will thus be completed no

later than on 12 March 2020. According to information currently available, it is more likely than not that the FCCA will, after the Phase I Investigation, initiate continued phase II proceedings before the authority approval is obtained. According to the Competition Act, the Phase II Investigation may not take more than 69 working days, unless the Finnish Market Court grants, upon application, an extension to the FCCA for investigating the case.

If the FCCA initiates the Phase II Investigation, the offeror will extend the offer period in accordance with, and subject to, the terms and conditions of the tender offer and applicable laws, in order to satisfy the conditions to completion of the tender offer, including obtaining the authority approval, provided that the business operations of Pihlajalinna are not hindered for longer than is reasonable, as referred to in Chapter 11, section 12, subsection 2 of the Finnish Securities Market Act. The offeror will decide on a possible extension of the offer period once the Phase I Investigation has progressed to a stage where the offeror is better placed to estimate the overall duration of the handling of the authority approval. Any extension of the offer period will be announced by way of a stock exchange release as soon as practically possible.

**Pihlajalinna Plc's Shareholders' Nomination Board submitted its proposals to the company's Board of Directors, to be presented to the Annual General Meeting of 2020**

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

The Nomination Board proposes to the Annual General Meeting of Pihlajalinna Plc, scheduled to be held on 15 April 2020, that the number of the members of the Board be confirmed to be seven. The Nomination Board proposes that all of the current members of the Board of Directors, Matti Jaakola, Hannu Juvonen, Mika Manninen, Leena Niemistö, Kati Sulin, Seija Turunen and Mikko Wirén, be re-elected as members of the Board of Directors for a new term of office.

The personal details of the current members of the Board and the details of their positions of trust are available at [investors.pihlajalinna.fi/corporate-governance/board-of-directors](http://investors.pihlajalinna.fi/corporate-governance/board-of-directors).

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

**Remuneration of the Board of Directors:**

The Shareholders' Nomination Board proposes that the remuneration of the Board of Directors be kept unchanged, and that the following annual remuneration be paid to the members of the Board of Directors to be elected at the Annual General Meeting for the term of office ending at the close of the Annual General Meeting 2021: to the full-time Chairman of the Board of Directors EUR 250,000 per year; to the Vice-Chairman EUR 36,000 per year, and to members EUR 24,000 per year.

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

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

## Key financial figures

Scope of operations	2019	2018	2017	2016	2015
			without IFRS 16	without IFRS 16	without IFRS 16
Revenue, EUR million	518.6	487.8	424.0	399.1	213.3
Change, %	6.3	15.0	6.2	87.1	43.3
Organic revenue growth, EUR million	13.4	-2.0	10.1	134.5	44.3
Change, %	2.8	-0.5	2.5	63.0	29.7
Gross investments, EUR million*	44.1	160.0	30.4	27.3	44.6
% of revenue	8.5	32.8	7.2	6.9	20.9
Capitalised development costs, EUR million*	0.5	1.3	1.2		1.3
% of revenue	0.1	0.3	0.3		0.6
Employee benefit expenses, EUR million	222.0	208.4	175.4	167.2	97.4
Personnel at the end of the period (NOE)	5,815	5,850	4,753	4,407	3,047
Average number of personnel (FTE)	4,515	4,618	3,879	3,526	2,503

Profitability	2019	2018	2017	2016	2015
EBITDA, EUR million*	47.8	44.8	33.3	27.9	11.6
EBITDA, %*	9.2	9.2	7.9	7.0	5.4
Adjusted EBITDA, EUR million*	55.1	45.9	34.1	28.9	12.5
Adjusted EBITDA, %*	10.6	9.4	8.0	7.2	5.9
Operating profit (EBIT), EUR million*	10.2	13.2	19.1	15.1	3.6
Operating profit, %*	2.0	2.7	4.5	3.8	1.7
Adjusted operating profit (EBIT), EUR million*	20.8	14.4	20.0	16.6	4.5
Adjusted operating profit, %*	4.0	3.0	4.7	4.2	2.1
Net financial expenses, EUR million	-3.9	-3.8	-1.7	-1.4	-2.3
% of revenue	-0.8	-0.8	-0.4	-0.4	-1.1
Profit before tax, EUR million*	6.3	9.5	17.4	13.7	1.3
% of revenue	1.2	1.9	4.1	3.4	0.6
Income tax, EUR million	-1.8	-2.7	-3.4	-3.0	-0.1
Profit for the period	4.5	6.8	14.1	10.8	1.2
Cash flow after investments, EUR million	17.4	-18.8	16.4	6.8	-14.4
Return on equity (ROE), %*	3.8	5.7	13.6	11.1	2.3
Return on capital employed (ROCE), %*	2.9	4.6	11.8	10.8	3.4

Funding and financial position	2019	2018	2017	2016	2015
Interest-bearing net financial debt, EUR million	192.7	178.0	34.2	22.1	23.5
% of revenue	37.2	36.5	8.1	5.5	11.0
Equity ratio, %*	24.3	29.9	41.8	46.5	50.5
Gearing, %*	181.7	136.6	32.3	21.9	25.2
Net debt/adjusted EBITDA*	3.5	3.9	1.0	0.8	1.9

## Share related information

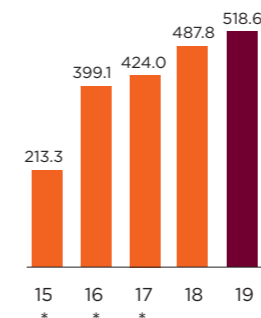
	2019	2018	2017	2016	2015
Earnings per share (EPS)	0.15	0.16	0.46	0.39	0.03
Equity per share, EUR*	4.47	5.36	4.87	4.74	4.47
Dividend per share, EUR		0.10	0.16	0.15	
Dividend per share, %		64.0	34.7	38.4	
Effective dividend yield, %		1.2	1.2	0.8	
Number of shares at year-end	22,620,135	22,620,135	20,613,146	20,613,146	20,613,146
Average number of shares	22,620,135	22,224,236	20,613,146	20,613,146	16,767,940
Market capitalisation, EUR million	345.6	195.0	274.0	379.7	364.9
Dividends paid, EUR million		2.3	3.3	3.1	
P/E ratio*	83.9	55.1	28.9	47.2	640.0
Highest quotation, EUR	15.88	15.28	18.42	18.87	19.85
Lowest quotation, EUR	8.70	8.56	12.60	12.90	11.38
Average quotation, EUR	12.77	12.18	16.30	16.38	12.72
Closing price at year-end, EUR	15.28	8.62	13.34	18.42	17.70
Trading volume of shares, 1,000 shares*	4,062	6,182	5,189	8,196	7,680
Trading volume of shares, %*	18.0	27.8	25.2	39.8	45.8

\* Alternative performance measure

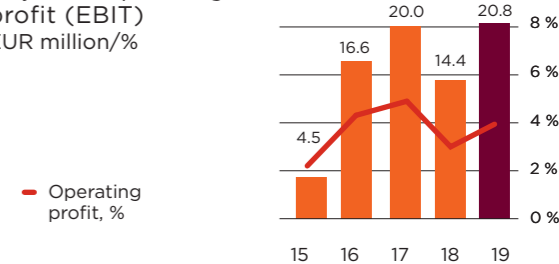
## Quarterly information

1 000 €	Q4/19	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18
Income statement								
<b>Revenue</b>	<b>133,761</b>	<b>122,660</b>	<b>129,710</b>	<b>132,465</b>	<b>126,962</b>	<b>116,290</b>	<b>125,340</b>	<b>119,172</b>
Other operating income	710	186	381	352	1,860	401	588	1,304
Materials and services	-53,942	-45,928	-49,684	-50,658	-48,067	-42,847	-49,674	-48,587
Employee benefit expenses	-54,970	-52,443	-57,592	-56,962	-53,334	-48,743	-54,351	-51,981
Other operating expenses	-13,253	-11,547	-12,370	-13,034	-13,291	-10,834	-12,790	-12,591
EBITDA	12,307	12,928	10,446	12,163	14,130	14,266	9,112	7,318
Adjusted EBITDA	14,444	17,367	10,753	12,563	14,565	14,248	10,178	6,918
Adjusted EBITDA, %	10.8	14.2	8.3	9.5	11.5	12.3	8.1	5.8
Depreciation, amortisation and impairment	-8,640	-11,546	-8,844	-8,622	-8,195	-8,218	-8,148	-7,025
Operating profit (EBIT)	3,667	1,382	1,601	3,541	5,935	6,048	964	292
Adjusted operating profit (EBIT)	5,557	9,257	2,057	3,941	6,489	6,030	2,030	-107
Adjusted operating profit (EBIT), %	4.2	7.5	1.6	3.0	5.1	5.2	1.6	-0.1
Financial income	30	42	27	22	46	20	34	22
Financial expenses	-1,007	-1,017	-995	-1,028	-1,039	-1,014	-894	-942
Profit before taxes	2,690	407	633	2,535	4,942	5,053	104	-628
Income taxes	-561	-302	-269	-652	-1,306	-1,153	-234	-26
<b>Profit for the period</b>	<b>2,129</b>	<b>104</b>	<b>364</b>	<b>1,884</b>	<b>3,636</b>	<b>3,901</b>	<b>-129</b>	<b>-653</b>
Share of the result for the financial year attributable to owners of the parent company	3,703	-1,284	-490	1,436	2,535	2,234	-11	-1,283
Share of the result for the financial year attributable to non-controlling interests	-1,574	1,389	853	448	1,101	1,667	-118	629
EPS	0.16	-0.06	-0.02	0.06	0.11	0.10	0.00	-0.06
Personnel at the end of the period (NOE)	5,815	5,936	6,100	5,871	5,850	5,867	5,918	5,638
Change in personnel during the quarter	-121	-164	230	21	-17	-51	280	885

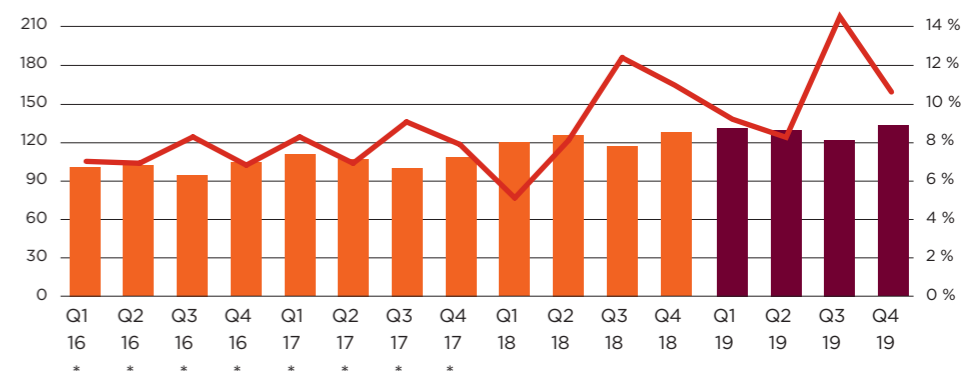
Revenue  
EUR million



Adjusted operating  
profit (EBIT)  
EUR million/%



Renevue  
EUR million



\* Without IFRS 16

Calculation of key financial figures and alternative performance measures

Key figures		
Earnings per share (EPS)	Profit for the financial period attributable to owners of the parent company	
	Average number of shares during the financial year	
Alternative performance measures		
Equity per share	Equity attributable to owners of the parent company	
	Number of shares at the end of the financial period	
Dividend per share	Dividend distribution for the financial year (or proposal)	
	Number of shares at the end of the financial period	
Dividend/result, %	Dividend per share	x 100
	Earnings per share (EPS)	
Effective dividend yield, %	Dividend per share	x 100
	Closing price for the financial year	
P/E ratio	Closing price for the financial year	
	Earnings per share (EPS)	
Share turnover, %	Number of shares traded during the period	x 100
	Average number of shares	
Return on equity (ROE), %	Profit for the period (rolling 12 months)	x 100
	Equity (average)	
Return on capital employed, % (ROCE)	Profit before taxes (rolling 12 months) + financial expenses (rolling 12 months)	x 100
	Total statement of financial position – non-interest-bearing liabilities (average)	
Equity ratio, %	Equity	x 100
	Total statement of financial position – prepayments received	
Gearing, %	Interest-bearing net debt - cash and cash equivalents	x 100
	Equity	
EBITDA	Operating profit + depreciation, amortisation and impairment	
EBITDA, %	Operating profit + depreciation, amortisation and impairment	x 100
	Revenue	
Adjusted EBITDA*	Operating profit + depreciation, amortisation and impairment + adjustment items	
Adjusted EBITDA, %*	Operating profit + depreciation, amortisation and impairment + adjustment items	x 100
	Revenue	
Net debt/Adjusted EBITDA*, rolling 12 months	Interest-bearing net debt - cash and cash equivalents	
	Adjusted EBITDA (rolling 12 months)	
Cash flow after investments	Net cash flow from operating activities + net cash flow from investing activities	
Adjusted operating profit (EBIT)*	Operating profit + adjustment items	
Adjusted operating profit, %*	Adjusted operating profit (EBIT)	x 100
	Revenue	
Profit before taxes	Profit for the financial year + income tax	
Gross investments	Increase in property, plant and equipment and intangible assets excluding finance leases	
Organic revenue growth, %	Revenue for the period - revenue from M&A transactions for the period - revenue for the previous period	
	Revenue for the previous period	
	x 100	

\* 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.

Reconciliations with alternative key figures and ratios

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

**Reading notes:**  
/ divide by the next number/numbers  
- deduct the next number/numbers  
+ add the next number/numbers

EUR 1,000, unless otherwise specified	2019	2018
<b>Return on equity (ROE), %</b>		
Profit for the period (rolling 12 months)/	4,480	6,754
Equity at beginning of period	130,322	105,407
Equity at end of period	106,083	130,322
Equity (average) x 100	118,202	117,864
<b>Return on equity (ROE), %</b>	<b>3.8</b>	<b>5.7</b>

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

<b>Return on capital employed (ROCE), %</b>		
Profit before taxes (rolling 12 months) +	6,264	9,472
Financial expenses (rolling 12 months)	4,047	3,890
/	10,311	13,361
Total statement of financial position at beginning of period -	436,764	295,552
non-interest-bearing liabilities at beginning of period	78,191	76,730
	358,573	218,822
Total statement of financial position at end of period -	438,446	436,764
Non-interest-bearing liabilities at end of period	97,164	78,191
	341,282	358,573
Average x 100	349,927	288,697
<b>Return on capital employed (ROCE), %</b>	<b>2.9</b>	<b>4.6</b>

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

<b>Equity ratio, %</b>		
Equity /	106,083	130,322
Total statement of financial position -	438,446	436,764
Advances received x 100	1,069	897
<b>Equity ratio, %</b>	<b>24.3</b>	<b>29.9</b>

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

<b>Gearing, %</b>		
Interest-bearing financial liabilities -	219,707	214,341
Cash and cash equivalents /	27,004	36,316
Equity x 100	106,083	130,322
<b>Gearing, %</b>	<b>181.7</b>	<b>136.6</b>

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

	2019	2018
<b>Net debt/adjusted EBITDA, rolling 12 months</b>		
Interest-bearing financial liabilities -	219,707	214,341
Cash and cash equivalents	27,004	36,316
Net debt /	192,703	178,026
Adjusted EBITDA (rolling 12 months)	55,127	45,909
<b>Net debt/adjusted EBITDA, rolling 12 months</b>	<b>3.5</b>	<b>3.9</b>

This figure illustrates how quickly, at the current profit rate, the company would have paid off its debts if the EBITDA were to be used in full to repay the debts, if the company does not, for example, invest or distribute any dividend. The second financial covenant linked to the Group's financing arrangement is based on the ratio of the Group's net debt to pro forma EBITDA. The maximum value of the covenant linked to the financing arrangement is 3.75. The closer the value of the covenant is to the maximum value, the higher the loan margin. The Group's management and Board of Directors monitor the fulfilment of the covenant on a monthly basis and the covenant is reported to the lenders on a quarterly basis. The covenant calculations are also updated with forecasts whenever the Group is about to carry out a material acquisition.

**EBITDA and Adjusted EBITDA**

Profit for the period	4,480	6,754
Income taxes	-1,784	-2,717
Financial expenses	-4,047	-3,890
Financial income	120	122
Depreciation, amortisation and impairment	-37,653	-31,586
<b>EBITDA</b>	<b>47,844</b>	<b>44,826</b>
Total EBITDA adjustments*	7,284	1,083
<b>Adjusted EBITDA</b>	<b>55,127</b>	<b>45,909</b>

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

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

<b>EBITDA, %</b>		
EBITDA /	47,844	44,826
Revenue x 100	518,596	487,764
<b>EBITDA, %</b>	<b>9.2</b>	<b>9.2</b>

**Adjusted EBITDA, %**

Adjusted EBITDA /	55,127	45,909
Revenue x 100	518,596	487,764
<b>Adjusted EBITDA, %</b>	<b>10.6</b>	<b>9.4</b>

**Operating profit (EBIT) and Adjusted operating profit (EBIT)**

Profit for the period	4,480	6,754
Income taxes	-1,784	-2,717
Financial expenses	-4,047	-3,890
Financial income	120	122
<b>Operating profit</b>	<b>10,191</b>	<b>13,240</b>
Total adjustments of depreciation, amortisation and impairment**	3,337	119
Total EBITDA adjustments*	7,284	1,083
Total operating profit (EBIT) adjustments	10,621	1,203
<b>Adjusted operating profit (EBIT)</b>	<b>20,812</b>	<b>14,442</b>

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

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

	2019	2018
<b>Operating profit (EBIT), %</b>		
Operating profit /	10,191	13,240
Revenue x 100	518,596	487,764
<b>Operating profit (EBIT), %</b>	<b>2.0</b>	<b>2.7</b>

**Adjusted operating profit (EBIT), %**

Adjusted operating profit /	20,812	14,442
Revenue x 100	518,596	487,764
<b>Adjusted operating profit (EBIT), %</b>	<b>4.0</b>	<b>3.0</b>

**Cash flow after investments**

Net cash flow from operating activities	36,840	41,235
Net cash flow from investing activities	-19,452	-60,070
<b>Cash flow after investments</b>	<b>17,387</b>	<b>-18,835</b>

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

**Profit before taxes**

Profit for the period	4,480	6,754
Income taxes	-1,784	-2,717
<b>Profit before taxes</b>	<b>6,264</b>	<b>9,472</b>

**Gross investments**

Property, plant and equipment at the end of the period	53,237	43,281
Right-of-use assets at the end of the period	108,109	115,970
Other intangible assets at end of period	19,084	22,914
Goodwill at end of period	173,607	169,927
Depreciation, amortisation and impairment for the period are added	37,653	31,586

Property, plant and equipment at the start of the period	43,281	30,326
Right-of-use assets at the start of the period	115,970	73,125
Other intangible assets at beginning of the period	22,914	16,604
Goodwill at beginning of the period	169,927	103,893
Proceeds from the sale of property, plant and equipment during the period	-4,483	-317
<b>Gross investments</b>	<b>44,081</b>	<b>160,048</b>

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

**Organic revenue growth, %**

Revenue for the period -	518,596	487,764
Revenue from M&A transactions during the period	17,386	65,741
Revenue for the previous period	487,764	423,984
Organic revenue growth /	13,446	-1,961
Revenue for the previous period x 100	487,764	423,984
<b>Organic revenue growth, %</b>	<b>2.8</b>	<b>-0.5</b>
<b>Revenue growth due to M&amp;A transactions, %</b>	<b>3.6</b>	<b>15.5</b>
<b>Revenue growth</b>	<b>30,832</b>	<b>63,780</b>
<b>Revenue growth, %</b>	<b>6.3</b>	<b>15.0</b>

Organic revenue growth is growth in existing business operations that has not come about as a result of M&A transactions. Organic growth can be achieved through increasing the service offering, new customer acquisition, growth in custom from existing customers, price increases and digitalisation. Social and healthcare outsourcing contracts won through public competitive bidding and new business locations established by the group itself are included in organic growth.

	2019	2018
<b>EBITDA</b>	<b>47,844</b>	<b>44,826</b>
<b>Adjustments to EBITDA</b>		
Closure of operating locations		42
Previous holding of subsidiary at fair value		-964
Dismissal-related expenses	3,019	565
Profit from divestment of business operations		-47
Change in fair value of contingent consideration	281	1,192
IAS 37, contingent asset	1,845	
Onerous contracts	1,843	
Other	296	296
<b>Adjustments to EBITDA in total</b>	<b>7,284</b>	<b>1,083</b>
<b>Adjusted EBITDA</b>	<b>55,127</b>	<b>45,909</b>
Depreciation, amortisation and impairment	-37,653	-31,586
<b>Adjustments to depreciation, amortisation and impairment</b>		
Closure of operating locations	3,337	119
<b>Adjustments to depreciation, amortisation and impairment in total</b>	<b>3,337</b>	<b>119</b>
<b>Adjustments to operating profit in total</b>	<b>10,621</b>	<b>1,203</b>
<b>Adjusted operating profit (EBIT)</b>	<b>20,812</b>	<b>14,442</b>
<b>Operating profit (EBIT)</b>	<b>10,191</b>	<b>13,240</b>
Financial income	120	122
Financial expenses	-4,047	-3,890
Income taxes	-1,784	-2,717
<b>Profit for the period</b>	<b>4,480</b>	<b>6,754</b>
<b>The adjustment items are presented in the income statement items as follows:</b>		
Revenue	1,845	
Other operating income		-1,011
Employee benefit expenses	3,566	565
Other operating expenses	1,873	1,530
<b>EBITDA adjustment items total</b>	<b>7,284</b>	<b>1,083</b>
Depreciation, amortisation and impairment	3,337	119
<b>Operating profit adjustment items total</b>	<b>10,621</b>	<b>1,203</b>

Shares and shareholders

Major shareholders, 31 Dec. 2019

	Number of shares	Percentage of shares and votes
1 Localtapiola General Mutual Insurance Company	3,481,641	15.4 %
2 Mww Yhtiö Oy	2,309,010	10.2 %
3 Fennia Mutual Insurance Company	1,998,965	8.8 %
4 Localtapiola Mutual Life Insurance Company	1,891,865	8.4 %
5 Nordea Bank Abp	1,325,876	5.9 %
6 Elo Mutual Pension Insurance Company	1,267,161	5.6 %
7 Skandinaviska Enskilda Banken Ab (Publ), Helsinki Branch	1,050,207	4.6 %
8 Niemistö Leena Katriina	703,475	3.1 %
9 Fondita Nordic Micro Cap Mutual Fund	534,596	2.4 %
9 Ilmarinen Mutual Pension Insurance Company	490,000	2.2 %
<b>10 largest, total</b>	<b>15,052,796</b>	<b>66.5 %</b>
Other shareholders	7,567,339	33.5 %
<b>Total</b>	<b>22,620,135</b>	<b>100.0 %</b>

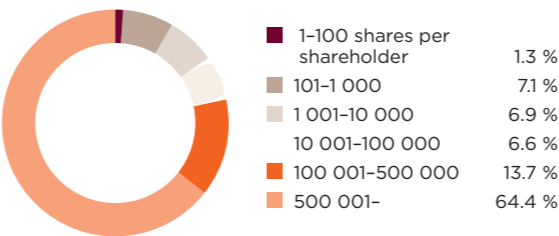
Distribution of shareholding by size range, 31 Dec. 2019

Shares per shareholder	Number of shareholders	% of shareholders	Number of shares	Percentage of shares, %
1 - 100	6,388	54.4 %	305,063	1.3 %
101 - 1 000	4,712	40.1 %	1,609,159	7.1 %
1 001 - 10 000	565	4.8 %	1,550,088	6.9 %
10 001 - 100 000	61	0.5 %	1,500,445	6.6 %
100 001 - 500 000	17	0.1 %	3,093,064	13.7 %
500 001 -	9	0.1 %	14,562,316	64.4 %
	<b>11,752</b>	<b>100.0 %</b>	<b>22,620,135</b>	<b>100.0 %</b>
of which nominee-registered shares	9		2,464,485	10.9 %
<b>Outstanding shares</b>			<b>22,620,135</b>	<b>100.0 %</b>

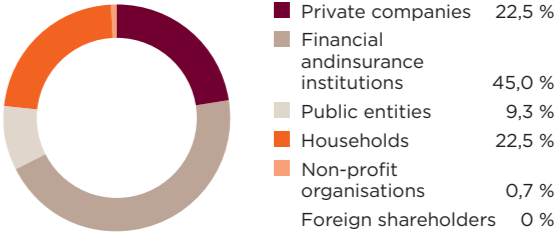
Distribution of shareholding by sector, 31 Dec. 2019

	Number of shareholders	% of shareholders	Number of shares	Percentage of shares, %
Private companies	435	3.7 %	4,527,080	22.5 %
Financial and insurance institutions	30	0.3 %	9,067,843	45.0 %
Public entities	4	0.0 %	1,883,979	9.3 %
Households	11,222	95.5 %	4,533,075	22.5 %
Non-profit organisations	40	0.3 %	135,948	0.7 %
Foreign shareholders	21	0.2 %	7,725	0.0 %
	<b>11,752</b>	<b>100.0 %</b>	<b>20,155,650</b>	<b>100.0 %</b>
nominee-registered shares			2,464,485	10.9 %
<b>Outstanding shares</b>			<b>22,620,135</b>	<b>100.0 %</b>

Distribution of shareholding  
31.12.2019



Distribution of shareholding by sector  
31.12.201



Shareholding by the management, 31 Dec. 2019

	Direct holding		Indirect holdings	
	Number of shares	Percentage of shares and votes	Number of shares	Percentage of shares
<b>Board of Directors</b>				
Mikko Wirén (MWW Yhtiö Oy)			2,309,010	10.2 %
Leena Niemistö	703,475	3.1 %		
Matti Jaakola				
Hannu Juvonen				
Mika Manninen				
Kati Sulin				
Seija Turunen				
<b>Management Team</b>				
Joni Aaltonen	81,920	0.4 %		
Teija Kulmala	6,000	0.0 %		
Tarja Rantala	10,455	0.0 %		
Elina Heliö	1,009	0.0 %		
Sanna Määttänen	11,700	0.1 %		
Marko Savolainen	4,000	0.0 %		

Financial statements 1 Jan–31 Dec 2019

CONTENTS

Main calculations of the consolidated financial statements

Consolidated statement of comprehensive income, IFRS	56
Consolidated statement of financial position, IFRS	57
Consolidated statement of cash flows, IFRS	58
Consolidated statement of changes in equity, IFRS	59

Notes to the consolidated financial statements, IFRS

Category	No.	Description	
		Accounting policies	60
		New and amended standards and interpretations applied in the past financial year	60
		Adoption of new and revised standards and interpretations in future financial years	62
Income statement	1	Revenue from contracts with customers and segment information	63
Income statement	2	Other operating income	65
Income statement	3	Materials and services	65
Income statement	4	Employee benefit expenses	65
Income statement	5	Share-based incentive scheme for key personnel	66
Income statement	6	Other operating expenses	66
Income statement	7	Depreciation, amortisation and impairment	66
Income statement	8	Adjusted EBITDA and adjusted operating profit	67
Income statement	9	Financial income	68
Income statement	10	Financial expenses	68
Income statement, taxes	11	Income taxes	68
EPS	12	Earnings per share	69
Statement of financial position	13	Property, plant and equipment	69
Statement of financial position	14	Intangible assets	70
Statement of financial position	15	Right-of-use assets	73
Statement of financial position	16	Other non-current receivables	74
Statement of financial position	17	Trade and other receivables	74
Statement of financial position	18	Provisions	76
Statement of financial position	19	Trade and other payables	76
Balance sheet, taxes	20	Deferred tax assets and liabilities	76
Equity	21	Financial assets and liabilities by measurement category	78
Equity	22	Notes on equity	79
Equity	23	Financial liabilities	80
Equity	24	Changes in interest-bearing liabilities with no impact on cash flow	80
Equity	25	Capital management	80
Risk management	26	Financial risk management	81
Group structure	27	Business combinations	83
Group structure	28	Subsidiaries and material non-controlling interests	86
Group structure	29	Interests in associates and joint arrangements	88
Other	30	Contingent assets and liabilities and commitments	88
Other	31	Related party transactions	89
Other	32	Events after the balance sheet date	91

Parent company financial statements, main calculations, FAS

Parent company balance sheet, FAS	93
Parent company income statement, FAS	94
Parent company cash flow statement, FAS	95

Parent company notes to financial statements, FAS

Signatures to the Report by the Board of Directors and the Financial Statements	100
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Auditor's report	101
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Information for shareholders	105
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## Consolidated statement of comprehensive income

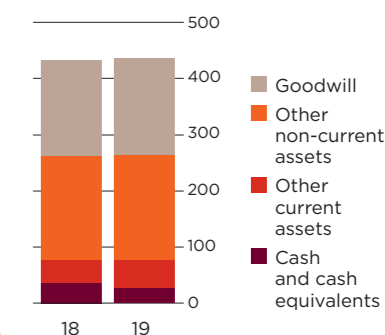
EUR 1,000	Note	1.1.-31.12.2019	1.1.-31.12.2018
Revenue	1	518,596	487,764
Other operating income	2	1,630	4,153
Materials and services	3	-200,212	-189,175
Employee benefit expenses	4	-221,967	-208,409
Other operating expenses	6	-50,205	-49,541
Share of profit in associated companies and joint ventures	29	2	35
<b>EBITDA</b>		<b>47,844</b>	<b>44,826</b>
Depreciation, amortisation and impairment	7	-37,653	-31,586
<b>Operating profit</b>		<b>10,191</b>	<b>13,240</b>
Financial income	9	120	122
Financial expenses	10	-4,047	-3,890
Financial income and expenses		-3,926	-3,768
<b>Profit before taxes</b>		<b>6,264</b>	<b>9,472</b>
Income taxes	11	-1,784	-2,717
<b>Profit for the period*</b>		<b>4,480</b>	<b>6,754</b>
<b>Total comprehensive income for the period</b>		<b>4,480</b>	<b>6,754</b>
Total comprehensive income for the financial year attributable to Owners of the parent		3,365	3,475
Non-controlling interests		1,115	3,279
Earnings per share for profit attributable to owners of the parent company, EUR			
Basic	12	0.15	0.16
Diluted		0.15	0.16

\* The Group does not have any other comprehensive income items.

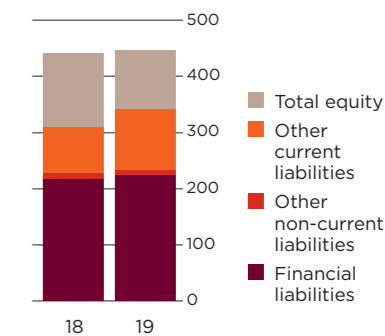
## Consolidated statement of financial position

EUR 1,000	Note	31.12.2019	31.12.2018
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	53,237	43,281
Goodwill	14	173,607	169,927
Other intangible assets	14	19,084	22,914
Right-of-use assets	15	108,109	115,970
Interests in associates	29	24	23
Other investments		146	139
Other receivables	16	1,975	1,800
Deferred tax assets	20	6,006	4,063
		<b>362,188</b>	<b>358,117</b>
<b>Current assets</b>			
Inventories		2,322	2,454
Trade and other receivables	17	46,062	38,147
Current tax assets		869	1,731
Cash and cash equivalents		27,004	36,316
		<b>75,237</b>	<b>78,647</b>
<b>Total assets</b>		<b>438,446</b>	<b>436,764</b>
<b>Equity and liabilities</b>			
Equity attributable to owners of the parent	22		
Share capital		80	80
Reserve for invested unrestricted equity		116,520	116,520
Retained earnings		-15,481	4,551
		<b>101,119</b>	<b>121,150</b>
Non-controlling interests		4,965	9,171
<b>Total equity</b>		<b>106,083</b>	<b>130,322</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities	20	5,726	6,105
Provisions	18	170	302
Lease liabilities	15	96,404	101,998
Financial liabilities	21	103,862	95,694
Other non-current liabilities		1,302	1,505
		<b>207,465</b>	<b>205,603</b>
<b>Current liabilities</b>			
Trade and other payables	19	102,002	79,494
Current tax liabilities		423	1,884
Provisions	18	1,636	
Lease liabilities	15	17,747	16,504
Financial liabilities	21	3,090	2,958
		<b>123,877</b>	<b>100,840</b>
<b>Total liabilities</b>		<b>331,341</b>	<b>306,443</b>
<b>Total equity and liabilities</b>		<b>438,446</b>	<b>436,764</b>

Assets  
EUR 1,000



Equity and liabilities  
EUR 1,000



Consolidated statement of cash flows

EUR 1,000	Note	1.1.-31.12.2019	1.1.-31.12.2018
Cash flow from operating activities:			
Profit for the period		3,365	3,487
Cash flow adjustments for business operations:			0
Taxes		1,784	2,717
Depreciation, amortisation and impairment		37,653	31,586
Financial income and expenses		3,925	3,733
Other		964	3,444
Net cash generated from operating activities before change in working capital		47,691	44,968
Change in working capital		-6,227	1,643
Interest received		109	112
Taxes paid		-4,733	-5,488
Net cash flow from operating activities		36,840	41,235
Cash flow from investing activities:			
Investments in property, plant and equipment and intangible assets		-15,406	-19,589
Proceeds from disposal of property, plant and equipment and intangible assets		801	392
Changes in other investments		-1	12
Dividends received		11	12
Acquisition of subsidiaries less cash and cash equivalents at date of acquisition	27	-4,857	-40,951
Disposal of subsidiaries less cash and cash equivalents at date of disposal	27		55
Net cash flow from investing activities		-19,452	-60,070
Cash flow from financing activities:			
Proceeds from issuing shares			
Acquisitions of non-controlling interests		-1,267	-6,424
Proceeds from short-term borrowings	24	501	
Proceeds from long-term borrowings	24	9,000	121,520
Repayment of borrowings	24	-1,785	-72,131
Repayment of lease liabilities	24	-22,656	-16,311
Interest and other operational financial expenses		-3,838	-3,543
Dividends paid and other profit distribution		-6,653	-5,034
Net cash flow from financing activities		-26,699	18,076
Changes in cash and cash equivalents			
		-9,312	-759
Cash at the beginning of the financial year		36,316	37,074
Cash at the end of the financial year		27,004	36,316

Consolidated statement of changes in equity

EUR 1,000	Equity attributable to owners of the parent company				
	Share capital	Reserve for invested unre-stricted equity	Retained earnings	Non-controlling interests	Total equity
Total equity, 31 Dec. 2017	80	87,945	12,268	5,563	105,857
IFRS 15 adoption					
IFRS 9 adoption					
IFRS 16 adoption			-300	-149	-449
Total equity, 1 Jan. 2018	80	87,945	11,968	5,414	105,407
Profit for the period, reported			3,826	3,316	7,143
Effect of IFRS 16			-351	-37	-388
Total comprehensive income for the period			3,475	3,279	6,754
Directed share issue		28,574			28,574
Dividends paid			-3,619	-1,225	-4,844
Investments in group subsidiaries, reported				2,381	2,381
Investments in group subsidiaries, effect of IFRS 16			-93	93	0
Total transactions with owners		28,574	-3,712	1,249	26,111
Changes in NCI					
without a change in control			-7,180	-771	-7,951
Total changes in ownership interests			-7,180	-771	-7,951
Total equity, 31 Dec. 2018	80	116,520	4,551	9,171	130,322

EUR 1,000	Equity attributable to owners of the parent company				
	Share capital	Reserve for invested unre-stricted equity	Retained earnings	Non-controlling interests	Total equity
Total equity, 1 Jan. 2019	80	116,520	4,551	9,171	130,322
Profit for the period			3,365	1,115	4,480
Total comprehensive income for the period			3,365	1,115	4,480
Dividends paid			-2,262	-4,930	-7,192
Investments in Group companies			95	-91	5
Total transactions with owners			-2,167	-5,021	-7,188
Changes in NCI without a change in control					
			-21,230	-301	-21,531
Total changes in ownership interests			-21,230	-301	-21,531
Total equity, 31 Dec. 2019	80	116,520	-15,481	4,965	106,083

# Accounting policies

## Company profile

Pihlajalinna is one of the leading private social and healthcare service providers in Finland. The Group serves private persons, companies, insurance companies and public sector entities, such as municipalities and hospital districts. Pihlajalinna provides a broad range of social and healthcare services as well as wellbeing services. The service selection includes general practitioner and medical specialist services, occupational healthcare, social and healthcare outsourcing, fitness centre services, responsible doctor and remote consultation services as well as residential services and staffing services.

At the end of the financial year, the total number of Pihlajalinna's private clinics, hospitals, dental clinics, fitness centres, service housing units with 24-hour assistance and reception centres was approximately 140. In addition, Pihlajalinna has four major complete social and healthcare outsourcing agreements and one partial outsourcing agreement that collectively cover some 60 locations (including health centres, maternity and child health clinics, service housing units with 24-hour assistance and daytime activity centres).

The Group's parent company, Pihlajalinna Plc, is a Finnish public limited company established under the laws of Finland, whose Business ID is 2617455-1. The company is domiciled in Tampere, and its registered address is Kehräsaari B, FI-33200 Tampere, Finland. Pihlajalinna Plc's shares are listed on the NASDAQ OMX Helsinki main market. A copy of the consolidated financial statements is available on the internet at [investors.pihlajalinna.fi](https://investors.pihlajalinna.fi) or can be obtained at the head office of the Group's parent company, address Kehräsaari B, 33200 Tampere, Finland.

The Board of Directors of Pihlajalinna Plc approved these financial statements in its meeting on 13 February 2020. In accordance with the Finnish Limited Liability Companies Act, the shareholders may adopt or reject the financial statements at the Annual General Meeting held after their publication. The Annual General Meeting can also decide on modifications to be made to the financial statements.

## Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), and their preparation complies with the IAS and IFRS as well as SIC and IFRIC interpretations effective on 31 December 2020. International Financial Reporting Standards, as intended in the Finnish Accounting Act and the regulations issued pursuant to the Act, refer to the standards that have been approved for application within the EU in accordance with Regulation (EC) No. 1606/2002 and interpretations thereof. The notes to the consolidated financial statements also comply with the Finnish accounting and company legislation that complements the IFRS regulations.

Accounting policies that influence a particular note to the consolidated financial statements are indicated with the heading **Accounting policies** in the note in question.

The consolidated financial statements are presented in euros and all figures are rounded to the nearest thousand, unless otherwise specified.

## New and amended standards and interpretations applied in the past financial year

### IFRS 16 Leases

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

The IFRS 16 Leases standards covers the definitions, recording and measurement of leases as well as other financial statements provided regarding leases. According to the standard, the tenant records the asset item based on the right of use and the corresponding financial liability in the statement of financial position. The Group adopted the new standard fully retrospectively. The effects of the date of transition 1 January 2018 are calculated as if the standard has always been valid.

The IFRS 16 Leases standard had a significant impact on the income statement, balance sheet and key figures of Pihlajalinna. The adoption of the standard considerably increased the EBITDA and adjusted EBITDA when the renting expense recorded in the income statement was replaced with depreciations of the right-of-use-asset as well as the interest costs of liability recorded in the financial items. In addition, the change in deferred taxes was recorded in the income tax. The adoption of the standard has not significantly changed Pihlajalinna's operating profit, adjusted operating profit, profit for the financial year or earnings per share.

The assets on the consolidated balance sheet were increased by the right-of-use asset calculated for the start of each lease and depreciated during the lease period. The amount of interest-bearing debt on the consolidated balance sheet increased with the discounted amount of lease liability. In addition, the transition to the new lease standard impacted the consolidated cash flow from operating activities as well as the cash flow from financing activities once the realised payments of rent are targeted at the cash flow from financing activities to the extent corresponding to the financial expenses and the partial payment of debt. Overall, the consolidated cash flow remains unchanged, but there are changes in the manner of representation between the different parts of the statement of cash flows. An entry in equity was created regarding the retroactive deployment of the new standard on the date of transition on 1 January 2018 when the values of assets and liabilities recorded in the statement of financial position differed on the date of transition.

Most of the Pihlajalinna rental arrangements in line with the IFRS 16 are leases for business premises. The other lease arrangements in line with the standard concern land areas, machinery and equipment (exercise equipment, clinical equipment, cars and other equipment). Pihlajalinna applies the IFRS 16 exemption that allows lessees to elect not to recognise a right-of-use asset and corresponding lease liability for assets with a lease term of 12 months or less as well as assets of low

value. Assets of low value include, for example, IT equipment and office furniture. Furthermore, to make the accounting of leases easier, Pihlajalinna elects not to separate service components from leases, instead treating the entire agreement as a lease in its consolidated financial statements. For lease arrangements valid until further notice, with a short notice period, Pihlajalinna will estimate the probable lease term.

### Key impacts of the IFRS 16 changes

- On the opening balance sheet of 1 January 2018, the group's right-of-use assets increased by EUR 41.5 million to EUR 73.1 million and the interest-bearing debt under liabilities increased by EUR 42.2 million to EUR 74.7 million.
- On the consolidated balance sheet of 31 December 2018, the group's right-of-use assets increased by EUR 86.7 million to EUR 116.0 million and the interest-bearing debt under liabilities increased by EUR 88.0 million to EUR 118.5 million.
- With the adoption of the standard, the operating profit for the financial year 2018 increased by EUR 0.4 million to EUR 13.2 million.
- Earnings per share for the financial year 2018 decreased by EUR 0.02. The comparable earnings per share for the financial year 2018 was EUR 0.16.
- The equity ratio of 31 December 2018 decreased by 7.7 percentage points to 29.9 per cent.
- Net gearing of 31 December 2018 increased by 67.9 percentage points to 136.6 per cent.
- The comparable indicator of net debt/adjusted EBITDA for the financial year 2018 was 3.9.

Pihlajalinna revised the presentation manner of the main calculations by adding rows in line with the IFRS 16 to the calculations. In addition, Pihlajalinna's statement of cash flows complies with an indirect calculation model.

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

The IFRIC 23 interpretation provides a more detailed framework regarding the recognition of uncertain tax positions and emphasises requirements related to notes to financial statements.

Other new or amended standards and interpretations that entered into force during the 2019 financial year have not had an impact on Pihlajalinna's financial statements.

## Consolidation principles

### Subsidiaries

Subsidiaries are entities in which the Group exercises control. The Group has control of an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Intragroup shareholdings are eliminated using the acquisition method. The consideration transferred and the acquired entity's identifiable assets and assumed liabilities are measured at fair value at the date of acquisition. Acquisition-related costs are

expensed. Any contingent consideration is measured at fair value at the date of acquisition and classified as a liability. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group retrospectively adjusts the provisional amounts recognised at the acquisition date to reflect any new information. The measurement period may not exceed one year from the acquisition date. A contingent consideration classified as a liability is measured at fair value at the end of each reporting period, and any resulting gain or loss is recognised in profit or loss after the end of the measurement period.

Non-controlling interests in the acquiree are recognised either at fair value or an amount that corresponds to their pro rata share of the acquiree's net assets. The amount by which the consideration transferred, non-controlling interests in the acquiree and previously owned holding combined exceed the fair value of the acquired net assets is recognised as goodwill in the consolidated statement of financial position. If the combined value of the consideration, non-controlling interests and previously owned holding is lower than the fair value of the acquiree's net assets, the difference is recognised in the statement of comprehensive income.

Acquired subsidiaries are consolidated from the date when the Group obtained control, and disposed subsidiaries are consolidated until the date when the Group lost control. All intragroup transactions, receivables, liabilities, unrealised profits and internal profit distribution are eliminated in the preparation of the consolidated financial statements. Unrealised losses will not be eliminated in case of impairment losses. Profit or loss for the financial year attributable to the owners of the parent company and to the non-controlling interests is presented in the consolidated statement of comprehensive income. Comprehensive income is attributed to the owners of the parent company and to the non-controlling interests, even if this would lead to a situation where the portion attributable to the non-controlling interests is negative. The portion of equity attributable to the non-controlling interests is presented as a separate item under equity in the consolidated statement of financial position. Such changes in the parent company's ownership interest in a subsidiary that do not lead to loss of control are treated as equity transactions.

In connection with acquisitions achieved in stages, the previous holding is measured at fair value, and the resulting gain or loss is recognised in profit or loss. When the Group loses control of a subsidiary, any remaining holding is measured at fair value at the date of loss of control, and the resulting difference is recognised in profit or loss.

### Associates and joint arrangements

Associates are companies over which the Group has significant influence. As a rule, significant influence is established when the Group holds more than 20% of a company's voting power or otherwise has significant influence but no control.

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control involves contractually agreed sharing of control of an arrangement, which exists only

when decisions about relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture. A joint venture is an arrangement whereby the Group has rights to the net assets of the arrangement, whereas in a joint operation the Group has rights to the assets, and obligations for the liabilities, relating to the arrangement.

Associates and joint ventures are consolidated using the equity method. If the Group's share of the loss of an associate or a joint venture exceeds the carrying amount of the investment, then the investment is carried at zero value, and the losses exceeding the carrying amount are not consolidated, unless the Group is committed to fulfilling the obligations of the associate or joint venture. An investment in an associate or a joint venture includes the goodwill generated through the acquisition. Unrealised profits between the Group and an associate or a joint venture are eliminated in proportion to the Group's ownership interest. The Group's pro rata share of an associate's or a joint venture's profit for the financial year is included in operating profit.

The Group owns 31% in Kiinteistö Oy Levin Pihlaja, which is consolidated as a joint operation according to the pro rata share, using the proportionate consolidation method.

**Foreign currency translation**

The consolidated financial statements are presented in euros, which is the functional currency and presentation currency of the Group's parent company and of the subsidiaries engaged in business activities. In their own accounting, Group companies translate day-to-day transactions denominated in foreign currency into their functional currency applying the exchange rates of the transaction date. Foreign exchange gains and losses related to the business are included in the corresponding expense items.

**Accounting policies requiring management judgement and major sources of estimation uncertainty**

In the course of preparing the financial statements, it is necessary to make estimates and assumptions about the future. However, such estimates and assumptions may later prove inaccurate compared with actual outcomes. The Group regularly monitors the realisation of the estimates and assumptions and

changes in the underlying factors together with the business units by using several, both internal and external, sources of information. Any changes in estimates and assumptions are recognised in the financial year during which the estimate or assumption is corrected and in all subsequent financial years. Additionally, it is necessary to exercise judgement in the application of the accounting policies. The most significant estimates and assumptions are presented under the note in question under the heading **Key accounting estimates and decisions based on management judgement**.

**Adoption of new and amended standards and interpretations applied in future financial years**

\* = The regulation in question was not yet endorsed for use in the EU on 31 December 2019.

**Amendments to References to the Conceptual Framework in IFRS Standards** (effective for financial years beginning on or after 1 January 2020).

The revised Framework codifies IASB's thinking adopted in recent standards. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs.

**Definition of a Business (Amendments to IFRS 3)** (effective for financial years beginning on or after 1 January 2020)

The amendments narrowed down and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set is a group of assets rather than a business.

**Definition of Material (Amendments to IAS 1 and IAS 8)** (effective for financial years beginning on or after 1 January 2020)

The amendments clarify the definition of material and include guidance to help improve consistency in the application of that concept across all IFRS Standards. In addition, the explanations accompanying the definition have been improved.

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

# Notes to the consolidated financial statements, IFRS

## 1. Revenue from contracts with customers and segment information

### Accounting policies

The Group's revenue consists of payments related to the sale of healthcare services, social services and wellbeing services measured at fair value, adjusted by any discounts and other adjustment items. The healthcare services provided by the Group consist of occupational health services, services provided at private clinics and hospitals, responsible doctor services, diagnostics services, rehabilitation services and dental care services. The social services provided by the Group consist of services for the elderly and the disabled, mental health and substance abuse group services, and asylum seeker reception centre operations. A significant part of the consolidated revenue consists complete social and healthcare outsourcing, which also includes the provider's liability for the costs of specialised care. The Group also provides wellbeing services and physician recruitment services. Forever fitness centres offer diverse wellbeing services for adults who exercise. Fitness centre services complement Pihlajalinna's preventive occupational healthcare services and rehabilitation services carried out after specialised care procedures.

The Group records the remunerations of employed healthcare professionals, contract-based practitioners and holders of Series B shares of Pihlajalinna Terveys Oy under revenues on a gross basis, i.e. based on total customer invoicing. According to the management's view, Pihlajalinna has primary responsibility for the provision of services to its customers. Therefore, the Group is involved in a contractual relationship as a principal which is exposed to significant risks and benefits related to the sale of services. The Group records the remunerations of contract-based practitioners and holders of Series B shares of Pihlajalinna Terveys Oy in the income statement under the item External services.

IFRS 15 Revenue from Contracts with Customers includes a five-step model for recognising revenue from contracts with customers: when to recognise revenue, and at what amount. Revenue can be recognised over time or at a point in time, and the passing of control is a key criterion. Pihlajalinna has identified the following major performance obligations:

### Social and Healthcare Outsourcings

- 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 Dental Care

- Private Clinics and Dental Care

### 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. private individuals who pay for their services themselves or 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)

### Fitness centre services

- obligations related to monthly and annual fees for fitness centre services
- individual separately charged additional services

### Recruitment services

- customer-specific monthly fees for recruitment services
- individual separately charged recruitment services

### Responsible doctor services

- location-specific daily charges described in the customer agreement

Staffing service

- selling a healthcare professional's labour event-specifically or based on time
- customer-specific monthly fees for emergency and on-call services

The transaction price is primarily comprised of individual visits according to the price list or annual, monthly, 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, bonus), which is allocated to one or more performance obligations. The performance obligations are primarily fulfilled either over time (e.g. outsourcings, residential services, fitness centre services, recruitment services, responsible doctor services) or at a point in time (e.g. occupational healthcare services, individual customer visits, additional services).

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

Revenue from individual services is recognised on a treatment visit-specific basis based on service use.

Pihlajalinna has implemented changes to its segment reporting as a result of structural reforms. Pihlajalinna reformed its management system and the structure of its Management Team as part of its efficiency improvement programme. In conjunction with the reform, some of the Management Team positions were discontinued. In addition, the company also established an operations management team as a new management team level directed by the COO Teija Kulmala. The changes took effect on 15 August 2019.

Pihlajalinna's previous operating structure had four geographical business areas: Mid-Finland, Southern Finland, Ostrobothnia and Northern Finland. Each business area was managed by a Head of Business Operations responsible for its performance, who is in charge of their area's business operations and service offering for both the private and the public sector. In the revised operating structure, COO Teija Kulmala is in charge of the profitability and resources of business operations and the Group has one operating segment.

Pihlajalinna's CEO makes significant operational decisions at the Group level. The senior operating decision-maker monitors the Group's result. The key performance indicators that are monitored are EBITDA and operating profit. Adjusted EBITDA and adjusted operating profit also provide significant additional information on profitability, as these alternative performance measures eliminate items that do not necessarily reflect the profitability of the company's operative business. The alternative performance measures, adjusted EBITDA and adjusted operating profit, improve comparability between periods.

The adjustment items of these alternative performance measures are specified in Note 8 Adjusted EBITDA and adjusted operating profit.

**Key accounting estimates and decisions based on management judgement**  
**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, and the agreements may involve variable consideration. The cost accumulation of public specialised care involves random fluctuation. In addition, individual cases falling within the scope of the hospital districts' pooling system for high-cost care and operational economy surplus refunds may influence the costs of specialised care considerably during the financial year, and between financial periods, in Pihlajalinna's municipal companies.**

Revenue by region

Pihlajalinna reports its sales revenue divided into the following geographical regions:

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

EUR 1,000	2019	%	2018	%
Southern Finland	118,198	20	107,633	20
Mid-Finland	324,140	56	311,881	57
Ostrobothnia	115,676	20	108,792	20
Northern Finland	14,703	3	12,307	2
Other operations	7,705	1	4,797	1
Intra-Group sales	-61,826		-57,646	
<b>Total consolidated revenue</b>	<b>518,596</b>	<b>100</b>	<b>487,764</b>	<b>100</b>

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.

EUR 1,000	2019	%	2018	%
Corporate customers	122,078	21	106,329	20
of which insurance company customers	27,587	5	25,162	5
Private customers	97,793	17	93,036	17
Public sector	360,551	62	346,045	63
Intra-Group sales	-61,826		-57,646	
<b>Total consolidated revenue</b>	<b>518,596</b>	<b>100</b>	<b>487,764</b>	<b>100</b>

Information on key customers

The Group's sales revenue from the four largest municipal customers totalled approximately EUR 257.1 (252.6) million, representing 50% (52%) of the consolidated revenue.

Estimate of unsatisfied performance obligations related to service agreements on the provision of social and healthcare services, EUR million

EUR 1,000	31.12.2019	31.12.2018
2019		244
2020	250.7	245
2021	251.8	246
2022	252.9	247
2023	254.1	248
2024	252.0	249
2025	253.1	250
2026	182.3	251
2027	183.1	253
2028	184.0	254
2029	184.9	255
2030	149.0	220
	<b>2,398</b>	<b>2,962</b>

The City of Jämsä did not exercise its right to extend the validity of the service agreement concluded on 18 March 2015. This five-year option period has been omitted from the estimate of obligations related to social and healthcare outsourcing agreements.

2. Other operating income

Accounting policies

Government grants received as compensation for expenses already incurred are recognised in profit or loss for the period in which they become receivable. These grants are presented under other operating income.

Government grants related to capitalised development projects are recognised as deductions from the carrying amounts of intangible assets, when there is reasonable assurance that such grants will be received and that the Group will comply with the conditions for receiving them. The grants will be recognised as income over the useful life of an asset by way of reduced depreciation.

The Group has subleased certain premises that are not used for business operations. Income from these leases is presented under other operating income.

Sale and leaseback

With regard to sale and leaseback agreements completed prior to the adoption of IFRS 16, the Group will continue the allocation of capital gains as before in accordance with the transition provision of IFRS 16.

If a finance lease is created as a result of a sale and leaseback agreement, the difference between the carrying amount and the sales price will be recognised in the consolidated statement of financial position and recognised as income over the lease term under other operating income. The unrecognised portion of the difference between the carrying amount and the sales price is presented as Other liabilities in the statement of financial position.

EUR 1,000	2019	2018
Capital gains on property, plant and equipment	258	289
Rental income	368	185
Government grants	680	1,290
Insurance indemnities		81
Previous holding measured at fair value		964
Other income items	323	1,343
<b>Total</b>	<b>1,630</b>	<b>4,153</b>

3. Materials and services

Accounting policies

Pihlajalinna Terveys Oy, a Group subsidiary, has issued a second series of shares (Series B) and established contingency funds associated with them. Funds accumulate in the contingency funds based on the work contributions of the holders of Series B shares. This work contribution is included in profit or loss under the item External services. The liability indicated by the contingency fund is included in current liabilities under the item Other liabilities, presented in Note 19 Trade and other payables and Note 21 Financial assets and liabilities by measurement category. Work contribution-based dividends paid by the company are an income tax deductible item.

EUR 1,000	2019	2018
Materials	-19,343	-17,465
Change in inventories	-217	-74
External services, practitioners	-76,508	-70,767
External services, other	-104,144	-100,868
<b>Total</b>	<b>-200,212</b>	<b>-189,175</b>

4. Employee benefit expenses

Accounting policies

Pension plans are generally classified as defined benefit plans and defined contribution plans. The Group only has defined contribution plans. In defined contribution plans, the Group makes fixed payments to a separate unit. The Group has no legal or constructive obligation to make additional payments if the recipient of the payments is incapable of paying out

said retirement benefits. Payments made into the defined contribution plans are recognised in profit or loss for the financial year for which they are charged.

EUR 1,000	2019	2018
Wages and salaries	-185 532	-172 355
Pension costs – defined contribution plans	-30 956	-30 459
Other social security expenses	-5 479	-5 595
<b>Total</b>	<b>-221 967</b>	<b>-208 409</b>
<b>Personnel on average (FTE)</b>	4 515	4 618
<b>Personnel at the end of the period (NOE)</b>	5 815	5 850

Information on the employee benefits and loans of members of management considered to be related parties is presented in Note 31 Related party transactions.

5.

Share-based incentive scheme for key personnel

At its meeting on 14 February 2019, the Board of Directors approved the terms of a share-based long-term incentive programme for Pihlajalinna Group's senior management (LTI 2019). The incentive programme is effective from 1 January 2019 onwards and it is aimed at the CEO, the Management Team and other key employees selected for inclusion in the programme. In the initial stage, 25 key employees were selected for the programme. LTI 2019 includes an overall five-year plan period and none of the share rewards received by the key employees thereunder may be sold or transferred prior to the year 2022. The key employee shall, in addition, make an investment in Pihlajalinna shares as a precondition for participation in the programme. At the end of the investment period, i.e. 2019, 23 key employees fulfilled the minimum investment requirement of the scheme.

The fixed matching share plan includes a commitment period from the beginning of 2019 until the payment of the fixed matching share incentive in 2020. In this scheme, the company matches each participant's share investments with additional shares at a fixed rate. The additional shares will be delivered in 2020, and they are subject to a transfer restriction.

The performance- and quality-based matching share plan includes three one-year performance periods (the calendar years 2019–2021), during which the participants can earn performance-based additional shares, provided that the company reaches the performance objectives set by the Board of Directors. Based on each individual performance period, the participant can earn a maximum of two additional shares for three shares invested without consideration (gross before the deduction of the applicable payroll tax). The performance-based share rewards will be delivered after the respective performance periods in springs 2020, 2021 and 2022. These matching shares will be subject to a two-year transfer restriction.

The performance criteria applied to the performance- and quality-based matching share plan for the first performance period 2019 were the adjusted EBIT of Pihlajalinna Group and key operative and qualitative indicators. No performance- and

quality-based share rewards materialised for the performance period 2019 pursuant to the matching share plan, as the minimum objectives set for the programme were not achieved.

The terms and conditions of the incentive scheme include special provisions for any change of control. Based on Mehiläinen's public tender offer, the above-mentioned provisions on change of control apply.

The LTI 2019 plan includes terms and conditions relating to change of control. According to them, the cash tender offer announced by Mehiläinen for all of the shares in Pihlajalinna on 5 November 2019 will result in the payment of the fixed matching share plan in full if the transaction is completed. The transfer restriction of the shares expires immediately when the outcome of the tender offer is announced in the execution of the tender offer.

According to the fixed matching share plan, a total of 108,000 matching shares fall due to the 23 key employees who met the investment requirement if the change of control takes place. The fair value of the matching shares is EUR 1.7 million in accordance with the cash tender offer. An expense of EUR 0.3 million has been allocated to the financial year 2019 due to the share-based reward to be paid due to the change of control.

6.

Other operating expenses

EUR 1,000	2019	2018
Facility expenses	-9,282	-8,408
Equipment and information management expenses	-20,595	-18,557
Sales and marketing expenses	-8,046	-7,623
Other expenses	-12,282	-14,953
<b>Total</b>	<b>-50,205</b>	<b>-49,541</b>
<b>Auditor's fees</b>		
Auditing, BDO	-100	-81
Auditing, KPMG Oy Ab	-231	-251
Statements, KPMG Oy Ab	-13	-18
Non-audit services, KPMG Oy Ab	-3	-8
<b>Total</b>	<b>-347</b>	<b>-357</b>

7.

Depreciation, amortisation and impairment

Accounting policies

Property, plant and equipment will be depreciated using the straight-line method over their estimated economic useful lives. The estimated economic useful lives are as follows:

Buildings	10–25 years
Renovation expenses on real estate	5–10 years
Machinery and equipment	3–10 years
Other tangible assets	3–5 years

For the magnetic imaging equipment at new private clinics, the Group adopted a units-of-production based depreciation method effective from 1 January 2018. The amount of depreciation is based on the units of production derived

from the equipment. For the Group's other machinery and equipment, the Group still uses straight-line depreciation. As the utilisation rate of imaging capacity is low during the first years of a new operating location, the units-of-production method provides a more accurate reflection of the actual economic use of the magnetic imaging equipment in question.

For intangible assets with finite economic useful lives, the amortisation periods are as follows:

Trademarks	10 years
Development costs	3–10 years
Other intangible assets	
Customer agreements	4 years
Patient database	4 years
Non-competition agreements	2–5 years
Intellectual property rights	3–7 years

Property, plant and equipment is depreciated on a straight-line basis over the shorter of economic useful life or lease term.

The planned depreciation periods of property, plant and equipment are as follows:

Right-of-use plots	25 years
Right-of-use buildings and business premises	1–15 years
Right-of-use equipment	3–10 years
Impairment is recognised pursuant to IAS 36 for onerous right-of-use buildings and business premises.	

EUR 1,000	2019	2018
Depreciation, amortisation and impairment by asset type		
Intangible assets		
Trademarks	-776	-776
Capitalised development costs	-790	-527
Other intangible assets related to purchase price allocations	-3 784	-4 355
Other intangible assets	-2 089	-1 473
	-7 438	-7 131
Property, plant and equipment		
Buildings	-120	-52
Renovation expenses on real estate	-2 119	-2 234
Machinery and equipment	-5 440	-5 213
Other tangible assets	-4	-4
	-7 682	-7 503
Right-of-use assets		
Right-of-use plots	-125	-39
Right-of-use business premises and buildings	-17 738	-15 581
Right-of-use business premises and buildings, impairment	-3 189	
Right-of-use equipment	-1 480	-1 332
	-22 532	-16 953
<b>Total depreciation, amortisation and impairment</b>	<b>-37 653</b>	<b>-31 586</b>

8.

Adjusted EBITDA and adjusted operating profit

Accounting policies

IAS 1 Presentation of Financial Statements does not provide a definition for the concept of EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation). The Group has defined it as follows: EBITDA is the net sum consisting of revenue plus other operating income less materials and services (adjusted with change in inventories), employee benefit expenses and other operating expenses.

IAS 1 Presentation of Financial Statements does not provide a definition for the concept of operating profit. The Group has defined it as follows: operating profit is the net sum consisting of revenue plus other operating income less materials and services, employee benefit expenses, depreciation, amortisation and any impairment losses, as well as other operating expenses. All income statement items other than those stated above are presented below operating profit.

Significant transactions that are not part of the normal course of business or are infrequently occurring, and valuation items that do not affect cash flow, are treated as items affecting comparability between reporting periods. According to Pihlajalinna's definitions, such items include, for example:

- restructuring measures and Group refinancing
- impairment of assets and/or remeasurement to fair value of pre-existing interest in acquiree
- expenses arising from discontinuation of business activities and business locations, or gains and losses arising from divestments
- expenses from restructuring of operations and integration of acquired businesses
- dismissal-related expenses
- finances and corresponding compensation payments

Pihlajalinna does not recognise adjustments affecting comparability for the following items:

- transfer taxes and expert fees related to acquisitions, and
- purchase price allocation amortisation of intangible assets (PPA amortisation).

The reconciliation calculations for adjusted EBITDA and adjusted operating profit and the justifications for their presentation are as follows:

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

The Group's CEO and Management Team monitor and forecast adjusted EBITDA and adjusted operating profit.

EUR 1,000	2019	2018
<b>EBITDA</b>	<b>47,844</b>	<b>44,826</b>
<b>Adjustments to EBITDA</b>		
Closure of operating locations		42
Previous holding of subsidiary at fair value		-964
Dismissal-related expenses	3,019	565
Profit from divestment of business operations		-47
Change in fair value of contingent consideration	281	1,192
IAS 37, contingent assets	1,845	
Onerous contracts	1,843	
Other	296	296
<b>Adjustments to EBITDA in total</b>	<b>7,284</b>	<b>1,083</b>
<b>Adjusted EBITDA</b>	<b>55,127</b>	<b>45,909</b>
Depreciation, amortisation and impairment	37,653	31,586
<b>Adjustments to depreciation, amortisation and impairment</b>		
Closure of operating locations	3,337	119
<b>Adjustments to depreciation, amortisation and impairment in total</b>	<b>3,337</b>	<b>119</b>
<b>Adjustments to operating profit in total</b>	<b>10,621</b>	<b>1,203</b>
<b>Adjusted operating profit (EBIT)</b>	<b>20,812</b>	<b>14,442</b>
<b>Operating profit (EBIT)</b>	<b>10,191</b>	<b>13,240</b>
Financial income	120	122
Financial expenses	-4,047	-3,890
Income taxes	-1,784	-2,717
<b>Profit for the period</b>	<b>4,480</b>	<b>6,754</b>
<b>The adjustment items are presented in the income statement items as follows:</b>		
Revenue	1,845	
Other operating income		-1,011
Employee benefit expenses	3,566	565
Other operating expenses	1,873	1,530
<b>EBITDA adjustment items total</b>	<b>7,284</b>	<b>1,083</b>
Depreciation, amortisation and impairment	3,337	119
<b>Operating profit adjustment items total</b>	<b>10,621</b>	<b>1,203</b>

## 9. Financial income

EUR 1,000	2019	2018
Dividend income from available-for-sale financial assets	11	12
Interest income from loans and receivables	90	94
Interest income from subleases	2	4
Other financial income	17	12
<b>Total</b>	<b>120</b>	<b>122</b>

## 10. Financial expenses

EUR 1,000	2019	2018
Interest expenses from financial liabilities carried at amortised cost	-1,772	-1,441
Interest expenses on lease liabilities	-1,864	-1,936
Other financial expenses	-411	-512
<b>Total</b>	<b>-4,047</b>	<b>-3,890</b>

## 11. Income taxes

### Accounting policies

The income taxes on the consolidated income statement consist of current tax, adjustments to taxes for previous periods, and deferred taxes. Taxes are recognised in profit or loss, except when they are directly attributable to items recognised under equity or other comprehensive income. In such cases, also the tax is recognised under the item in question. Current tax is calculated on taxable profit, based on the enacted tax rate. Tax is adjusted with any taxes associated with prior financial years. Any penal interests related to said taxes are recognised under financial expenses. The share of associates' profit is presented in the statement of comprehensive income as calculated from net profit and thus including the income tax charge.

EUR 1,000	2019	2018
Current taxes	-4,110	-4,953
Taxes for the previous financial years	-11	-104
Deferred taxes:		
Origination and reversal of temporary differences	2,337	2,340
<b>Total</b>	<b>-1,784</b>	<b>-2,717</b>

### Reconciliation of effective tax rate

EUR 1,000	2019	2018
Profit before taxes	6,264	9,472
Taxes calculated on the basis of the Finnish tax rate (20%)	-1,253	-1,894
Income not subject to tax	2	4
Non-deductible expenses	-64	-575
Unrecorded deferred tax assets from tax losses	-550	-6
Utilised prior losses with unrecognised tax benefits	51	32
Share of associated company's profit	0	1
Fair value measurement of contingent consideration	-56	-238
Previous holding measured at fair value	0	199
Reversal of unused replacement reserve	0	-221
Other items	97	85
Taxes for prior financial years	-11	-104
<b>Taxes in the income statement</b>	<b>-1,784</b>	<b>-2,717</b>
Effective tax rate	-28.5 %	-28.7 %

## 12. Earnings per share

### Accounting policies

Earnings per share is calculated by dividing the profit for the financial year attributable to owners of the parent by the weighted average number of shares outstanding during the financial year.

Earnings per share for the financial year attributable to owners of the parent are calculated by dividing the profit for the financial year attributable to owners of the parent by the weighted average number of shares outstanding during the financial year. The parent company does not have dilutive instruments.

	2019	2018
Profit for the financial year attributable to owners of the parent, EUR	3,365,143.62	3,474,716.01
Number of shares outstanding, weighted average	22,620,135	22,224,236
Earnings per share (EPS), EUR/share	0.15	0.16

## 13. Property, plant and equipment

### Accounting policies

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures incurred directly from the acquisition of an item of property, plant and equipment. Costs incurred subsequently are

included in the carrying amount of an asset only if it is deemed probable that any future economic benefits related to the asset will flow to the Group and that the cost of the asset can be reliably determined. Other repair and maintenance costs will be expensed at the time they are incurred.

The residual value, the useful life of an asset and the depreciation method applied are reviewed at least at the end of each financial year and adjusted as necessary to reflect the changes in the expectations concerning the economic benefits attached to the asset. Capital gains generated from decommissioning and disposing of property, plant and equipment are included under other operating income, and capital losses are included under other operating expenses.

Assets are depreciated from the time when they are ready for use; i.e. when their location and condition allow them to be applied as intended by the management.

In 2018, the Group opened private clinics in Turku, Oulu and Seinäjoki. The Group acquired 3 Tesla high-field magnetic imaging equipment for the clinics in Oulu and Turku and a 1.5 Tesla high-field magnetic imaging device for the clinic in Seinäjoki. For the magnetic imaging equipment at these green field private clinics, the Group adopted a units-of-production based depreciation method effective from 1 January 2018. The amount of depreciation is based on the units of production derived from the magnetic imaging equipment. For the Group's other machinery and equipment, the Group still uses straight-line depreciation. As the utilisation rate of imaging capacity is very low during the first years of a new operating location, the units-of-production method provides a more accurate reflection of the actual economic use of the magnetic imaging equipment in question than straight-line depreciation.

EUR 1,000	Land areas	Buildings	Renovation expenses on real estate	Shares in real estate companies	Machinery and equipment	Other tangible assets	Construction in progress	Total
Cost at 1 January 2019	105	1,714	24,656	5,572	46,051	172	1,446	79,716
Additions		2,235	645	7	7,691	9	7,793	18,381
Business combinations					13			13
Transfers between items	0	5,730	1,571		1,254	-1	-7,009	1,544
Disposals	-69	-168	-268		-1,773	0	-7	-2,285
Cost at 31 December 2019	36	9,512	26,604	5,579	53,237	179	2,223	97,369
Accumulated depreciation at 1 January 2019	0	-308	-11,504		-24,614	-9	0	-36,434
Depreciation and amortisation		-119	-2,119		-5,440	-4	0	-7,682
Transfers between items		0	-321		-1,209	1	0	-1,529
Disposals		23	266		1,225	0	0	1,514
Accumulated depreciation at 31 December 2019		-404	-13,678		-30,038	-12	0	-44,132
Carrying amount at 1 January 2019	105	1,406	13,151	5,572	21,437	163	1,446	43,281
<b>Carrying amount at 31 December 2019</b>	<b>36</b>	<b>9,108</b>	<b>12,925</b>	<b>5,579</b>	<b>23,199</b>	<b>167</b>	<b>2,223</b>	<b>53,237</b>

EUR 1,000	Land areas	Buildings	Renovation expenses on real estate	Shares in real estate companies	Machinery and equipment	Other tangible assets	Construction in progress	Total
Cost at 1 January 2018	88	1,317	16,111	4,015	32,526	162	5,827	60,046
Additions	25	397	2,405	1,127	10,911	2	2,089	16,957
Business combinations			1,321	430	2,049	8	0	3,809
Transfers between items	-9	0	5,237		1,602	0	-6,470	360
Disposals	0		-419		-1,037	0	0	-1,456
Cost at 31 December 2018	105	1,714	24,656	5,572	46,051	172	1,446	79,716
Accumulated depreciation at 1 January 2018	0	-257	-9,484		-20,012	-5	0	-29,759
Depreciation and amortisation		-51	-2,234		-5,213	-4	0	-7,502
Transfers between items			-205		-124	0	0	-329
Disposals			419		735	0	0	1,154
Accumulated depreciation at 31 December 2017		-308	-11,504	0	-24,614	-9	0	-36,434
Carrying amount at 1 January 2018	88	1,060	6,627	4,015	12,513	156	5,827	30,287
Carrying amount at 31 December 2018	105	1,406	13,151	5,572	21,437	163	1,446	43,281

14.

Intangible assets

Accounting policies

Goodwill

Goodwill generated through business combinations is measured at the amount by which the consideration transferred, non-controlling interests in the acquiree and previously owned holding combined exceed the fair value of the acquired net assets. Goodwill generated through business combinations is measured at the amount by which the consideration transferred, non-controlling interests in the acquiree and previously owned holding combined exceed the fair value of the acquired net assets.

Goodwill is not amortised but tested annually for impairment, and whenever there is an indication that the asset may be impaired. For this purpose, goodwill is allocated to cash-generating units (CGUs). Goodwill is measured at original cost less accumulated impairment.

Capitalised development costs

Assets are amortised from the time when they are ready for use. Assets that are not yet available for use are tested annually for impairment. Subsequent to their initial recognition, capitalised development costs are measured at cost less accumulated

amortisation and impairment. The amortisation period for development costs is 3 to 10 years, during which capitalised development costs are amortised using the straight-line method.

The Group's capitalised development costs that have not been amortised are associated with the following projects:

- New operating model for fixed-price occupational healthcare agreements and a related occupational healthcare portal
- Renewal of primary care service models, involving remote service models for municipal residents and mobile solutions (social and healthcare service centre concept)
- Sports clinic concept
- Pihlajalinna mobile application and website development with the aim of making AI-assisted digital services available to all customers.
- Specialised care referral forwarding and coordination operating model developed for the Parkano social and healthcare partnership area
- Takeover of social and healthcare services in Mänttä-Vilppula and the development of operating models
- The three-year SYKKI project, funded with Tekes subsidies, aimed at creating an effective and cost-efficient model for public social and healthcare services

EUR 1,000	Goodwill	Trademarks	Development costs	Other intangible assets related to purchase price allocations	Other intangible assets	Pre-payments	Total
Cost at 1 January 2019	169,927	7,762	5,206	21,513	12,707	245	217,362
Additions			549		2,006	1,010	3,565
Business combinations	3,680		0	69	7	0	3,756
Transfers between items			212		773	-808	177
Disposals					-95	-5	-99
Cost at 31 December 2019	173,607	7,762	5,967	21,582	15,400	443	224,763
Accumulated depreciation at 1 January 2019		-3,926	-1,343	-13,341	-5,910		-24,521
Depreciation and amortisation		-776	-790	-3,784	-2,089		-7,438
Transfers between items					-216		-216
Disposals					104		104
Accumulated depreciation at 31 December 2019		-4,702	-2,132	-17,125	-8,111		-32,071
Carrying amount at 1 January 2019	169,927	3,836	3,864	8,173	6,797	245	192,841
Carrying amount at 31 December 2019	173,607	3,060	3,834	4,457	7,290	443	192,692

EUR 1,000	Goodwill	Trademarks	Development costs	Other intangible assets related to purchase price allocations	Other intangible assets	Pre-payments	Total
Cost at 1 January 2018	103,893	7,762	3,813	13,826	8,388	119	137,802
Additions			1,344		3,602	431	5,377
Business combinations	66,034		49	7,687	359		74,130
Transfers between items					361	-305	56
Disposals					-3		-3
Cost at 31 December 2018	169,927	7,762	5,206	21,513	12,707	245	217,362
Accumulated depreciation at 1 January 2018		-3,150	-816	-8,986	-4,353		-17,305
Depreciation and amortisation		-776	-527	-4,355	-1,473		-7,131
Accumulated depreciation at 31 December 2018		-3,926	-1,343	-13,341	-5,910		-24,521
Carrying amount at 1 January 2018	103,893	4,613	2,997	4,840	4,036	119	120,496
Carrying amount at 31 December 2018	169,927	3,836	3,864	8,173	6,797	245	192,841

Other intangible assets include licences and computer software. In business combinations, customer agreements and related customer relationships as well as non-competition agreements and certificates have been allocated.

Allocation of goodwill

Accounting policies

Goodwill generated through business combinations is measured at the amount by which the consideration transferred, non-controlling interests in the acquiree and previously owned holding combined exceed the fair value of the acquired net assets. Goodwill is not amortised but is tested for impairment at least once per year.

Goodwill created through business combinations is allocated to cash-generating units (CGUs). Pihlajalinna's operating structure has changed compared to that of 2018. Instead of four

geographical business areas, teh Group has a Chief Operating Officer (COO) responsible for the entire Group's business operations and service offering to both the private and public sectors.

The COO is responsible for preparing the Group businesses' budgets and managing the area's resources, investments and profitability. The COO is supported by joint support services.

EUR 1,000	2019
Tested goodwill in total on 31 October 2019	173,607
Goodwill as per the statement of financial position at the end of the financial year on 31 December 2019	173,607
The carrying amounts of goodwill were allocated to the business areas as follows in the testing for goodwill in 2018:	
	2018
Southern Finland	90,313
Mid-Finland	60,853
Ostrobothnia	4,744
Northern Finland	7,686
Tested goodwill in total on 30 November 2018	163,596
Re-estimation of initial acquisition cost and contingent consideration during the measurement period	-14
Acquisition of Terveyspalvelu Verso Oy on 28 December 2018	6,344
Achievement of control in Dextra Lapsettomuusklินิกка Oy	
Goodwill as per the statement of financial position at the end of the financial year on 31 December 2018	169,927

For the 2018 financial year, goodwill testing was carried out without the effects of IFRS 16 Leases on the consolidated income statement, statement of financial position and calculation of discount rate.

Impairment testing of cash-generating units that include goodwill

Accounting policies

If indications of amortisation or impairment exist, the asset's recoverable amount is estimated. The recoverable amount is also estimated annually in conjunction with the closing of the books for the following assets regardless of whether or not there are indications of impairment: goodwill and intangible assets not yet available for use.

The need to recognise an impairment loss is assessed at the level of CGUs, or in other words, at the lowest level of units that are mainly independent of other units and whose cash flows are separable and largely independent of the cash flows of other corresponding units. A CGU is the lowest such level in the Group whose goodwill is monitored for internal management purposes. Such corporate assets that serve a number of CGUs and do not generate a separate cash flow have been attributed to CGUs and are tested as part of the relevant CGU.

The recoverable amount is the fair value of an asset less costs of disposal or the asset's value-in-use, whichever is greater. The value-in-use is understood as the future net cash flows expected to be derived from the asset or the CGU in question, discounted to their present value. The discount rate applied is the pre-tax rate, which reflects current market assessments of the time value of money and particular risks associated with the asset.

An impairment loss is recognised when the carrying amount of an asset is larger than its recoverable amount. An impairment loss is recognised immediately in profit or loss. If the impairment loss is attributable to a CGU, it is first allocated to decrease the goodwill allocated to the said CGU and then to decrease the carrying amount of the unit's other assets on a pro rata basis. When an impairment loss is recognised, the useful life of the asset to which the depreciation or amortisation is allocated is

re-estimated. An impairment loss recognised on an asset other than goodwill is reversed in case a change has occurred in the estimates used for determining the asset's recoverable amount. However, an impairment loss shall not be reversed to an extent larger than what the carrying amount of the asset would be excluding the recognition of the impairment loss. An impairment loss recognised on goodwill is not reversed in any situation.

Key accounting estimates and decisions based on management judgement

The recoverable amounts of the CGUs are based on value-in-use calculations prepared by using discounted cash flow forecasts. The cash flow forecasts are based on the budget for 2020 approved by the Board of Directors, and the cash flow estimates for 2021-2024 are based on the Head of Business Operations' estimates of the growth and profitability of the business. Cash flows arising beyond the forecast period approved by the management are capitalised using a stable 2% growth rate.

The discount rate used in the calculations is determined using the weighted average cost of capital (WACC), which describes the total cost of equity and liabilities, taking into account the asset-specific risks. The discount rate is a pre-tax rate. The adoption of the IFRS 16 Leases standard had an effect on the calculation of the discount rate due to the changed capital structure.

The growth rate of 2% used in the calculation of the terminal value is in line with the sector's actual long-term growth. The testing period is five (5) years.

Other key assumptions used in goodwill testing:

	Discount rate (pre tax WACC)	Discount rate (after tax WACC)
2019		
Entire Group	6.82 %	5.84 %
2018		
Southern Finland	8.50 %	7.18 %
Mid-Finland	8.50 %	7.18 %
Ostrobothnia	8.50 %	7.18 %
Northern Finland	8.14 %	7.18 %
2019	The terminal period's share of the amount of expected cash flows:	
Entire Group		79 %
2018		
Southern Finland		71 %
Mid-Finland		73 %
Ostrobothnia		73 %
Northern Finland		81 %
2019	Revenue growth during the testing period	Profitability growth during the testing period
Entire Group	1.0 %	0.0 %
2018		
Southern Finland	3.0 %	6.0 %
Mid-Finland	1.0 %	2.4 %
Ostrobothnia	3.0 %	3.0 %
Northern Finland	15.0 %	13.2 %

In impairment testing, the growth of revenue and profitability is based on presumed organic growth in normal market conditions, the general development of the social and healthcare services market and the operative management's views.

Sensitivity analyses in impairment testing

Based on the testing calculations, there is no need to recognise impairment. The recoverable amounts of the cash-generating units exceeded their combined carrying amounts.

The occurrence of any of the following changes, ceteris paribus, would lead to the carrying amount of the assets being equal to its recoverable amount:

	Decline in EBIT margin	Decline in volume	Increase in discount rate
2019			
Entire Group	more than 5 percentage points	more than 34 percentage points	more than 7 percentage points
2018			
Southern Finland	more than 1 percentage point	more than 12 percentage points	more than 1 percentage point
Mid-Finland	more than 5 percentage points	more than 50 percentage points	more than 14 percentage points
Ostrobothnia	more than 5 percentage points	more than 68 percentage points	more than 70 percentage points
Northern Finland	more than 1 percentage point	more than 12 percentage points	more than 1 percentage point

EUR 1,000	Right-of-use plots	Right-of-use buildings and business premises	Right-of-use equipment	Total
Cost at 1 January 2019	383	157,488	4,587	162,458
Additions	179	12,678	1,649	14,505
Business combinations		3,326	476	3,802
Disposals		-7,292	-809	-8,101
Cost at 31 December 2019	561	166,200	5,903	172,664
Accumulated depreciation at 1 January 2019	-162	-43,774	-2,552	-46,487
Depreciation and amortisation	-125	-17,738	-1,480	-19,343
Impairment		-3,189		-3,189
Disposals		4,138	326	4,464
Accumulated depreciation at 31 December 2019	-287	-60,562	-3,706	-64,555
Carrying amount at 1 January 2019	221	113,714	2,035	115,970
Carrying amount at 31 December 2019	274	105 638	2 197	108 109

In assessing the recoverable amounts of the CGUs, taking the aforementioned into consideration, the management estimates that no reasonably probable change in any key variable would lead to a situation where the units' recoverable amounts would be lower than their carrying amounts.

15. Right-of-use assets

Accounting policies

Pihlajalinna adopted the new IFRS 16 Leases standard fully retrospectively on 1 January 2019.

Most of the Pihlajalinna rental arrangements in line with the IFRS 16 are leases for business premises. The other lease arrangements in line with the standard concern land areas, machinery and equipment (exercise equipment, clinical equipment, cars and other equipment). Pihlajalinna applies the IFRS 16 exemption that allows lessees to elect not to recognise a right-of-use asset and corresponding lease liability for assets with a lease term of 12 months or less as well as assets of low value. Assets of low value include, for example, IT equipment and office furniture. Furthermore, to make the accounting of leases easier, Pihlajalinna elects not to separate service components from leases, instead treating the entire agreement as a lease in its consolidated financial statements. For lease arrangements valid until further notice, with a short notice period, Pihlajalinna will estimate the probable lease term.

Right-of-use assets are measured at cost, which includes the following items:

- original amount of the lease liability
- direct expenses of the initial phase and
- expenses due to restoring to original condition

EUR 1,000	Right-of-use plots	Right-of-use buildings and business premises	Right-of-use equipment	Total
Cost at 1 January 2018	384	100,388	1,925	102,698
Additions		24,673	589	25,261
Business combinations		32,427	2,073	34,500
Disposals	-1			-1
Cost at 31 December 2018	383	157,488	4,587	162,458
Accumulated depreciation at 1 January 2018	-123	-28,193	-1,219	-29,535
Depreciation and amortisation	-39	-15,581	-1,332	-16,953
Accumulated depreciation at 31 December 2018	-162	-43,774	-2,552	-46,487
Carrying amount at 1 January 2018	261	72,196	706	73,162
Carrying amount at 31 December 2018	221	113,714	2,035	115,970

Short-term leases and minor leases to which the Group applies the practical exemptions provided by IFRS 16 totalled EUR 980 thousand. Lease liabilities relating to right-of-use items are specified in Note 23 Financial liabilities.

16.

Other non-current receivables

EUR 1,000	2019	2018
Lease deposits paid	1,764	1,800
Non-current subleases	211	
Total	1,975	1,800

17.

Trade and other receivables

Accounting policies

At the end of each reporting period, the Group assesses whether or not there is objective evidence of impairment regarding any individual financial asset. Objective evidence of impairment of loans and other receivables includes significant financial distress of the debtor and payments being delinquent or substantially delayed. Impairment of loans is recognised in financial expenses in the income statement and impairment of other receivables is recognised in other operating expenses for the period in which the impairment was identified.

Following the adoption of IFRS 9, the Group recognises a credit loss provision based on expected credit losses. The expected credit loss model is based on the amount of historical credit losses. The lifetime expected credit losses are calculated by multiplying the gross carrying amount of unpaid trade receivables by the expected loss.

Key accounting estimates and decisions based on management judgement

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, and the agreements may involve variable consideration. The cost accumulation of public specialised care involves random fluctuation. In addition, individual cases falling within the scope of the hospital districts' pooling system for high-cost care and operational economy surplus refunds may influence the costs of specialised care considerably during the financial year, and between financial periods, in Pihlajalinna's municipal companies.

The City of Jämsä has taken legal action against Jämsän Terveys Oy over the service agreement. The dispute concerns the provision on price adjustments pursuant to the service agreement. The difference of opinion regarding the determination of the annual price totalled approximately EUR 1.8 million at the time of the financial statements. Moreover, Jämsän Terveys Oy has other receivables amounting to a total of EUR 3.1 million from the City of Jämsä, associated with the increases costs of specialised care and increased regulatory requirements for services for senior citizens. According to the management's estimate, the customer will pay the receivables in full.

Kuusiolinnaterveys Oy has trade and other receivables totalling EUR 4.5 million from a client. The protocol on interpretation signed with the municipalities of Alavus, Ähtäri and Soini in conjunction with the share transactions also agreed on the principles of charging the variable consideration. The outstanding receivables are associated

with increased regulatory requirements for services for senior citizens, costs of specialised care and the calculation of net expenditure. A share transaction has not yet been completed with Kuortane, and no corresponding protocol on interpretation has been signed. According to the management's estimate, the client will pay the receivables in full, as the majority of the client's shareholders have agreed on the charging principles.

Mäntänvuoren Terveys Oy has trade and other receivables totalling EUR 1.2 million from a client. The receivables are associated with increased regulatory requirements for services for senior citizens and the calculation of net expenditure pursuant to the previous agreement. A social and healthcare service property transaction that will be completed in 2020 has been agreed upon with the client. According to the management's estimate, the customer will pay the receivables in full in conjunction with the completion of the property transaction.

Kolmostien Terveys Oy has trade and other receivables of EUR 0.4 million from a client relating to the increased regulatory requirements for services for senior citizens. According to the management's estimate, the customer will pay the receivables in full.

On the date of the financial statements, the Group's receivables include a total of EUR 1.6 million (EUR 2.8 million at the end of 2018) in service provider refunds for public sector specialised care cost accruals, estimated on a municipality-specific basis. According to the group management's view, under the service agreements, the refunds of cost accruals are payable to Pihlajalinna because they were accumulated during Pihlajalinna's service provision and liability for costs. In addition, the group has a total of EUR 0.2 million of overdue receivables from Kihniö and Juupajoki.

EUR 1,000	2019	2018
Trade receivables	30,492	26,582
Prepayments and accrued income	13,260	11,022
Current subleases	112	0
Other receivables	2,198	320
Total	46,062	37,923

The carrying amount of trade receivables and other receivables corresponds to the maximum credit risk involved at the end of the reporting period. The Group recognised EUR 228 thousand (EUR 333 thousand) in impairment losses on trade receivables during the financial year.

Ageing analysis of trade receivables

EUR 1,000	2019	Impairment losses	Net 2019	2018	Impairment losses	Net 2018
Past due	18,114	-17	18,096	16,847		16,847
Less than 30 days	3,105	-13	3,092	2,822		2,822
30–60 days	1,784	-63	1,721	573		573
61–90 days	644	-124	519	450		450
More than 90 days	7,520	-457	7,063	6522	-633	5,889
Total	31,166	-674	30,492	27,214	-633	26,582

EUR 1,000	2019	2018
Credit loss provision at 1 January	633	247
Credit losses recorded	228	351
Credit loss provision, used	-220	-198
Credit loss provision, increase	33	233
Credit loss provision at 31 December	674	633

Material items included under  
prepayments and accrued income

EUR 1,000	2019	2018
Sales and income accruals	5,886	3,923
Personnel expenses	1,452	3,463
Expenses paid in advance	3,734	1,935
Other	2,189	1,700
<b>Total</b>	<b>13,260</b>	<b>11,022</b>

The carrying amounts of the receivables correspond substantially to their fair values.

18. Provisions

Accounting policies

A provision is recognised when the Group has a legal or constructive obligation resulting from a past event, when it is probable that the payment obligation will materialise and when the amount of the obligation can be reliably estimated. The amount recognised as a provision equals the best estimate of the costs required to fulfil the present obligation on the date of the financial statements.

A restructuring provision is recognised when the Group has in place a detailed plan for such restructuring and its implementation has commenced or the interested parties have been informed of the main points of such a plan.

The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable expenses of meeting the obligations under the contract.

A restoration provision is recognised when the Group has a contractual obligation or decision to restore business premises to a certain condition as required by an agreement or decision at the termination of a lease or when business requirements change. The Group has recognised restoration provisions relating to its premises and provisions for onerous contracts related to vacant business premises.

EUR 1,000	2019	2018
Current provisions	1,636	302
Non-current provisions	170	
<b>Total</b>	<b>1,806</b>	<b>302</b>

EUR 1,000	Premises restoration provision	Onerous contracts	Restructuring provision	Total
1.1.2018	433	396		829
Increases in provisions	330			330
Provisions used		-94		-94
Reversals of unused provisions	-763			-763
<b>31.12.2018</b>		<b>302</b>		<b>302</b>
Increases in provisions		1,843	3,019	4,862
Provisions used		-786	-2,571	-3,357
<b>31.12.2019</b>		<b>1,359</b>	<b>448</b>	<b>1,806</b>

In June 2019, the group launched an efficiency improvement programme to achieve annual cost savings of approximately EUR 17 million. The reduction in costs for the past financial year achieved through the efficiency improvement programme are estimated to be approximately EUR 5 million. A non-recurring expense of EUR 4.2 million was recorded due to the efficiency improvement programme, consisting of a restructuring provision of EUR 2.4 million and a provision of EUR 1.8 million concerning sales agreements that have been identified onerous.

19. Trade and other payables

EUR 1,000	2019	2018
Trade payables	18,573	18,789
Accrued liabilities	69,373	49,049
Pre-payments	1,069	897
Other liabilities	12,986	10,759
<b>Total</b>	<b>102,002</b>	<b>79,494</b>

Material items included under Accrued liabilities:

Wages and salaries and social security payments	35,531	32,375
Purchase price of Kuusilinna Terveys Oy and Mäntänvuoren Terveys Oy shares	18,598	
Doctor's fee liability	7,658	6,350
Allocation of sales	65	1,795
Allocation of purchase invoices	7,306	7,446
Financial items	165	114
Other accrued liabilities	51	968
<b>Total</b>	<b>69,373</b>	<b>49,049</b>

20. Deferred tax assets and liabilities

Accounting policies

Deferred taxes are calculated on temporary differences between the carrying amount and the tax base. However, a deferred tax liability shall not be recognised on the initial recognition of goodwill, or on the initial recognition of an asset or liability in a transaction which is a business combination and, at the time of transaction, affects neither accounting profit nor taxable profit.

In the Group, the most significant temporary differences result from depreciation and amortisation of property, plant and equipment and intangible assets, unpaid dividends based on work contributions, fair value-based adjustments made in connection with business combinations, and unused tax losses.

Deferred taxes are calculated by applying tax rates enacted or substantively enacted by the end of the reporting period.

A deferred tax asset is only recognised to the extent that it is probable that taxable profit will be available against which the temporary difference can be utilised. However, a deferred tax asset is not recognised if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting

profit nor taxable profit. Whether or not deferred tax assets can be recognised in this respect is always estimated at the end of each reporting period.

The Group shall offset deferred tax assets and liabilities where these relate to the same taxation authority and the same taxable entity.

Changes in deferred taxes during 2019:

EUR 1,000	1.1.2019	Recognised in profit and loss	Recognised in equity	Subsidiaries acquired	31.12.2019
<b>Deferred tax assets</b>					
Tax losses carried forward confirmed by tax authorities	1,793	224			2,017
Liability to holders of Series B shares	1,314	242			1,557
Sales proceeds from sale and leaseback arrangements	313	-30			283
Provisions		942			942
Share-based incentive scheme		53			53
IAS 37 contingent asset		369			369
Effect of IFRS 16	317	135			452
Other items	325	8			333
<b>Deferred tax assets on the statement of financial position</b>	<b>4,063</b>	<b>1,943</b>			<b>6,006</b>
<b>Deferred tax liabilities</b>					
Property, plant and equipment and intangible assets	3,496	474			3,969
Recognition of property, plant and equipment and intangible assets at fair value in business combinations	2,402	-912		13	1,503
Effect of IFRS 16	108	84			192
Other items	100	-39			61
<b>Deferred tax liabilities on the statement of financial position</b>	<b>6,105</b>	<b>-394</b>		<b>13</b>	<b>5,726</b>

Changes in deferred taxes during 2018:

EUR 1,000	1.1.2018	Recognised in profit and loss	Recognised in equity	Subsidiaries acquired	31.12.2018
<b>Deferred tax assets t</b>					
Tax losses carried forward confirmed by tax authorities	483	1,310			1,793
Liability to holders of Series B shares	1,215	99			1,314
Sales proceeds from sale and leaseback arrangements	343	-30			313
Effect of IFRS 16	356	-39			317
Other items	184	-123		264	325
Expenses arising from directed share issue		-11	11		0
<b>Deferred tax assets on the statement of financial position</b>	<b>2,582</b>	<b>1,206</b>	<b>11</b>	<b>264</b>	<b>4,063</b>
<b>Deferred tax liabilities</b>					
Property, plant and equipment and intangible assets	2,711	784			3,496
Replacement reserve for business premises	814	-814			
Recognition of property, plant and equipment and intangible assets at fair value in business combinations	1,891	-1,026		1,538	2,402
Effect of IFRS 16	244	-136			108
Other items	43	57			100
<b>Deferred tax liabilities on the statement of financial position</b>	<b>5,702</b>	<b>-1,135</b>		<b>1,538</b>	<b>6,105</b>

Tax losses	Available tax losses		Tax values recorded		Tax values not recorded	
	2019	2018	2019	2018	2019	2018
Maturing within five years	2,296	2,886			459	
Maturing later than within five years	15,771	11,660	2,017	1,794	1,137	1,116
<b>Total</b>	<b>18,066</b>	<b>14,546</b>	<b>2,017</b>	<b>1,794</b>	<b>1,596</b>	<b>1,116</b>
Taxes calculated on the basis of the Finnish tax rate (20%)	3,613	2,909				

The recognition of deferred tax assets on the statement of financial position is justified when the Group is likely to accrue taxable income against which the losses in question can be used before they expire in line with the prudence principle. The Group will primarily apply for the right to deduct all confirmed losses of its acquired subsidiaries. The Tax Authority has granted the right to deduct confirmed losses in spite of changes in ownership.

21.

Financial assets and liabilities  
by measurement category

Accounting policies

When a financial asset or liability is recognised on the transaction date, the Group measures it at its acquisition cost, which is equal to the fair value of the consideration given or received.

Financial assets

For the purpose of measurement after initial recognition, the Group's financial assets are classified as financial assets measured at amortised cost and financial assets measured at fair value through profit or loss. The Group has no financial instruments classified as derivatives nor comprehensive assets measured at fair value through other comprehensive income. Financial assets are derecognised when the Group has lost its contractual right for the financial assets in question or has transferred substantially all risks and rewards outside the Group.

The Group's trade receivables, loan receivables, lease deposits and cash and cash equivalents have been classified at the time of IFRS 9 adoption as financial assets measured at amortised cost using the effective interest method, taking any impairment into account.

Financial assets measured at fair value through profit or loss consist of quoted and unquoted shares. The Group has no hold-ings of shares quoted in public markets.

EUR 1,000 31.12.2019	Note	Fair value hierarchy	Fair value through profit or loss	Amortised cost	Total carrying amounts	Fair values total
Non-current financial assets						
Other shares and participations		level 3	146		146	146
Lease deposits	16	level 2		1,764	1,764	1,764
Current financial assets						
Trade receivables	17			30,492	30,492	30,492
Other receivables	17	level 2		2,198	2,198	2,198
Cash and cash equivalents				27,004	27,004	27,004
Total			146	61,458	61,604	61,604
Carrying amounts of financial liabilities						
Non-current financial liabilities						
Loans from financial institutions	23	level 2		103,182	103,182	103,182
Lease liabilities	23	level 2		96,404	96,404	96,404
Other liabilities	23	level 2		681	681	681
Current financial liabilities						
Loans from financial institutions	23	level 2		1,193	1,193	1,193
Cheque account with credit limit	23			501	501	501
Lease liabilities	23	level 2		17,747	17,747	17,747
Contingent consideration	27	level 3	1,397		1,397	1,397
Trade and other payables	19			26,357	26,357	26,357
Total			1,397	246,064	247,460	247,460

Cash and cash equivalents

Cash and cash equivalents consist of cash at hand and demand deposits. The account with credit limit in use is included in current financial liabilities.

Financial liabilities

The Group classifies loans from financial institutions, accounts with credit limits, lease liabilities, trade payables and other liabilities as financial liabilities measured at amortised cost using the effective interest method. Transaction costs are included in the initial carrying amount. Arrangement fees for loan commitments are treated as transaction costs. The Group classifies contingent considerations arising from M&A transactions as financial liabilities measured at fair value through profit or loss. No interest is paid on liabilities arising from contingent considerations. Any contingent consideration is measured at fair value at the date of acquisition and classified as a liability. A contingent consideration classified as a liability is measured at fair value at the end of each reporting period, and any resulting gain or loss is recognised in profit or loss after the end of the measurement period. The Group has no financial instruments classified as derivatives.

Financial liabilities are classified as current liabilities, unless the Group has an unconditional right to postpone their repayment to a date that is at least 12 months subsequent to the end of the reporting period.

EUR 1,000 31.12.2018	Note	Fair value hierarchy	Fair value through profit or loss	Amortised cost	Total carrying amounts	Fair values total
Non-current financial assets						
Other shares and participations		level 3	139		139	139
Lease deposits	16	level 2		1,800	1,800	1,800
Current financial assets						
Trade receivables	17			26,582	26,582	26,582
Other receivables	17	level 2		320	320	320
Cash and cash equivalents				36,316	36,316	36,316
Total			139	65,018	65,157	65,157
Carrying amounts of financial liabilities						
Non-current financial liabilities						
Loans from financial institutions	23	level 2		93,627	93,627	93,627
Lease liabilities	23	level 2		101,998	101,998	101,998
Other liabilities	23	level 2		720	720	720
Contingent consideration	27	level 3	1,348		1,348	1,348
Current financial liabilities						
Loans from financial institutions	23	level 2		1,493	1,493	1,493
Cheque account with credit limit	23			0	0	0
Lease liabilities	23	level 2		16,504	16,504	16,504
Contingent consideration	27	level 3	1,465		1,465	1,465
Trade and other payables	19			25,357	25,357	25,357
Total			2,812	239,699	242,511	242,511

Fair value assessment

Financial assets and liabilities recognised at fair value on the consolidated statement of financial position are classified according to their valuation-based hierarchy levels and measurement methods as follows:

Fair value hierarchy levels

**Level 1:** Fair values are based on quoted prices in active markets for identical assets and liabilities. The Group has no financial assets or liabilities measured according to level 1 of the hierarchy.

**Level 2:** The fair value is determined using valuation meth-ods. The financial assets and liabilities are not subject to trading in active and liquid markets. The fair values can be determined based on quoted market prices and deduced valuation.

The carrying amount of the trade receivables and financial assets essentially corresponds to their fair value, as the effect of discounting is not significant taking the maturity of the receiva-bles into consideration.

The fair values of lease liabilities are based on discounted cash flows. The fair values of loans essentially correspond to their carrying amount since they have a floating interest rate and the Group's risk premium has not materially changed.

The carrying amount of other financial liabilities essentially corresponds to their fair value, as the effect of discounting is not significant taking the maturity of the receivables into consideration.

**Level 3:** The fair value is not based on verifiable market infor-mation, and information on other circumstances affecting the value of the financial asset or liability is not available or verifiable.

The Group's other shares and participations consist solely of shares in unlisted companies. Contingent considerations are measured at value at the time of acquisition. More information on contingent considerations is presented in Note 27 Business combinations.

22.

Notes on equity

Accounting policies

The Group classifies all instruments it issues either as an equity instrument or a financial liability, depending on their nature. Equity instruments are any contracts evidencing a residual interest in the assets of the company after deducting all of its liabilities. Costs relating to the issue or purchase of equity instruments are presented as a deduction from equity.

Reconciliation of the number of shares

EUR 1,000	Number of shares	Share capital	Reserve for invested unrestricted equity	Total
31.12.2018	22,620,135	80	116,520	116,600
31.12.2019	22,620,135	80	116,520	116,600

Pihlajalinna has one share series, with each share entitling its holder to one vote at a General Meeting of shareholders. The company's shares have no nominal value. All shares bestow their holders with equal rights to dividends and other distribution of the company's assets.

Reserve for invested unrestricted equity

The reserve for invested unrestricted equity contains other equity-like investments and the share subscription price to the extent that this is not entered in share capital under a specific decision.

Distributable funds

The parent company’s total distributable funds amount to EUR 206,497,856.66, of which the profit for the financial year accounts for EUR 2,328,952.90.

Dividends

The Board of Directors proposes that no dividend be paid for the financial year that ended on 31 December 2019 due to the tender offer made by Mehiläinen. Should the tender offer lapse, the Board of Directors will re-evaluate the matter.

Mehiläinen Yhtiöt Oy’s voluntary cash tender offer for all shares in Pihlajalinna Plc

On 5 November 2019, Mehiläinen Yhtiöt Oy and Pihlajalinna Plc entered into a combination agreement, pursuant to which Mehiläinen made a voluntary recommended public cash tender offer for all issued and outstanding shares in Pihlajalinna.

In the tender offer, Pihlajalinna’s shareholders are offered a cash consideration of EUR 16.00 for each issued and outstanding share in Pihlajalinna. The consideration includes a premium of approximately 46.0 per cent compared to the closing price of the Pihlajalinna share on the official list of Nasdaq Helsinki on 4 November 2019. The non-conflicted members of the Board of Directors of Pihlajalinna unanimously decided to recommend that the shareholders of Pihlajalinna accept the tender offer.

23. Financial liabilities

EUR 1,000	2019	2018
Non-current interest-bearing liabilities		
Bank loans	103,182	93,627
Other liabilities	681	720
Lease liabilities	96,404	101,998
	200,266	196,345
Current interest-bearing liabilities		
Bank loans	1,193	1,493
Cheque accounts with credit limit	501	0
Lease liabilities	17,747	16,504
	19,441	17,997
Interest-bearing financial liabilities total	219,707	214,341

At the end of the financial year, the Group had EUR 29.5 (39.0) million of unused committed short-term credit limits. Drawdowns from the Group’s revolving credit facility are actually long-term by nature, although their maturity is 1, 3 or 6 months.

Lease liabilities

Accounting policies

Right-of-use assets are presented under property, plant and equipment and lease liabilities are presented under financial liabilities. The right-of-use asset is initially measured at cost and depreciated over the economic life of the asset. The right-of-use asset is also subject to IAS 36 Impairment of Assets. The

lease liability is initially measured at the present value of future lease payments. In later periods, the lease liability is measured using the effective interest rate method, according to which the lease liability is measured at amortised cost and the interest expense is amortised over the lease term. The standard allows the lessee to also include non-lease elements of an agreement (typically services) in the lease liability.

EUR 1,000	2019	2018
Non-current lease liabilities		
Right-of-use plots	206	169
Right-of-use business premises and buildings	95,112	100,827
Right-of-use equipment	1,087	1,002
Total	96,404	101,998
Current lease liabilities		
Right-of-use plots	61	5
Right-of-use business premises and buildings	16,568	15,482
Right-of-use equipment	1,118	1,017
Total	17,747	16,504

24. Changes in interest-bearing liabilities with no impact on cash flow

EUR 1,000	2018	Cash flow	Business combinations	New instalments & financial leasing	Effective interest rate	2019
Non-current interest-bearing liabilities	94,347	9,000	44	376	96	103,862
Current interest-bearing liabilities	1,493	-1,285	153	1,333		1,694
Lease liabilities	118,502	-22,656	3,802	14,504		114,151
Total liabilities from financing	214,341	-14,941	3,999	16,212	96	219,707

25. Capital management

The goal of the Group’s capital management is to ensure that the normal requirements of business operations are met, enable investments in line with the Group’s strategy and increase long-term shareholder value. The Group influences its capital structure mainly through the distribution of dividend and share issues.

The key indicators concerning capital management are the equity ratio, the ratio of net debt to adjusted EBITDA and gearing.

EUR 1,000	Note	2019	2018
Equity		106,083	130,322
Total statement of financial position – prepayments received		437,377	435,867
Equity ratio 1)		24.3,%	29.9,%
Interest-bearing financial liabilities	23	219,707	214,341
Cash and cash equivalents		-27,004	-36,316
Interest-bearing net debt		192,703	178,026
Gearing 2)		181.7,%	136.6,%
EBITDA		47,844	44,826
Adjustment items*		7,284	1,083
Adjusted EBITDA		55,127	45,909
Net debt/adjusted EBITDA		3.5	3.9

\* 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 and Group refinancing, impairment of assets and the remeasurement of previous assets held by subsidiaries, the costs of closing down businesses and business locations, gains and losses on the sale of businesses, costs arising from operational restructuring and the integration of acquired businesses, costs related to the termination of employment relationships, as well as fines and corresponding compensation payments.

1) The formula for calculating the equity ratio is 100 x Equity / (Total statement of financial position – prepayments received)  
2) The formula for calculating gearing is 100 x Interest-bearing net debt / Equity

More information on adjusted EBITDA is provided in Note 8 Adjusted EBITDA and adjusted operating profit.

26. Financial risk management

The Group’s main financial risks consist of credit and counterparty risk as well as interest rate and liquidity risks. The Group operates in Finland and is therefore not exposed to material foreign exchange risks in its operations. The Group’s general risk management policies are approved by the Board of Directors. The Group’s Chief Financial Officer, together with the operative management, is responsible for identifying financial risks and for practical risk management. The goal of the Group’s risk management is to ensure sufficient liquidity, minimise financing costs and regularly inform the management about the Group’s financial position and risks. Group’s financial administration actively monitors compliance with the financial covenants and assesses financial leeway in relation to the covenant maximums as part of the Group’s business planning.

Interest rate risk

The Group’s revenues and cash flows from operations are mostly independent of fluctuations in market interest rates. The Group is exposed to interest rate risks mainly through its external loan portfolio. In accordance with the principles of risk management, the Board of Directors decides on the extent of interest rate hedging coverage for the Group’s loan portfolio. At the end of the financial year, the Group had no interest rate hedging arrangements in place. On the date of the financial statements, 53 (56) per cent of the interest-bearing liabilities were subject to fixed interest rates. During the financial year, the average annual interest rate on the Group’s interest-bearing liabilities was approximately 1.84% (1.55%). The duration, i.e. the fixed interest rate period, of the financing portfolio was 4.0 (4.3) years.

The table below presents the Group’s interest rate position at the end of the reporting period.

EUR 1,000	2019	2018
Fixed rate financial liabilities	116,624	119,938
Variable rate financial liabilities	103,387	94,803
Total variable rate position	103,387	94,803

The table below presents the effects on consolidated profit before tax should market interest rates rise or fall, all other things being equal. The sensitivity analysis is based on the interest rate position at the closing date of the reporting period.

	2019	2019	2018	2018
	0.5 percentage points higher	0.5 percentage points lower	0.5 percentage points higher	0.5 percentage points lower
Change				
Effect on profit before tax	-517	0	-474	0

Since the Group has no material interest-bearing assets, its income and operating cash flows are not materially exposed to changes in market interest rates.

Liquidity risk

The Group monitors the amount of financing required by business operations by analysing forecasts for cash flow from sales in order to make sure the Group has a sufficient amount of liquid assets for financing operations and repaying maturing loans.

The Group aims to ensure the availability and flexibility of financing with adequate credit limits, a balanced maturity profile and sufficiently long maturities for borrowings, as well as by obtaining financing through several financial instruments. On the financial statements date, the Group’s financial assets stood at EUR 27.0 (36.3) million, in addition to which the Group had EUR 29.5 (39.0) million in unused committed credit limits available.

Pihlajalinna has a five-year EUR 120 million unsecured financing arrangement with Danske Bank and Nordea. The arrangement comprises a EUR 50 million revolving credit facility and

a long-term bullet loan of EUR 70 million. It also includes an opportunity to increase the total amount by EUR 60 million (to EUR 180 million), subject to separate decisions on a supplementary loan from the funding providers.

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

The group has credit limit agreements valid until further notice, totalling EUR 10 million. The notice period of the credit limit agreements is one month.

When the voluntary recommended public cash tender offer of Mehiläinen Yhtiöt Oy materialises, the provision on change of control of Pihlajalinna’s financing arrangements will apply. According to the provision, the funding providers are entitled to terminate the financing arrangement prematurely following a material change of control. After the announcement of the final result of the tender offer, Pihlajalinna and the funding providers have 30 business days to agree on the impacts of the change of control on the financing arrangement.

The Group’s equity ratio at the end of the financial year was 24.6 (29.9) per cent. The Group has good financial standing and its business operations are profitable, and therefore the company has not identified any significant risks related to the availability of additional financing.

The table below presents the contractual maturity of financial liabilities. The figures are undiscounted and they include both future interest payments and repayments of principal.

Financial liabilities repayment schedule

EUR 1,000	Carrying amount at 31 Dec. 2019	less than 1 year	1–2 years	2–3 years	3–4 years	over 4 years
Loans from financial institutions	104,375	-3,435	-3,817	-3,319	-100,916	-239
Lease liabilities	114,151	-19,457	-17,371	-14,589	-12,125	-59,266
Other interest-bearing liabilities	681	-20	-57	-57	-57	-851
Contingent consideration	1,397	-1,397				
Cheque account with credit limit	501	-501				
Trade payables	18,573	-18,573				
Other liabilities, series B	7,784	-7,784				
Total	247,460	-51,166	-21,244	-17,964	-113,098	-60,357

1000 €	Carrying amount at 31 Dec. 2018	less than 1 year	1–2 years	2–3 years	3–4 years	over 4 years
Loans from financial institutions	95,120	-2,950	-2,533	-2,285	-93,188	-312
Lease liabilities	118,502	-18,287	-14,583	-14,653	-13,340	-68,174
Other interest-bearing liabilities	720	-20	-93	-57	-57	-864
Contingent consideration	2,812	-1,465	-1,348			
Cheque account with credit limit	0					
Trade payables	18,789	-18,789				
Other liabilities, series B	6,568	-6,568				
Total	242,511	-48,079	-18,557	-16,994	-106,585	-69,350

Loan covenants

The Group’s key loan covenants are reported to the financiers on a quarterly basis. If the Group breaches the loan covenant terms, the creditors may accelerate the repayment of the loans. The management monitors the fulfilment of loan covenant terms and reports on them to the Board of Directors on a regular basis.

The financial covenants linked to the Group’s financing arrangement are based on the ratio of the Group’s net debt to pro forma EBITDA (leverage) and the Group’s gearing. The maximum value of the leverage covenant is 3.75. The closer the Group’s leverage covenant term is to said maximum value, the higher the margin on the financing arrangement. The maximum value of the gearing covenant is 115%. At the end of the reporting

period, the Group met the terms of the covenant, with the leverage indicator being 3.13 (2.61) and gearing being 97% (68,7%).

At the end of the reporting period, 31 December 2019, the loan amount to which the covenants apply was EUR 100.0 (91.0) million.

Credit risk

The city of Jämsä has taken legal action against Jämsän Terveys Oy over the service agreement. The dispute concerns the provision on price adjustments pursuant to the service agreement. The difference of opinion regarding the determination of the annual price totalled approximately EUR 1.8 million at the time of the financial statements. Moreover, the balance sheet of Jämsän Terveys Oy includes other receivables

amounting to a total of EUR 3.1 million from the city of Jämsä, associated with the increased costs of specialised care and increased regulatory requirements for services for senior citizens. According to the management’s estimate, the customer will pay the receivables in full.

Kuusiolinna Terveys Oy has trade and other receivables totalling EUR 4.5 million from a client. The protocol on interpretation signed with the municipalities of Alavus, Ähtäri and Soini in conjunction with the share transactions also agreed on the charging principles of variable consideration. The outstanding receivables are associated with increased regulatory requirements for services for senior citizens, costs of specialised care and the calculation of net expenditure. A share transaction has not yet been completed with Kuortane, and no corresponding protocol on interpretation has been signed. According to the management’s estimate, the client will pay the receivables in full, as the majority of the client’s shareholders have agreed on the charging principles.

Mäntänvuoren Terveys Oy has trade and other receivables totalling EUR 1.2 million from a client. The receivables are associated with increased regulatory requirements for services for senior citizens and the calculation of net expenditure pursuant to the previous agreement. The social and healthcare service property transaction agreed with the client will be implemented by 31 December 2020. According to the management’s estimate, the customer will pay the receivables in full in conjunction with the implementation of the property transaction.

Kolmostien Terveys Oy has trade and other receivables of EUR 0.4 million from a client relating to the increased regulatory requirements for services for senior citizens. According to the management’s estimate, the customer will pay the receivables in full.

On the date of the financial statements, the group’s receivables include a total of EUR 1.6 million (EUR 2.8 million at the end of 2018) in service provider refunds for public sector specialised care cost accruals, estimated on a municipality-specific basis. According to the group management’s view, under the service agreements, the refunds of cost accruals are payable to Pihlajalinna because they were accumulated during Pihlajalinna’s service provision and liability for costs. In addition, the group has a total of EUR 0.2 million of overdue receivables from Kihniö and Juupajoki.

The payment information of corporate and personal customers is checked at every appointment. For the collection of payments, the Group mostly uses an external collections agency. The Group offers private customers financing via Svea-Rahoitus. This arrangement includes a check of the customer’s creditworthiness.

The ageing analysis of trade receivables is presented in Note 17 Trade receivables and other receivables. The amount of credit losses recorded in profit or loss during the financial year was not significant. The maximum amount of the Group’s credit risk equals to the carrying amount of financial assets at the end of the financial year (see Note 20 Financial assets and liabilities by measurement category).

Currency risk

The Group operates mainly in Finland and is not therefore exposed to material foreign exchange risks in its operations. The Group’s annual procurements in foreign currencies are insignificant.

27. Business combinations

Acquisitions during the financial year 2019

EUR 1,000 Acquired entity	Month of acquisition	Industry	Domicile
Klaari Oy (Fit1 gym chain) and its subsidiary Fitnessclub Länsi-Suomi Oy, 100% of the share capital	February 2019	Fitness centres	Espoo, Vaasa
Dalmed Oy, 100% of the share capital	April 2019	Occupational healthcare services	Kemiö
Kouvolan Työterveys ry (business operations)	June 2019	Occupational healthcare services	Kouvola
Aurinkoristeys, i.e. the occupational healthcare units of the town of Raisio (business operations)	September 2019	Occupational healthcare services	Raisio, Naantali

Accounting policies

With respect to significant business combinations, the Group has relied on an external advisor on the estimates of the fair value of property, plant and equipment and intangible assets. With property, plant and equipment, comparisons are made with the market prices of corresponding assets, and it is estimated how much the value of the acquired assets has decreased due to age, wear and tear and other such factors. With intangible assets, fair value measurement is based on estimated cash flows related to the assets.

Since the acquisitions are not material individually, the following partially preliminary information has been consolidated:

EUR 1,000	2019
Consideration transferred	
Cash, basic transaction price	3,712
Total cost of the combination	3,712

The preliminary values of the assets and liabilities acquired for consideration at the time of acquisition were as follows:

EUR 1,000	Note	2019
Property, plant and equipment	13	13
Intangible assets	14	76
Right-of-use assets	15	3,802
Deferred tax assets		0
Inventories		1
Other investments		5
Trade and other receivables		196
Cash and cash equivalents		334
Total assets		4,428
Deferred tax liabilities		-14
Financial liabilities	23	-197
Lease liabilities	23	-3,802
Other liabilities		-344
Total liabilities		-4,356
Preliminary net assets		72

Goodwill generated in the acquisition:

EUR 1,000	Liite	2019
Consideration transferred		3,712
Affordable transaction		3
Share of the acquisition allocated to non-controlling interests		38
Net identifiable assets of acquirees		-72
Preliminary goodwill	14	3,680
Transaction price paid in cash		3,712
Cash and cash equivalents of acquiree		-334
Preliminary effect on cash flow*		3,378

Customer contracts, non-compete agreements and patient databases were recorded in the acquisition as intangible assets separate from goodwill. The fair value of intangible assets has been determined on the basis of the standardised price level in business combinations and the discounted values of future cash flows. The remaining goodwill consists of expectations about returns, the skilled workforce of the acquired companies and synergy benefits.

The acquisition-related expenses, a total of EUR 53 thousand, 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 2,909 thousand and total operating profit EUR 102 thousand) are included in the consolidated statement of comprehensive income. Had the business operations acquired in the financial year been consolidated as of the beginning of 2019, consolidated revenue would have amounted to EUR 520,093 thousand and operating profit for the financial year would have been EUR 10,291 thousand.

Acquisition of non-controlling interests

At the beginning of February, Pihlajalinna increased its ownership in Kolmostien Terveys Oy by acquiring 15 per cent of the company's share capital from the City of Parkano. After the transaction, the Group owns 96 per cent of the company.

Pihlajalinna increased its holding in Mäntänvuoren Terveys Oy by purchasing 10 per cent of the shares in the company from the City of Mänttä-Vilppula in December. After the transaction, the Group owns 91 per cent of the company.

At the end of the financial year, Pihlajalinna increased its holding in Kuusiollinna Terveys, a joint venture with the municipalities of Alavus, Ähtäri, Kuortane and Soini. The transactions were made with the municipalities of Alavus, Ähtäri and Soini. After the transaction, the Group owns 90 per cent of the company.

Acquisitions during the financial year 2018

EUR 1,000 Acquired/divested entity	Month of acquisition	Industry	Domicile
Terveyspalvelu Verso Oy, 100% of the share capital	Dec 2018	Occupational healthcare services	Iisalmi
Hammashannu Oy, sold 100% of the share capital (part of the SYH chain)	Sept 2018	Dental care	Turku
Anula Oy, 100% of the share capital	July 2018	Dental care	Hämeenlinna
Leaf Areena Oy, 100% of the share capital	June 2018	Fitness centres	Turku
Suomen Yksityiset Hammaslääkärit chain, 51% of the share capital	Mar 2018	Dental care	Useita
Doctagon Ab, 100% of the share capital (directed share issue)	Mar 2018	Private clinic operations, occupational health services, staffing services	Helsinki
Forever fitness centre chain, 70% of the share capital	Feb 2018	Fitness centres	Several
Röntgentutka Oy, 50% of the share capital (previous holding 50%, acquisition achieved in stages)	Feb 2018	Imaging	Tampere
Linnan Klinikka Oy, 100% of the share capital	Feb 2018	Private clinic operations, occupational health services	Hämeenlinna
Kymijoen Työterveys Oy, 100% of the share capital	Feb 2018	Occupational healthcare services	Kotka
Salon Lääkintälaboratorio Oy (Sallab), 100% of the share capital	Jan 2018	Private clinic operations, occupational health services	Salo
Someron Lääkärikeskus Oy, 100% of the share capital	Jan 2018	Private clinic operations, occupational health services	Somero

Acquisitions achieved in stages

Röntgentutka Oy, a former joint venture, became a wholly-owned subsidiary of Pihlajalinna in February 2018. Pihlajalinna consolidates the company as an acquisition achieved in stages. The pre-existing interest in acquiree was remeasured to fair value and the gains, amounting to EUR 964 thousand, were recognised in other operating income.

Accounting policies

With respect to significant business combinations, the Group has relied on an external advisor on the estimates of the fair value of property, plant and equipment and intangible assets. With property, plant and equipment, comparisons are made with the market prices of corresponding assets, and it is estimated how much the value of the acquired assets has decreased due to age, wear and tear and other such factors. With intangible assets, fair value measurement is based on estimated cash flows related to the assets.

Since the acquisitions are not material individually, the following information has been consolidated:

EUR 1,000	2018
Consideration	
Cash, basic transaction price	43,014
Value of issued shares	28,620
Contingent consideration	110
Total cost of the combination	71,744

At the date of acquisition, the values of assets acquired and liabilities assumed were as follows:

EUR 1,000	Note	2018
Property, plant and equipment	13	5,210
Intangible assets	14	8,096
Right-of-use assets	15	34,500
Deferred tax assets		264
Inventories		293
Other investments		67
Trade and other receivables		8,401
Cash and cash equivalents		6,162
Total assets		62,992
Deferred tax liabilities		-1,538
Interest-bearing financial liabilities	23	-4,770
Lease liabilities		-34,500
Other liabilities		-11,616
Total liabilities		-52,424
Acquired net assets		10,569

Goodwill generated in the acquisition:

EUR 1,000	Note	2018
Consideration transferred		71,744
Previous holding measured at fair value		4,005
Share of the acquisition allocated to non-controlling interests		854
Net identifiable assets of acquirees		-10,569
Goodwill	14	66,034
Transaction price paid in cash		43,014
Cash and cash equivalents of acquiree		-6,162
Effect on cash flow*		36,853

Customer contracts, non-compete agreements and patient databases were recorded in the acquisition as intangible assets separate from goodwill. The fair value of intangible assets has been determined on the basis of the standardised price level in business combinations and the discounted values of future cash flows. The remaining goodwill consists of expectations about returns, the skilled workforce of the acquired companies and synergy benefits.

The acquisition-related expenses, a total of EUR 1,336 thousand, 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 54,646 thousand and total operating profit EUR 3,661 thousand) are included in the consolidated statement of comprehensive income. Had the business operations acquired in the financial year been consolidated as of the beginning of 2018, consolidated revenue would have amounted to EUR 502,744 thousand and operating profit for the financial year would have been EUR 14,577 thousand.

Acquisition of non-controlling interests

At the beginning of June, Pihlajalinna increased its ownership in Kolmostien Terveys Oy by acquiring 10 per cent of the company’s share capital from the City of Parkano. After the transaction, the Group owns 81 per cent of the company.

Pihlajalinna increased its holding in Mäntänvuoren Terveys Oy by purchasing 15 per cent of the shares in the company from the City of Mänttä-Vilppula in June. After the transaction, the Group owns 81 per cent of the company.

Pihlajalinna increased its holding in Jokilaakson Terveys Oy by purchasing 39 per cent of the shares in the company from the City of Jämsä in June. After the transaction, the Group owns 90 per cent of the company.

Contingent consideration

The fair value of contingent consideration is determined on the basis of the budget for the 2019 financial year approved by the Board of Directors and on estimates for 2019–2020 prepared by the management. The estimates are based on a discount rate of 3%.

Any changes in the fair value of contingent consideration are recorded under other operating expenses. The valuation difference resulting from the discount rate has been recognised in profit or loss under financial items.

EUR 1,000	2019	2018
Contingent consideration, 1 January	2,812	5,418
Increase in contingent consideration from the acquisition of business operations		110
Increase in the fair value of contingent consideration during the measurement period		1,192
Effect of the unwinding of discount	63	136
Contingent consideration paid during the financial year*	-1,479	-4,044
Contingent consideration, 31 December	1,397	2,812

\*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:

EUR 1,000	2019	2018
Acquisitions in the financial year, effect on cash flow	3,378	36,853
Contingent consideration paid during the financial year	1,479	4,044
Total	4,857	40,897

28. Subsidiaries and material non-controlling interests

The Group’s structure

The Group had 44 (59) subsidiaries in 2019. Of these subsidiaries, 20 (30) are wholly-owned and 24 (29) are partially owned. A list of all of the Group’s subsidiaries is presented in Note 31 Related party transactions. In 2019, the Group had 1 (1) associated company and 1 (1) joint operation.

Breakdown of material non-controlling interests in the Group

EUR 1,000 Subsidiary	Main business location	Non-controlling interests’ share of the votes		Non-controlling interests’ share of profit or loss		Non-controlling interests’ share of equity	
		2019	2018	2019	2018	2019	2018
Jämsän Terveys Oy	Jämsä	49 %	49 %	-48	-178	520	568
Kuusiolinna Terveys Oy	Alavus	10 %	49 %	345	2,137	349	3,447
Kolmostien Terveys Oy	Parkano	4 %	19 %	13	114	77	303
Pihlajalinna Erityisasumispalvelut Oy	Hämeenlinna	30 %	30 %	6	-122	-148	-153
Dextra Lapsettomuusklินิกка Oy	Helsinki	49 %	49 %	420	304	339	-81
Pihlajalinna Liikuntakeskukset Group	several	30 %	30 %	57	47	2,792	2,697
Suomen Yksityiset Hammaslääkärit Group	several	45 %	49 %	-92	26	499	642
				701	2,328	4,428	7,423

Summary of financial information on subsidiaries with a material non-controlling shareholders’ interest

EUR 1,000	Jämsän Terveys Oy		Kuusiolinna Terveys Oy		Kolmostien Terveys Oy	
	2019	2018	2019	2018	2019	2018
Current assets	12,388	11,588	20,310	20,043	4,934	6,175
Non-current assets	1,870	1,251	1,520	1,188	1,032	1,069
Current liabilities	12,297	10,943	18,220	14,043	4,016	5,623
Non-current liabilities	822	663	69	47	22	16
Revenue	72,563	73,383	95,312	93,016	36,527	35,445
Operating profit	-123	-440	4,220	5,443	409	743
Profit/loss	-98	-364	3,383	4,360	324	601
Share of profit/loss attributable to owners of the parent	-50	-2,500	3,370	4,246	-1,340	601
Non-controlling interests’ share of profit/loss	-48	-178	345	2,137	13	114
Net cash flow from operating activities	-703	2,117	1,265	4,223	-1,292	2,903
Net cash flow from investing activities	-191	-174	-890	-538	1,380	-5,249
Net cash flow from financing activities	-206	-141	-3,105	-1,635	-76	-668
of which dividends paid to non-controlling interests			-2,891	-735		-190

EUR 1,000	Dextra Lapsettomuus- klินิกка Oy		Pihlajalinna Erityisasumis- palvelut Oy		Pihlajalinna Liikuntakeskukset Group		Suomen Yksityiset Hammaslääkärit Group	
	2019	2018	2019	2018	2019	2018	2019	2018
Current assets	397	249	219	792	8,891	5,584	669	1,142
Non-current assets	2,229	2,637	655	684	27,421	24,498	1,867	2,056
Current liabilities	852	1,765	714	1,334	19,236	14,864	1,528	1,896
Non-current liabilities	501	706	651		23,800	22,746	195	241
Revenue	5,073	4,493	2,410	1,113	18,467	14,890	4,898	4,619
Operating profit	1,145	893	43	-479	799	662	-204	143
Profit/loss	857	620	19	-405	191	157	-193	53
Share of profit/loss attributable to owners of the parent	437	316	13	-284	134	110	-102	27
Non-controlling interests’ share of profit/loss	420	304	6	-122	57	47	-92	26
Net cash flow from operating activities	1,619	1,530	787	-914	5,397	2,791	394	-220
Net cash flow from investing activities	-135	-28	-47	-481	1,241	-696	-397	-1,153
Net cash flow from financing activities	-1,176	-2,055	-740	1,395	-4,542	-633	-228	1,590
of which dividends paid to non-controlling interests								

29.

Interests in associates and joint arrangements

Accounting policies

Associates are companies over which the Group has significant influence. As a rule, significant influence is established when the Group holds more than 20% of a company’s voting power or otherwise has significant influence but no control.

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control involves contractually agreed sharing of control of an arrangement, which exists only when decisions about relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture. A joint venture is an arrangement whereby the Group has rights to the net assets of the arrangement, whereas in a joint operation the Group has rights to the assets, and obligations for the liabilities, relating to the arrangement.

Associates and joint ventures are consolidated using the equity method. If the Group’s share of the loss of an associate or a joint venture exceeds the carrying amount of the investment, then the investment is carried at zero value, and the losses exceeding the carrying amount are not consolidated, unless the Group is committed to fulfilling the obligations of the associate or joint venture. An investment in an associate or a joint venture includes the goodwill generated through the acquisition. Unrealised profits between the Group and an associate or a joint venture are eliminated in proportion to the Group’s ownership interest. The Group’s pro rata share of an associate’s or a joint venture’s profit for the financial year is included in operating profit.

EUR 1,000		2019	2018
Interests in associates	Ullanlinnan Silmälääkärit Oy	24	23
Interests in joint operations		40	40
Total carrying amount		64	63

Interests in associates and joint ventures

Name	Main business location	Industry	Holding, %	
			2018	2018
Ullanlinnan Silmälääkärit Oy	Helsinki	Healthcare services	37 %	37 %

	Ullanlinnan Silmälääkärit Oy	
	2019	2018
Current assets	96	105
Financial assets included in current assets	71	78
Non-current assets	62	43
Current liabilities	50	46
Financial liabilities included in current liabilities		
Non-current liabilities	30	30
Financial liabilities included in non-current liabilities	30	30
Revenue	521	421
Depreciation and amortisation	-16	-9
Operating profit	6	17
Profit/loss	5	13
Interest income	1	
Interest expenses	-2	-3
Income tax expenses or income		
Associate’s net assets	77	72
Group’s holding	37 %	37 %
Joint venture’s carrying amount in the consolidated statement of financial position	24	23

The share of associates’ profit is presented under other operating expenses up to the carrying amount of the Group’s investment in their shares.

Interests in joint operations

The Group owns 31 % in Kiinteistö Oy Levin Pihlaja, which is consolidated as a joint operation according to the pro rata share.

30.

Contingent assets and liabilities and commitments

Collateral given on own behalf	2019	2018
Pledged collateral notes		1,300
Sureties	3,682	320
Properties’ VAT refund liability	1,728	
Lease commitments for off-balance sheet leases	980	1,311
Lease deposits	1,764	1,800

Lawsuits and official proceedings

The City of Jämsä has taken legal action against Jämsän Terveys Oy over the service agreement. The dispute concerns the provision on price adjustments pursuant to the service agreement. The difference of opinion regarding the determination of the annual price totalled approximately EUR 1.8 million at the time of the financial statements.

31.

Related party transactions

The Group’s related parties consist of the subsidiaries, associates and joint ventures. Key management personnel considered related parties consist of the members of the Board of Directors and the Management Team, including the CEO.

The Group’s parent company and subsidiary relationships

The Group’s parent company is Pihlajalinna Plc, which owns all of Pihlajalinna Terveys Oy’s Series A shares.

Company	Domicile	Holding	% of votes
Parent company Pihlajalinna Plc	Tampere		
Pihlajalinna Terveys Oy	Mänttä-Vilppula	100 %	100 %
Ikipihlaja Johanna Oy	Jämsä	100 %	100 %
Jokilaakson Terveys Oy	Jämsä	90 %	90 %
Pihlajalinna Lääkärikeskukset Oy	Helsinki	100 %	100 %
Mäntänvuoren Terveys Oy	Mänttä-Vilppula	91 %	91 %
Ikipihlaja Kuusama Oy	Kokemäki	100 %	100 %
Ikipihlaja Sofianhovi Oy	Mänttä-Vilppula	100 %	100 %
Wiisuri Oy	Jyväskylä	100 %	100 %
Ikipihlaja Matinkartano Oy	Lieto	100 %	100 %
Ikipihlaja Setälänpiha Oy	Lieto	100 %	100 %
Ikipihlaja Oiva Oy	Raisio	100 %	100 %
Kolmostien Terveys Oy	Parkano	96 %	96 %
Jämsän Terveys Oy	Jämsä	51 %	51 %
Kuusiolinna Terveys Oy	Alavus	90 %	90 %
Lääkäriasema DokTori Oy	Lappeenranta	100 %	100 %
Kompassi Hammaslääkärikeskus Oy	Seinäjoki	100 %	100 %
Kompassi Lääkärikeskus Oy	Seinäjoki	100 %	100 %
Mediapu Oy	Oulu	100 %	100 %
Pihlajalinna Seinäjoki Oy	Seinäjoki	100 %	100 %
Pihlajalinna Turku Oy	Turku	81 %	81 %
Pihlajalinna Solutions Oy	Tampere	100 %	100 %
Pihlajalinna Erityisasumispalvelut Oy	Hämeenlinna	70 %	70 %
Pihlajalinna Oulu Oy	Oulu	100 %	100 %
Dextra Lapsettomuuslinikka Oy	Helsinki	51 %	51 %
Ab Kristina Hälsö Terveys Oy	Kristiinankaupunki	100 %	100 %
Linnan Klinikka Oy	Hämeenlinna	100 %	100 %
Pihlajalinna Liikuntakeskukset Oy	Tampere	70 %	70 %
Forever Matinkylä Oy	Espoo	70 %	70 %
Etelä-Karjalan Liikuntakeskus Oy	Lappeenranta	70 %	70 %
Forever Helsinki Oy	Helsinki	70 %	70 %
Forever Herttoniemi Oy	Helsinki	70 %	70 %
Forever Hiekkaharju Oy	Vantaa	70 %	70 %
Forever Hämeenlinna Oy	Hämeenlinna	70 %	70 %
Forever Järvenpää Oy	Järvenpää	70 %	70 %
Forever Lahti Oy	Lahti	70 %	70 %
Forever Varisto Oy	Vantaa	70 %	70 %
Keravan Forever Oy	Kerava	70 %	70 %
Leaf Areena Oy	Turku	70 %	70 %
Suomen Yksityiset Hammaslääkärit Oy	Tampere	55 %	55 %
Pihlajalinna Hammasklinikat Oy	Tampere	55 %	55 %
Laihian Hyvinvointi Oy	Laihia	81 %	81 %
Terveyspalvelu Verso Oy	Iisalmi	100 %	100 %
Impact Care Oy	Helsinki	100 %	100 %
Klaari Oy	Helsinki	70 %	70 %

Information on the associates is presented in Note 29 Interests in associates and joint arrangements.

Changes in Group structure

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

Merged company	Target company	Date of time
Pihlajalinna Tampere Oy	Pihlajalinna Lääkärikeskukset Oy	1.1.2019
Doctagon Ab	Pihlajalinna Terveys Oy	1.1.2019
Anula Oy	Linnan Klinikka Oy	1.1.2019
Hammaslääkäripalvelu Savodent Oy, HammasPirta Oy, Paimion Hammaslääkäripalvelu Oy and Salon Hammaslääkärikeskus Oy	Tampereen Hammaspiste Oy (currently Pihlajalinna Hammasklinikat Oy)	1.1.2019
Hammaslääkärikeskus Mandibula Oy	Mandibula Raisio Oy	28.2.2019
Mandibula Raisio Oy	Pihlajalinna Hammasklinikat Oy	1.3.2019
Pihlajalinna Kymijoki Oy	Pihlajalinna Lääkärikeskukset Oy	3.6.2019
Ala-Malmin Hammaslääkärit Oy, Salon Lääkintälaboratorio Oy and Someron Lääkäriasema Oy	Pihlajalinna Lääkärikeskukset Oy	1.9.2019
Pihlajalinna Oulu Oy	Pihlajalinna Madetojanpuisto Oy (currently Pihlajalinna Oulu Oy)	1.9.2019
Etelä-Pohjanmaan Sydäntutkimuspalvelu Oy	Kompassi Lääkärikeskus Oy	1.9.2019
Pihlajalinna Parainen Oy	Pihlajalinna Turku Oy	3.9.2019
Fit1 Fitnessclub LänsiSuomi Oy	Klaari Oy	30.11.2019
Dalmed Oy	Pihlajalinna Turku Oy	31.12.2019

Employee benefits of management

EUR 1,000	2019	2018
Salaries and other short-term employee benefits, Management Team	1,328	1,465
Post-employment benefits, Management Team	131	
Total	1,459	1,465

Wages and salaries

EUR 1,000	2019	2018
CEO		
Joni Aaltonen	285	285
Members of the Board of Directors		
Leena Niemistö	43	44
Jari Sundström (until 4 April 2019)	8	36
Mikko Wirén	260	259
Seija Turunen	35	38
Jari Eklund (until 4 April 2018)		9
Timo Everi (4 April 2019)	9	37
Matti Bergendahl (4 April 2018–5 April 2019)	14	45
Gunvor Kronman (4 April 2018–5 April 2019)	9	28
Kati Sulin (since 4 April 2018)	32	29
Matti Jaakola (since 4 April 2019)	27	
Hannu Juvonen (since 4 April 2019)	27	
Mika Manninen (since 4 April 2019)	27	
Total	771	807

According to the CEO's contract, the notice period for dismissal is 3 months. The company is liable to pay the CEO one-time compensation for termination amounting to six months' total salary. The CEO's pension benefits are according to the statutory pension scheme. The CEO is not a member of the Board of Directors.

In addition to statutory pension insurance, the Chairman of the Board of Directors has a supplementary defined contribution pension plan.

Related party transactions and related party receivables and liabilities

	2019	2018
Key management personnel		
Rents paid	942	982
Services procured	987	1 207
Trade payables	9	124
Associates		
Services procured		35
Rents received		20

The Group has leased several of its business premises from a member of the key management personnel: the premises in Nokia, Karkku, Tampere and Kangasala.

A Group company has an agreement with a member of the key management personnel, under which the Group buys healthcare professionals' services.

The Group's statutory accident insurance policy has been taken out from another related party.

32. Events after the balance sheet date

Mehiläinen Yhtiöt Oy launched a cash tender offer

recommended by the Board of Directors of Pihlajalinna Plc for all shares in Pihlajalinna Plc on 9 January 2020

On 5 November 2019, Mehiläinen Yhtiöt Oy and Pihlajalinna Plc announced that they had entered into a combination agreement pursuant to which Mehiläinen made a voluntary recommended public cash tender offer for all issued and outstanding shares in Pihlajalinna.

The Finnish Financial Supervisory Authority approved the tender offer document on 8 January 2020. The acceptance period for the tender offer, or the offer period, commenced on 9 January 2020 at 9:30 a.m. (Finnish time) and it will expire on 19 March 2020 at 4:00 p.m. (Finnish time) at the earliest, unless extended or discontinued in accordance with, and subject to, the terms and conditions of the tender offer and applicable laws and regulations. Currently, the tender offer is expected to be completed towards the end of the second quarter of 2020 or at the latest during the third quarter of 2020. The offeror will extend the offer period in accordance with, and subject to, the terms and conditions of the tender offer and applicable laws in order to satisfy the closing conditions, including obtaining merger control clearance. Any extension of the offer period will be announced by way of a stock exchange release as soon as practically possible.

The tender offer document has been available in Finnish as of 9 January 2020 at the head office of Mehiläinen, address Pohjoinen Hesperiankatu 17 C, 6th floor, 00260 Helsinki, Finland, Nordea Bank Plc's head office, address Satamaradankatu 5, 00020 Nordea, Finland, and at Nasdaq Helsinki, address Fabianinkatu 14, 00130 Helsinki, Finland. An electronic version of the tender offer document has been available in Finnish as of 9 January 2020 on the internet at ostotarjous.mehilainen.fi, investors.pihlajalinna.fi/public-tender-offer and at nordea.fi/osakkeet, and in English as of 9 January 2020 at ostotarjous.mehilainen.fi, investors.pihlajalinna.fi/public-tender-offer.aspx-?sc\_lang=en and nordea.fi/equities.

Statement of the Board of Directors of Pihlajalinna Plc on the voluntary public cash tender offer of Mehiläinen Yhtiöt Oy

The Board of Directors of Pihlajalinna issued a statement on the tender offer as required by chapter 11, section 13 of the Finnish Securities Markets Act (746/2012, as amended) on 3 January 2020.

Tender offer in brief

The cash consideration offered is EUR 16.00 for each share in Pihlajalinna. The consideration includes a premium of approximately

- 46 per cent compared to the closing price of the Pihlajalinna share on the official list of Nasdaq Helsinki Ltd (hereinafter referred to as “Nasdaq Helsinki”) on 4 November 2019, being the last trading day before the announcement of the Tender Offer;
- 50.1 per cent compared to the volume-weighted average trading price of the Pihlajalinna share on the official list

of Nasdaq Helsinki during the 3 months immediately preceding the announcement of the Tender Offer; and

- 52.7 per cent compared to the volume-weighted average trading price of the Pihlajalinna share on Nasdaq Helsinki during the 12 months immediately preceding the announcement of the Tender Offer.

The consideration offered is subject to the terms and conditions of the tender offer. According to the terms and conditions of the tender offer, should the number of issued and outstanding shares in Pihlajalinna change as a result of a share issue, reclassification, stock split or any other similar transaction with dilutive effect, or should Pihlajalinna distribute a dividend or otherwise distribute funds or any other assets to its shareholders, or should a record date with respect to any of the foregoing occur prior to the completion of the tender offer, the offered consideration will be reduced accordingly on a euro-for-euro basis.

It is the intention of Mehiläinen, subject to Mehiläinen acquiring more than ninety per cent (90%) of the issued and outstanding shares and voting rights in Pihlajalinna, to initiate mandatory redemption proceedings in accordance with the Finnish Limited Liability Companies Act (624/2006, as amended) to acquire the remaining shares in Pihlajalinna, and thereafter to cause Pihlajalinna's shares to be delisted from Nasdaq Helsinki as soon as reasonably practicable.

As required under applicable laws, Mehiläinen has, and will have at the completion of the tender offer, access to debt and equity funding in sufficient amounts to finance the payment of the aggregate offer price for all of the issued and outstanding shares in Pihlajalinna in connection with the Tender Offer (including in any mandatory redemption proceedings in accordance with the Limited Liability Companies Act). The debt financing is subject to customary certain funds financing conditions.

LocalTapiola General Mutual Insurance Company, MWW Yhtiö Oy, Fennia Mutual Insurance Company, LocalTapiola Mutual Life Insurance Company, Elo Mutual Pension Insurance Company, Leena Niemistö, funds advised by Fondita Fund Management Company Ltd., Ilmarinen Mutual Pension Insurance Company, Fennia Life Insurance Company Ltd. as well as certain other major shareholders of Pihlajalinna, have irrevocably undertaken to accept the Tender Offer, subject to certain customary conditions. Such undertakings concern approximately 63.2 per cent of the shares and votes in Pihlajalinna in the aggregate.

The completion of the Tender Offer is conditional on the fulfillment or waiver of certain conditions on or by the date on which offeror announces the final result of the tender offer. These conditions include the receipt of all necessary regulatory approvals and that the tender offer has been approved with regard to shares representing, together with any other shares otherwise acquired by the Offeror prior to or during the offer period, more than ninety per cent of the issued and outstanding shares and voting rights in Pihlajalinna.

Statement of the board of directors

The Board of Directors believes that the offer price offered to the shareholders of Pihlajalinna is fair based on an assessment of the issues and factors that the Board of Directors has concluded to be material in evaluating the tender offer. The Board of Directors of Pihlajalinna recommends that the shareholders of Pihlajalinna accept the tender offer.

The Board of Directors further notes that according to offeror’s notice, the offer period of the tender offer is intended to be extended so that the offeror expects that the tender offer would be completed towards the end of second quarter of 2020 or at the latest during the third quarter of 2020. The offer period may therefore be somewhat long. Pursuant to the Securities Market Act, the offer period may for special reasons be more than ten (10) weeks, provided that the business operations of the target company are not hindered for longer than reasonable. A notice of closing of the offer period shall be disclosed at least two (2) weeks prior to the closure of the offer period.

The Board of Directors notes that shareholders of Pihlajalinna should also consider the risks related to not accepting the Tender Offer. In case the condition of completion regarding reaching at least 90% of shares and votes would be waived, the completion of the tender offer would reduce the number of shareholders in Pihlajalinna and the number of shares that would otherwise be publicly traded. Depending on the number of shares validly tendered in the tender offer, this could have an adverse effect on the liquidity and value of the shares.

**The European Commission has referred the handling of the combination between Mehiläinen Yhtiöt Oy and Pihlajalinna Plc to the Finnish Competition and Consumer Authority**

The European Commission decided on 28 January 2020 to refer the handling of the authority approval of Mehiläinen’s tender offer to the Finnish Competition and Consumer Authority (hereinafter referred to as the “FCCA”).

**Mehiläinen Yhtiöt Oy submitted a formal merger control notification regarding the public tender offer by Mehiläinen Yhtiöt Oy for the shares in Pihlajalinna Plc on 10 February 2020**

Mehiläinen Yhtiöt Oy submitted a formal merger control notification regarding the public tender offer by Mehiläinen Yhtiöt Oy for the shares in Pihlajalinna Plc on 10 February 2020

According to the Finnish Competition Act, the the first phase of the notification proceedings may not take more than 23 working days. The Phase I Investigation will thus be completed no later than on 12 March 2020. According to information currently available, it is more likely than not that the FCCA will, after the Phase I Investigation, initiate continued phase II proceedings before the authority approval is obtained. According to the Competition Act, the Phase II Investigation may not take more than 69 working days, unless the Finnish Market Court grants, upon application, an extension to the FCCA for investigating the case.

If the FCCA initiates the Phase II Investigation, the offeror will extend the offer period in accordance with, and subject to, the terms and conditions of the tender offer and applicable laws, in order to satisfy the conditions to completion of

the tender offer, including obtaining the authority approval, provided that the business operations of Pihlajalinna are not hindered for longer than is reasonable, as referred to in Chapter 11, section 12, subsection 2 of the Finnish Securities Market Act. The offeror will decide on a possible extension of the offer period once the Phase I Investigation has progressed to a stage where the offeror is better placed to estimate the overall duration of the handling of the authority approval. Any extension of the offer period will be announced by way of a stock exchange release as soon as practically possible.

**Pihlajalinna Plc’s Shareholders’ Nomination Board submitted its proposals to the company’s Board of Directors, to be presented to the Annual General Meeting of 2020**

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

The Nomination Board proposes to the Annual General Meeting of Pihlajalinna Plc, scheduled to be held on 15 April 2020, that the number of the members of the Board be confirmed to be seven. The Nomination Board proposes that all of the current members of the Board of Directors, Matti Jaakola, Hannu Juvonen, Mika Manninen, Leena Niemistö, Kati Sulín, Seija Turunen and Mikko Wirén, be re-elected as members of the Board of Directors for a new term of office.

The personal details of the current members of the Board and the details of their positions of trust are available at investors.pihlajalinna.fi/corporate-governance/board-of-directors. The Nomination Board further proposes that the Annual General Meeting elect Mikko Wirén as the Chairman of the Board and Leena Niemistö as the Vice-Chairman.

**Remuneration of the Board of Directors:**

The Shareholders’ Nomination Board proposes that the remuneration of the Board of Directors be kept unchanged, and that the following annual remuneration be paid to the members of the Board of Directors to be elected at the Annual General Meeting for the term of office ending at the close of the Annual General Meeting 2021: to the full-time Chairman of the Board of Directors EUR 250,000 per year; to the Vice-Chairman EUR 36,000 per year, and to members EUR 24,000 per year.

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

The above-mentioned proposals will also be included in the notice of the Annual General Meeting.

Parent company balance sheet, FAS

EUR 1,000	note	31.12.2019	31.12.2018
Assets			
Non-current assets			
Intangible assets	2.1.	5,448	5,003
Property, plant and equipment	2.2.	2,695	3,015
Investments	2.3.	284,485	204,485
		292,628	212,504
Current assets			
Non-current receivables	2.4.	37	61
Current receivables	2.5.	43,072	115,308
Cash and cash equivalents		16	2,272
		43,124	117,642
Total assets		335,752	330,145
Equity and liabilities			
Equity	2.6.		
Share capital		80	80
Reserve for invested unrestricted equity		183,190	183,190
Retained earnings		21,915	24,126
Profit/loss for the financial year		2,329	52
		207,515	207,448
Accumulated appropriations	2.7.	787	514
Mandatory provisions	2.8.	74	
Liabilities	2.9.		
Non-current liabilities		101,709	93,368
Current liabilities		25,666	28,816
		127,375	122,184
Total equity and liabilities		335,752	330,145

## Parent company income statement, FAS

EUR 1,000	note	1.1.–31.12.2019	1.1.–31.12.2018
Revenue	1.1.	3,276	2,428
Other operating income	1.2.	347	304
Personnel expenses	1.3.	-1,258	-1,350
Depreciation, amortisation and impairment	1.4.	-1,515	-1,072
Other operating expenses	1.5.	-3,534	-2,966
Operating profit (loss)		-2,683	-2,656
Financial income and expenses	1.6.	-110	321
Profit (loss) before appropriations and taxes		-2,793	-2,335
Appropriations	1.7.		
Change in depreciation difference		-274	-501
Group contribution		6,000	2,900
Income taxes	1.8.	-604	-13
Profit (loss) for the financial year		2,329	52

## Parent company cash flow statement, FAS

EUR 1,000	1.1.–31.12.2019	1.1.–31.12.2018
Cash flow from operating activities		
Profit for the period	2,329	52
Depreciation, amortisation and impairment	1,515	1072
Financial income and expenses	110	-321
Other adjustments (appropriations and taxes)	-5,122	-2,387
Cash flow before change in working capital	-1,169	-1,584
Change in net working capital	1,150	-255
Cash flows from operating activities before financial items and taxes	-18	-1,839
Interest received	1,673	2,263
Direct taxes paid	306	-547
Cash flow from operating activities	1,960	-123
Cash flows from investing activities		
Investments in tangible and intangible assets	-1,584	-3,263
Investments in subsidiaries	0	-589
Cash flows from investing activities	-1,584	-3,852
Cash flows from financing activities		
Proceeds from short-term borrowings from group companies	-5,045	19,235
Loans granted to Group companies	-5,264	-67,747
Proceeds from short-term borrowings	501	
Repayment of short-term borrowings		-1,178
Proceeds from long-term borrowings	9,000	91,000
Repayment of long-term borrowings	-732	-34,438
Group contributions received	2,900	4,795
Interest paid	-1,730	-1,821
Dividends paid	-2,262	-3,619
Cash flows from financing activities	-2,633	6,227
Change in cash and cash equivalents	-2,257	2,252
Cash at the beginning of the financial year	2,272	21
Cash at the end of the financial year	16	2,272

Notes to the financial state-  
ments 31 December 2019

Accounting policies

Pihlajalinna Plc (2617455-1), domiciled in Tampere, is the parent company of Pihlajalinna Group. The company was established on 15 April 2014.

Voluntary cash tender offer for all shares in  
Pihlajalinna Plc

On 5 November 2019, Mehiläinen Yhtiöt Oy and Pihlajalinna Plc entered into a combination agreement, pursuant to which Mehiläinen made a voluntary recommended public cash tender offer for all issued and outstanding shares in Pihlajalinna.

In the tender offer, Pihlajalinna's shareholders are offered a cash consideration of EUR 16.00 for each issued and outstand- ing share in Pihlajalinna. The consideration includes a premium of approximately 46.0 per cent compared to the closing price of the Pihlajalinna share on the official list of Nasdaq Helsinki on 4 November 2019. The non-conflicted members of the Board of Directors of Pihlajalinna unanimously decided to recommend that the shareholders of Pihlajalinna accept the tender offer.

The offer period commenced on 9 January 2020 at 9:30 a.m. (Finnish time) and it will expire on 19 March 2020 at 4:00 p.m. (Finnish time) at the earliest, unless extended or discontinued in accordance with, and subject to, the terms and conditions of the tender offer and applicable laws and regulations. Currently, the tender offer is expected to be completed towards the end of the second quarter of 2020 or at the latest during the third quarter of 2020. The offeror will extend the offer period in accordance with, and subject to, the terms and conditions of the tender offer and applicable laws in order to satisfy the closing conditions, includ- ing obtaining merger control clearance. Any extension of the offer period will be announced by way of a stock exchange release as soon as practically possible.

Valuation of non-current assets

Intangible assets and tangible assets have been recognised in the balance sheet at cost. Depreciation and amortisation according to plan is calculated using the straight-line method over the economic useful lives of the assets.

The planned depreciation periods are as follows:

Development costs	5–7 years
Other intellectual property rights	5–7 years
Other long-term expenditures	5–7 years
Machinery and equipment	3–10 years

Acquisition costs of assets included in non-current assets with a probable economic useful life of less than 3 years, and small- scale acquisitions (value under EUR 850) have been expensed in the financial year during which they were acquired in full.

Financial assets are measured at the lower of cost or fair market, if the impairment is considered to be permanent.

Recognition of deferred taxes

Deferred tax liabilities or assets have been calculated on the temporary differences between taxation and the financial statements, using the prevailing tax base at balance sheet date. The balance sheet includes deferred tax liabilities in their entirety and deferred tax assets in the amount of the estimated probable receivables.

Revenue recognition

The sale of products and services is recognised in connection with their delivery.

Capitalised development costs (Accounting  
Ordinance 2:4, 3-4)

The company's capitalised product development expenditure relating to the Pihlajalinna mobile application and the company website will be amortised over their economic useful lives. Unamortised development expenditure included in intangible assets, which restricts profit distribution, amounted to EUR 1,017 (1,281) thousand at the end of the financial year.

Recognition of pension schemes

The personnel's statutory pension security is handled by an external pension insurance company. Pension costs are recognised as expenses during the year of their accrual.

Presentation method of the cash flow statement

Pihlajalinna Plc's cash flow statement has been converted to comply with an indirect calculation model.

Notes to the income statement

1.1. Revenue

EUR 1,000	2019	2018
Revenues by sector		
Sale of services	3,276	2,428
	<b>3,276</b>	<b>2,428</b>

1.2. Other operating income

EUR 1,000	2019	2018
Rental income	19	
Lease income from equipment	328	304
	<b>347</b>	<b>304</b>

1.3. Personnel expenses

EUR 1,000	2019	2018
Wages and salaries	-1,136	-1,215
Pension costs	-110	-127
Other social security expenses	-12	-7
Total	<b>-1,258</b>	<b>-1,350</b>
Average number of employees during the financial year	5	2

The remuneration of the Board of Directors of Pihlajalinna Plc is included in the company's personnel expenses. The Annual General Meeting of 4 April 2019 decided that remuneration shall be paid to the members of the Board of Directors as follows: to the full-time Chairman of the Board of Directors EUR 250,000 per year; to the Vice-Chairman EUR 36,000 per year, and to members EUR 24,000 per year. In addi- tion, the AGM decided that each Board member shall be paid a meeting fee of EUR 500 for each Board and Committee meeting.

A summary of the remuneration of the Board of Directors is included in Note 31 "Related party transactions" to the consolidated financial statements. In addition, the Corporate Governance Statement includes a summary of remuneration paid to members of the Board of Directors in 2019.

1.4. Depreciation and impairment

EUR 1,000	2019	2018
Depreciation according to plan		
Intangible assets	-1,153	-741
Property, plant and equipment	-362	-331
	<b>-1,515</b>	<b>-1,072</b>

1.5. Other operating expenses

EUR 1,000	2019	2018
Voluntary social security expenses	-20	-58
Facility expenses	-237	-241
Vehicle expenses	-5	-31
ICT expenses	-2,175	-1,628
Machinery and equipment expenses	-1	-1
Sales, marketing and travel expenses	-66	-49
Administrative expenses	-1029	-958
Other operating expenses, total	<b>-3,534</b>	<b>-2,966</b>
Auditor's fees		
audit fees	-116	-70
auxiliary services	-1	-10
	<b>-117</b>	<b>-80</b>

1.6. Financial income and expenses

EUR 1,000	2019	2018
Interest income from non-current investments		
From Group companies	1,671	2,256
From others	2	0
Interest income from non-current investments, total	<b>1,673</b>	<b>2,256</b>
Interest expenses and other financial expenses		
To others	-1,783	-1,935
Interest expenses and other financial expenses, total	<b>-1,783</b>	<b>-1,935</b>
Financial income and expenses, total	<b>-110</b>	<b>321</b>

1.7. Appropriations

EUR 1,000	2019	2018
Difference between depreciation according to plan and depreciation in taxation	-274	-501
Group contributions received	6,000	2,900
	<b>5,726</b>	<b>2,399</b>

1.8. Income taxes

EUR 1,000	2019	2018
Income taxes on actual operations during the financial year	-604	-13
Income taxes total	<b>-604</b>	<b>-13</b>

Notes to the balance sheet

2.1. Intangible assets

EUR 1,000	31.12.2019	31.12.2018
Development costs		
Acquisition cost at the start of the financial year	1,607	1,164
Additions		443
Acquisition cost at the end of the period	<b>1,607</b>	<b>1,607</b>
Accumulated amortisation according to plan during the financial year	-325	-61
Accumulated amortisation according to plan during the financial year	-264	-264
Carrying amount at the end of the period	<b>1,017</b>	<b>1,281</b>
Other intellectual property rights		
Acquisition cost at the start of the financial year	1,494	1,464
Additions	121	13
Transfers between items		17
Acquisition cost at the end of the period	<b>1,615</b>	<b>1,494</b>
Accumulated amortisation according to plan during the financial year	-544	-321
Accumulated amortisation according to plan during the financial year	-245	-223
Carrying amount at the end of the period	<b>827</b>	<b>950</b>
Other long-term expenditures		
Acquisition cost at the start of the financial year	2,827	470
Additions	1,037	2,342
Transfers between items	217	15
Acquisition cost at the end of the period	<b>4,082</b>	<b>2,827</b>
Accumulated amortisation according to plan during the financial year	-273	-20
Accumulated amortisation according to plan during the financial year	-644	-253
Carrying amount at the end of the period	<b>3,165</b>	<b>2,554</b>
Prepayments for intangible assets		
Acquisition cost at the beginning	217	15
Additions	440	217
Transfers between items	-217	-15
Carrying amount at the end of the period	<b>440</b>	<b>217</b>
Intangible assets, total		
Acquisition cost at the start of the financial year	6,145	3,114
Additions	1,597	3,015
Transfers between items	0	17
Acquisition cost at the end of the period	<b>7,742</b>	<b>6,145</b>
Accumulated amortisation according to plan during the financial year	-1,143	-402
Accumulated amortisation according to plan during the financial year	-1,153	-741
Carrying amount at the end of the period	<b>5,447</b>	<b>5,003</b>

2.2. Property, plant and equipment

EUR 1,000	2019	2018
Machinery and equipment		
Acquisition cost at the start of the financial year	3,367	144
Additions	41	3,242
Transfers between items		-19
Acquisition cost at the end of the period	3,408	3,367
Accumulated amortisation according to plan during the financial year	-351	-23
Accumulated depreciation on disposals and transfers		3
Accumulated amortisation according to plan during the financial year	-362	-331
Carrying amount at the end of the period	2,695	3,015
Property, plant and equipment, total		
Acquisition cost at the start of the financial year	3,367	144
Additions	41	3,242
Transfers between items	0	-19
Acquisition cost at the end of the period	3,408	3,367
Accumulated amortisation according to plan during the financial year	-351	-23
Accumulated depreciation on disposals and transfers	0	3
Accumulated amortisation according to plan during the financial year	-362	-331
Carrying amount at the end of the period	2,695	3,015

2.3. Investments

EUR 1,000	2019	2018
Shares in subsidiaries		
Acquisition cost at the start of the financial year	204,485	173,791
Additions	80,000	30,694
Acquisition cost at the end of the period	284,485	204,485
Total investments	284,485	204,485

A full list of the Group's subsidiaries is presented in Note 31 "Related party transactions" to the consolidated financial statements.

2.4. Non-current receivables

EUR 1,000	2019	2018
Receivables from others		
Lease deposits given	37	61
	37	61
Total non-current receivables	37	61

2.5. Current receivables

EUR 1,000	2019	2018
Receivables from others		
Other receivables	263	47
Prepayments and accrued income	1,422	1,846
	1,685	1,894
Receivables from Group companies		
Trade receivables	57	480
Loan receivables	35,283	110,018
Prepayments and accrued income	6,047	2,916
	41,387	113,414
Material items included under Prepayments and accrued income		
Group contribution	6,000	2,900
Accrued direct taxes		850
Accrued social security expenses	1	102
Other	1,469	910
	7,470	4,762
Total current receivables	43,072	115,308

2.6. Equity

EUR 1,000	2019	2018
Restricted equity		
Share capital at the beginning	80	80
Share capital at the end	80	80
Total restricted equity	80	80
Unrestricted equity		
Reserve for invested unrestricted equity at the beginning	183,190	153,085
Directed share issue		30,105
Reserve for invested unrestricted equity at the end	183,190	183,190
Retained earnings at the beginning	24,178	27,745
Dividends paid	-2,262	-3,619
Retained earnings	21,915	24,126
Profit for the period	2,329	52
Total unrestricted equity	207,435	207,368
Total equity	207,515	207,448
Distributable unrestricted equity		
Retained earnings	21,915	24,126
Profit for the period	2,329	52
Reserve for invested unrestricted equity	183,190	183,190
Capitalised development costs	-1,017	-1,281
	206,418	206,087
Number of shares	22,620,135	22,620,135

2.7. Accumulated appropriations

EUR 1,000	2019	2018
Accumulated depreciation difference	787	514

2.8. Mandatory provisions

EUR 1,000	2019	2018
Onerous contracts	74	

2.9. Liabilities

2.9.1. Non-current liabilities

EUR 1,000	2019	2018
Liabilities to others		
Loans from financial institutions	100,000	91,000
Other non-current liabilities	1,673	2,368
Lease deposits received	36	
	101,709	93,368
Non-current liabilities, total	101,709	93,368

2.9.2. Current liabilities

EUR 1,000	2019	2018
Liabilities to others		
Loans from financial institutions	501	
Trade payables	1 559	253
Other liabilities	743	793
Accrued liabilities	395	263
	3 199	1 308
Liabilities to Group companies		
Trade payables	85	79
Accrued liabilities, interest		1
Other liabilities	22 382	27 427
	22 468	27 507
Material items included under Accrued liabilities		
Personnel expense allocations	137	92
Interest allocations	164	111
Taxes	60	
Other items	35	61
	395	264
Current liabilities, total	25 666	28 816

Other notes

EUR 1,000	31.12.2019	31.12.2018
Vakuudet ja vastuusitoumukset		
Collaterals given on behalf of Group companies		
Other sureties	19	

Pihlajalinna's financing arrangements

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

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

At the end of the reporting period, 31 December 2019, the withdrawn loan amount to which the covenants apply was EUR 100.0 million (EUR 91.0 million). The maximum value of the leverage covenant is 3.75 and the maximum value of the gearing covenant is 115%. The closer the Group's leverage covenant is to the maximum value, the higher the loan margin. The Group met the set covenants on 31 December 2019, with the leverage ratio being 3.31 (2.61) and gearing 99% (69%).

The group has credit limit agreements valid until further notice, totalling EUR 10 million. The notice period of the credit limit agreements is one month. At the end of the review period, Pihlajalinna had a total of EUR 29.5 million in unused committed credit limits.

When the voluntary recommended public cash tender offer of Mehiläinen Yhtiöt Oy materialises, the provision on change of control of Pihlajalinna's financing arrangements will apply. According to the provision, the funding providers are entitled to terminate the financing arrangement prematurely following a material change of control. After the announcement of the final result of the tender offer, Pihlajalinna and the funding providers have 30 business days to agree on the impacts of the change of control on the financing arrangement.

EUR 1,000	2019	2018
Lease commitments		
Within one year		147
Between one and five years	304	559
Over five years later	342	478

Dates of and signatures to the report by the board of directors and the financial statements

Helsinki, 13 February 2020

Mikko Wirén  
Chairman

Leena Niemistö

Kati Sulin

Seija Turunen

Matti Jaakola

Hannu Juvonen

Mika Manninen

Joni Aaltonen  
CEO

Auditor’s Note

A report on the performed audit has been issued today.

Tampere, 17 February 2020

KPMG Oy Ab

Lotta Nurminen  
Authorised Public Accountant

# Auditor’s Report To the Annual General Meeting of Pihlajalinna Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Pihlajalinna Plc (business identity code 2617455-1) for the year ended 31 December 2019. The financial statements comprise the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company’s balance sheet, income statement, cash flow statement and notes.

- In our opinion
- the consolidated financial statements give a true and fair view of the group’s financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
  - the financial statements give a true and fair view of the parent company’s financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and

group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 6 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

The key audit matter

How the matter was addressed in the audit

Judgmental items relating to municipality outsourcing contracts (refer to notes 1 and 17 to the consolidated financial statements) and emphasis of matter

We would like to draw attention to note 17 where the key accounting estimates and decisions based on management judgements related to the receivables totaling EUR 12.8 million are presented. The receivables may contain uncertainty due to agreements open to interpretations as well as delays between recognizing the receivable and receiving payment, among other things. Our opinion has not been qualified by this matter.

- A notable proportion of the Group's revenue is based on long-term outsourcing contracts with municipalities. These include both complete outsourcing contracts for social and healthcare services as well as other outsourcing contracts.
  - The Group's profitability of complete outsourcing contracts for social and healthcare services may become more accurate with a delay. The Group may not always be aware of the actual costs of the agreements during the financial year and there may be variable considerations included.
  - High level of management judgement, which can have a significant impact on the consolidated profit and statement of financial position, is involved in the accounting for outsourcing contracts due to the extent of the contracts, definitions of contractual obligations and amendment clauses for changed situations.
  - In note 17 section Key accounting estimates and decisions based on management judgement the following items relating to outsourcing contracts with municipalities totalling EUR 12.8 million are presented:
  - The city of Jämsä has taken legal action against Jämsän Terveys Oy over the service agreement. The dispute concerns the provision on price adjustments pursuant to the service agreement. The difference of opinion regarding the determination of the annual price totalled approximately EUR 1.8 million at the time of the financial statements. Jämsän Terveys Oy includes other receivables amounting to a total of EUR 3.1 million from the city of Jämsä, associated with the increased costs of specialised care and increased regulatory requirements for services for senior citizens.
  - Kuusiolinna Terveys Oy has trade and other receivables totalling EUR 4.5 million from a client. The outstanding receivables are associated with increased regulatory requirements for services for senior citizens, costs of specialised care and the calculation of net expenditure.
  - Mäntänvuoren Terveys Oy has trade and other receivables totalling EUR 1.2 million from a client. The receivables are associated with increased regulatory requirements for services for senior citizens and the calculation of net expenditure pursuant to the previous agreement.
  - Kolmostien Terveys Oy has trade and other receivables of EUR 0.4 million from a client relating to the increased regulatory requirements for services for senior citizens.
  - On the date of the financial statements, the group's receivables include a total of EUR 1.6 million in service provider refunds for public sector specialised care cost accruals, estimated on a municipality-specific basis. In addition, the group has a total of EUR 0.2 million of overdue receivables from Kihniö and Juupajoki.
  - Due to the significant amount of accounting estimates in relation to the result for the period and equity, and partly to the receivables being past due, recognized judgmental items relating to the municipality outsourcing contracts are considered a key audit matter.
- The subsidiaries administering the significant municipality outsourcing contracts are audited by another audit firm. We participated in that audit firm's risk assessment in order to also identify the risk of a material misstatement in the consolidated financial statements. We instructed the other audit firm to report to us on their audit of these subsidiaries, discussed their significant findings with their lead partner, received reporting on their audit and assessed the appropriateness of the audit firm's work from the perspective of the audit of the consolidated financial statements.
  - We observed the judgmental items recorded in the consolidated financial statements through discussions with management, analytically and by performing substantive testing where applicable. We requested related agreements, calculations and administrative documents for our use.
  - We assessed the recognition principles applied to judgmental income and expense items against IFRS principles and considered the appropriateness of the Group's disclosures in respect of judgmental items.
  - We assessed how the Group has received payments relating to previously recognized judgmental items.
  - We requested documentation for juridical basis for recognizing these items from the Group's general counsel and representation letter from the management about the collectability of these receivables.
  - We requested a legal representation letter about the legal action in the district court.
  - We reported in more detail about the contents of these judgmental items to the Audit Committee and the Board of Directors.

Adoption and application of the standard IFRS 16 Leases (refer to Accounting policies of the consolidated financial statements, notes 15 and 23 to the consolidated financial statements)

- The Group adopted the new accounting standard IFRS 16 Leases on 1 January 2019 fully retrospectively and adjusted the financial figures for the comparison year 2018.
  - The Group has a large number of various kind of lease arrangements concerning business premises, land areas as well as machinery and equipment.
  - Determining lease liabilities and right-of-use assets requires management to make judgments over the length of lease periods and discount rates, among other things.
  - In the financial statements 31 December 2019, the right-of-use assets total EUR 108.1 million and lease liabilities EUR 114.2 million.
  - Due to the adoption of the new accounting standard IFRS 16, large amount of right-of-use assets and lease liabilities and related management judgements, the accounting for lease arrangements is considered a key audit matter.
- Our audit procedures included evaluation of the recognition principles for lease arrangements applied by the Group and assessment of their appropriateness by reference to IFRS standards.
  - We assessed key inputs in the calculations relating to the length of the lease periods, discount rates and depreciation periods of right-of-use assets, as well as compared on a spot check basis the terms, euro amounts and index changes in certain, most significant lease agreements to the data used in calculations. We assured, based on the calculation prepared by the company that all significant lease arrangements have been identified.
  - We considered the appropriateness of the Group's disclosures in respect of lease arrangements.

The key audit matter

How the matter was addressed in the audit

Goodwill impairment assessment (refer to note 14 to the consolidated financial statements)

- The Group has expanded its activities through acquisition of companies. As a result, the consolidated statement of financial position includes goodwill totaling EUR 173.6 million. The Group has changed its reporting structure during the financial year and the Group has transferred into one operating segment.
  - Goodwill is not amortized but is tested at least annually for impairment. Determining the cash flow forecasts underlying the impairment tests requires management make judgments over certain key inputs, for example revenue growth rate, discount rate, long-term growth rate and inflation rates.
  - Due to the high level of judgement related to the forecasts used, and the significant carrying amounts involved, goodwill impairment assessment is considered a key audit matter.
- Our audit procedures included, among others, assessing key inputs in the calculations such as revenue growth rate, profitability and discount rate, by reference to the parent company's Board approved budgets, data external to the Group and our own views.
  - We assessed the historical accuracy of forecasts prepared by management by comparing the actual results for the year with the original forecasts.
  - We involved KPMG valuation specialists that assessed the technical accuracy of the calculations and compared the assumptions used to market and industry information.
  - Furthermore, we considered the appropriateness of the Group's disclosures in respect of goodwill and impairment testing.

Changes in Group structure and their accounting treatment (refer to notes 27, 28 and 29 to the consolidated financial statements)

- Several changes have taken place in the Group structure in the financial year ended due to business combinations and subsidiary mergers. In addition, changes have taken place in the non-controlling interests due to share purchases.
  - In business combinations, the assets and liabilities of the acquiree are measured at fair value at the date of the acquisition which requires management to make estimates. Arrangements may also involve contingent considerations, determination of which also requires management to make estimates on future financial performance of the company, for example. The contingent consideration is measured at fair value at each reporting date.
  - Intra-group structural changes require documentation in accordance with the statutes. However, it needs to be ensured that the changes do not affect the consolidated statement of comprehensive income or statement of financial position.
  - Due to the high level of judgement related to the entries recorded resulting from the changes in the Group structure, specific form required for the documentation and the number of changes, the entries and administrative documentation are considered a key audit matter.
- For business combinations we considered the purchase agreements, evaluated the valuation principles of the assets and liabilities of the acquiree and the underlying assumptions used, as well as assessed the technical accuracy of the purchase price allocations. We also assessed the existence of intangible assets based on the transferred business and goodwill generated in the acquisition.
  - Our audit procedures also included assessing fair values of any additional or contingent considerations for business combinations made in the current and previous financial years.
  - We involved KPMG valuation specialists that assessed the appropriateness of the valuation principles applied.
  - Regarding intra-group structural changes, we assessed the appropriateness of the administrative documents and continuity in the accounting as well as ensured that the arrangements do not affect the consolidated statement of comprehensive income or statement of financial position.
  - Furthermore, we considered the appropriateness of the Group's disclosures in respect of the changes in the Group structure.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting when Pihlajalinna Plc was established on 15 April 2014 and our appointment represents a total period of uninterrupted engagement of six years. In Pihlajalinna Terveys Oy we were first appointed as auditors for the financial year ended 31 December 2010. Pihlajalinna Plc became a public interest entity on 8 June 2015. We have been the company's auditors since it became a public interest entity.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Tampere 17 February 2020

KPMG OY AB

**Lotta Nurminen**  
Authorised Public Accountant, KHT

Information  
for shareholders

Annual General Meeting

The Annual General Meeting of Pihlajalinna Plc will be held in Tampere-talo, Duetto 2 meeting room, located at Yliopistonkatu 55, 33100 Tampere, on Wednesday, 15 April 2020 at 10:30 a.m. The reception of participants who have registered for the meeting will commence at 9:30 a.m. Shareholders are offered an advance voting possibility in order to participate in decision-making of the Annual General Meeting. The meeting can be followed remotely.

Right to participate

A shareholder entered in the list of the company's shareholders maintained by Euroclear Finland Ltd on the record date of the General Meeting, 1 April 2020, has the right to participate in the General Meeting.

Registration

A shareholder who is registered in the shareholders' register and wants to participate in the General Meeting, shall register for the meeting no later than 6 April 2020 at 10:00 am. Registration for the meeting is possible via the registration link on the website at investors.pihlajalinna.fi, by letter to Pihlajalinna Oyj, Yhtiökokous 2020, Kehräsaari B, 33200 Tampere, by e-mail to yhtiokokous@pihlajalinna.fi or by telephone on +358 (0)20 770 6896 (9 a.m.-4 p.m.).

Any proxies are requested to be delivered as original copies before the end of the registration period to Pihlajalinna Oyj, Yhtiökokous 2020, Kehräsaari B, 33200 Tampere, Finland.

Payment of dividend

Due to the tender offer by Mehiläinen, the Board of Directors proposes no dividends to be paid for the financial year that

ended on 31 December 2019. If the public tender offer does not realise, the Board of Directors will reconsider the matter.

Investment survey

As far as Pihlajalinna is aware, the following investment banks and stockbrokers monitor Pihlajalinna and publish reports on the company: Pihlajalinna is not liable for the estimates presented in the analyses.

- Danske Bank
- Carnegie
- Inderes
- OP
- SEB
- Evli

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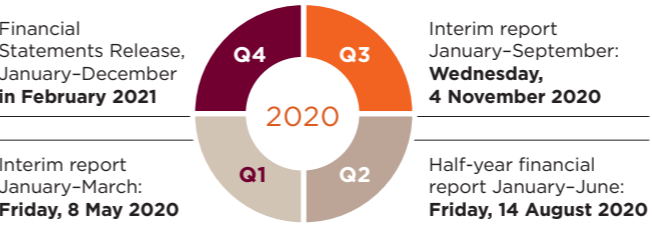
Additional information is available in the investor section at investors.pihlajalinna.fi

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Pihlajalinna's financial reporting in 2020



The interim reports will be published at approximately 8:00 a.m. in Finnish and English, and they will be available on Pihlajalinna's website at investors.pihlajalinna.fi.

Pihlajalinna's management organises information events for analysts and the media on a regular basis.

Pihlajalinna complies with a silent period of 30 days and a closed window before the publication of results.

Pihlajalinna share price development 2019

