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Interim Report

1 January–30 September 2016

Pihlajalinna Interim Report

1 January–30 September 2016 (9 months)

Profitable growth continued, revenue outlook adjusted

Brief look at July–September:

- Revenues amounted to EUR 93.9 (50.9) million – an increase of 85 per cent
- Operating profit (EBIT) amounted to EUR 3.6 (1.0) million and adjusted operating profit (EBIT) to EUR 4.7 (0.9) million
- EBITDA amounted to EUR 6.8 (3.1) million and adjusted EBITDA to EUR 7.8 (2.9) million
- Earnings per share was EUR 0.08 (0.01)

Brief look at January–September:

- Revenues amounted to EUR 295.4 (150.7) million – an increase of 96 per cent
- Operating profit (EBIT) amounted to EUR 11.3 (2.3) million and adjusted operating profit (EBIT) to EUR 12.8 (3.2) million
- EBITDA amounted to EUR 20.8 (8.2) million and adjusted EBITDA to EUR 21.8 (9.0) million
- Number of personnel at the end of the reporting period was 4,470 (2,905)
- Earnings per share was EUR 0.27 (-0.01)

Pihlajalinna revises its outlook for 2016

Pihlajalinna revises its outlook for 2016. Consolidated revenue is expected to be approximately EUR 400 million in 2016 and the adjusted EBIT margin is expected to improve compared to 2015.

Pihlajalinna's previous outlook was: consolidated revenue is expected to exceed EUR 400 million in 2016 and the adjusted EBIT margin is expected to improve compared to 2015.

In the financial year 2015, the adjusted EBIT margin was 2.1 per cent.

KEY FIGURES AND RATIOS	7-9/2016 3 mths	7-9/2015 3 mths	1-9/2016 9 mths	1-9/2015 9 mths	2015 12 mths
INCOME STATEMENT					
Revenue, EUR million	93.9	50.9	295.4	150.7	213.3
Adjusted EBITDA, EUR million	7.8	2.9	21.8	9.0	12.5
Adjusted EBITDA, %	8.3	5.8	7.4	6.0	5.9
EBITDA, EUR million	6.8	3.1	20.8	8.2	11.6
EBITDA, %	7.3	6.0	7.1	5.4	5.4
Adjusted operating profit (EBIT), EUR million	4.7	0.9	12.8	3.2	4.5
Adjusted operating profit, %	5.0	1.7	4.3	2.1	2.1
Operating profit (EBIT), EUR million	3.6	1.0	11.3	2.3	3.6
Operating profit, %	3.8	1.9	3.8	1.5	1.7
Profit before tax (EBT), EUR million	3.3	0.4	10.2	0.3	1.3
SHARE RELATED INFORMATION					
Earnings per share (EPS), EUR	0.08	0.01	0.27	-0.01	0.03
Equity per share, EUR			4.74	3.48	4.47
OTHER INFORMATION					
Return on capital employed (ROCE), %			9.0	3.7	3.4
Return on equity (ROE), %			8.7	2.5	2.3

Equity ratio, %			47.3	43.0	50.5
Gearing, %			26.8	42.2	25.2
Interest bearing net debt, EUR million			27.0	28.6	23.5
Net debt/adjusted EBITDA, 12 mths			1.1	2.1	1.9
Gross investments, EUR million	1.1	1.1	21.9	17.1	44.6
Cash flow from operating activities, EUR million	9.8	1.1	19.1	10.6	17.7
Cash flow after investments, EUR million	7.0	-2.2	-0.3	-1.2	-14.4
Average number of personnel			4,385	2,363	2,503
Personnel at the end of the period			4,470	2,905	3,047

Aarne Aktan, CEO of Pihlajalinna:

Pihlajalinna Group's revenue for July–September clearly increased year-on-year, and profit also improved. 74 per cent of the growth in revenues was organic, boosted by the social and healthcare outsourcing contracts in Kuusiokunnat and Jämsä, as in the previous quarter. Also our operating profit growth was strongly attributable to the municipal outsourcing contracts.

We have revised our revenue outlook for the full year because complete outsourcing agreements involve factors that cannot be fully defined until in the final quarter. Furthermore, the growth in demand for social services has been slightly weaker than expected.

Both of our operating segments developed well. In particular, the Primary and Social Care (P&S) segment's operating profit attributable to the municipal outsourcing contracts increased. The profitability of social services also improved. All in all, the profit of the first part of the year has been good. Profit formation in the last part of the year typically involves uncertainties, particularly in the P&S segment.

The Private Clinics and Specialised Care (C&S) segment delivered a reasonable profit. Operating profit from occupational healthcare grew more than expected, and the profitability of other service areas improved as planned.

We revised the structure of the management team during the third quarter. Our new management system further improves the manageability of the company as well as our ability to quickly respond to changes.



There are currently several major social and healthcare services outsourcing projects underway in Finland, and Pihlajalinna is involved in these. In addition, many municipalities are interested in joining current outsourcings of other municipalities and joint municipal authorities. These provide a promising outlook for growth.

The most recent presentation by public servants proposes that the freedom of choice in the future healthcare and social welfare reform would be very limited in healthcare services starting on 1 January 2019 and extended after two years. In our opinion, a larger proportion of primary care, as well as polyclinic specialised care, should be opened for competition. In social services, on the other hand, it would be mandatory for the regions to use personal budgeting. That would expand freedom of choice for example to the housing services for the disabled and the elderly. The policies outlined so far are still drafts. The law proposal is supposed to start circulating for official comments in November–December.

Consolidated revenue and result

January–September 2016

Pihlajalinna's revenue during the period amounted to EUR 295.4 (150.7 previous year) million, an increase of EUR 144.7 million or 96 per cent. Organic growth amounted to EUR 108.4 million, including the new social and healthcare service outsourcings in Kuusiokunnat and Jämsä. M&A transactions accounted for EUR 36.2 million of the growth in revenue.

EBITDA for the period amounted to EUR 20.8 (8.2) million, an increase of EUR 12.7 million or 155 per cent. Adjusted EBITDA for the period amounted to EUR 21.8 (9.0) million. EBITDA for the period was burdened by the non-recurring compensation of EUR 0.9 million related to a production agreement of the Surgical Operations service area that expired in the previous financial period. This item has been treated as an adjustment of EBITDA. The adjustment item for the comparison period lies in costs of EUR 0.9 million related to the sale of shares in connection with the Initial Public Offering.

Depreciation, amortisation and impairment for the period totalled EUR 9.6 (5.9) million. Amortisation and impairment of intangible assets during the period was EUR 3.3 (2.2) million, of which the amortisation of intangible assets allocated from the transaction price of business combinations on the date of acquisition totalled EUR 2.5 (1.7) million. Depreciation of property, plant and equipment totalled EUR 6.2 (3.7) million.

Depreciation, amortisation and impairment for the period includes a EUR 0.5 million non-recurring impairment loss resulting from the restructuring of the operations of the Dental Care and Surgical Operations service areas. These items have been treated as an adjustment of operating profit.

Pihlajalinna's operating profit for the period amounted to EUR 11.3 (2.3) million, an increase of EUR 9.0 million. The EBIT-to-revenue ratio (EBIT margin) was 3.8 (1.5) per cent. Adjusted operating profit for the period amounted to EUR 12.8 (3.2) million, an increase of EUR 9.6 million. Adjusted EBIT margin was 4.3 (2.1) per cent.

Transfer taxes and expert fees relating to the M&A transactions added an extra burden of EUR 0.4 (0.3) million to the result during the period.

The Group's net financial expenses for the period totalled EUR -1.1 (-2.0) million.

Pihlajalinna's profit before tax for the reporting period amounted to EUR 10.2 (0.3) million.

Taxes for the period amounted to EUR -2.4 (0.2) million. The profit for the period amounted to EUR 7.8 (0.5) million. Earnings per share (EPS) was EUR 0.27 (-0.01).

Market review

Tervola municipal council chose Pihlajalinna as partner for the municipality's social and healthcare services. The decision was returned to the Council for a second examination because the Municipal Board deemed that decision-makers who were disqualified had participated in making the Council's decision. Pihlajalinna has issued separate releases on this matter. Tervola municipality's population is about 3,200 and the contract's value is about EUR 13 million per year.

The City of Kouvola has made preparations for outsourcing its social and healthcare services, and Pihlajalinna participates in the tendering process. The population of the region of Kouvola is 86,000. The City of Kouvola has estimated that the value of the potential outsourcing contract would be EUR 84 million per year.

Pihlajalinna participates in the tendering process for the social and healthcare services of the Joint Municipal Welfare Authority in Forssa District. The population of the region is approximately 34,500. The Joint Municipal Authority has estimated that the value of the possible complete outsourcing contract would be EUR 95–115 million per year. The scope of the contract might change.

Furthermore, Pihlajalinna participates in the tendering process for the social and healthcare services of the municipality of Hattula. Hattula has a population of slightly under 10,000. The municipality has estimated that the value of the potential outsourcing contract would be around EUR 7–8 million.

Many municipalities are interested in joining current outsourcings of other municipalities and joint municipal authorities.

Operating segments

January–September 2016

Private Clinics and Specialised Care (C&S)

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

The C&S segment's revenues during the reporting period amounted to EUR 158.8 (87.5) million, an increase of EUR 71.3 million, or 81 per cent. Most of this growth was attributable to the transfer of the specialised care services of Kuusiokunnat and Jämsä to the service provision responsibility of Pihlajalinna. Furthermore, the acquisitions of Koskiklinikka and Itä-Suomen Lääkärikeskus (ITE) considerably increased the C&S segments revenue year on year.

The impact of the holiday season typical to this sector is reflected in the revenue for July–September. The C&S segment's revenue for July–September amounted to EUR 48.6 (26.8) million, which was 12 (12) per cent lower than the average for Q1 and Q2.

C&S segment's operating profit for the period amounted to EUR 4.5 (1.8) million, and adjusted operating profit to EUR 5.8 (1.8) million. Profitability improved, in particular due to acquisitions (Koskiklinikka, ITE) and the improved profitability of the Private Clinics and Occupational Healthcare service areas. EBITDA for the period was burdened by the non-recurring compensation of EUR 0.9 million related to a production agreement of the Surgical Operations service area that expired in the previous financial period. This item has been treated as an adjustment of operating profit.

Primary and Social Care (P&S)

The Primary and Social Care segment (P&S) is divided into four service areas: Complete Social and Healthcare Outsourcings, Health Centre Outsourcings, Staffing and Care Services (including reception centres for asylum seekers).

The P&S segment's revenues during the reporting period amounted to EUR 140.7 (65.3) million, an increase of EUR 75.3 million, or 115 per cent. This growth was mainly due to the social and healthcare outsourcing contracts of Kuusiokunnat and Jämsä.

The P&S segment's operating profit for the period amounted to EUR 8.4 (1.6) million, and adjusted operating profit to EUR 8.5 (1.6) million. Year-on-year profitability improved, mainly as a result of the social and healthcare outsourcings of Jämsä, Kuusiokunnat and Mänttä-Vilppula.

Performance of the segments

	C&S		P&S	
Quarter	7-9/2016	7-9/2015	7-9/2016	7-9/2015
Revenue, EUR million	48.6	26.8	46.9	24.8
EBITDA, EUR million	2.5	1.6	4.9	1.3
EBITDA, %	5.1	5.8	10.6	5.2
Adjusted EBITDA	3.4	1.6	5.1	1.3
Adjusted EBITDA, %	6.9	5.8	10.8	5.2
Operating profit, EUR million	-0.2	-0.1	4.4	0.8
Operating profit, %	-0.4	-0.5	9.5	3.2
Adjusted operating profit (EBIT)	0.8	-0.1	4.6	0.8
Adjusted operating profit, %	1.6	-0.5	9.8	3.2
Cumulative	1-9/2016	1-9/2015	1-9/2016	1-9/2015
Revenue, EUR million	158.8	87.5	140.7	65.3
EBITDA, EUR million	12.2	6.6	9.8	2.8
EBITDA, %	7.7	7.5	7.0	4.3
Adjusted EBITDA	13.1	6.6	10.0	2.8
Adjusted EBITDA, %	8.2	7.5	7.1	4.3
Operating profit, EUR million	4.5	1.8	8.4	1.6
Operating profit, %	2.8	2.0	5.9	2.5
Adjusted operating profit (EBIT)	5.8	1.8	8.5	1.6
Adjusted operating profit, %	3.7	2.0	6.0	2.5

Consolidated cash flow and financial position

At the end of the reporting period, Pihlajalinna Group's total statement of financial position was EUR 213.8 (164.4) million. Consolidated cash and cash equivalents stood at EUR 23.2 (19.6) million.

The Group's net cash flow from operating activities during the reporting period amounted to EUR 19.1 (10.6) million. A total of EUR 0.9 (5.4) million in working capital was released. During the reporting period, the Group departed from previous practices by making advance payments of employee pension insurance contributions, totalling EUR 3.0 million. The Group also shifted to a uniform payment schedule in holiday bonuses, which burdens the cash flow from operating activities by approximately EUR 1.3 million year on year.

Net cash flow from investing activities totalled EUR -19.5 (-11.7) million. The impact of subsidiary acquisitions on net cash flow in the reporting period was EUR -16.6 (-13.4) million. Investments in property, plant and equipment and intangible assets during the reporting period totalled EUR -3.2 (-5.8) million, and proceeds from the disposals of property, plant and equipment and subsidiaries totalled EUR 0.2 (8.3) million. In the comparison period, Pihlajalinna financed the share acquisitions of the care homes in Southwest Finland by selling the Group's care home properties (proceeds from the disposals of property, plant and equipment) and the property companies (disposal of subsidiaries).

The Group's cash flow after investments was EUR -0.3 (-1.2) million.

Net cash flow from financing activities totalled EUR 8.2 (9.8) million. During the reporting period, the Group withdrew EUR 14.5 (31.1) million of new loans within its credit limits and repaid its financial liabilities to a total amount of EUR 3.1 (75.2) million. In the comparison period, net cash flow from financing activities includes EUR 57.4 million of net assets received in the Initial Public Offering.

Gearing of the Group was 26.8 (42.2) per cent at the end of the reporting period.

Interest-bearing net debt amounted to EUR 27.0 (28.6) million. Return on capital employed was 9.0 (3.7) per cent, and return on equity was 8.7 (2.5) per cent.

In September 2015, Pihlajalinna signed a five-year revolving credit facility worth EUR 60 million and credit limit agreements worth EUR 10 million. The facility includes a financial covenant based on the ratio of net debt to EBITDA. The Group met the set covenants on 30/09/2016. The Group decided not to use the 12-month option period included in the financing agreement.

In deviation from the financial statements of 31 December 2015, the Group presents drawdowns from the revolving credit facility under non-current financial liabilities. The Group has adjusted the presentation of this loan in its statement of financial position of 31 December 2015. The Group estimates that drawdowns from the revolving credit facility are actually long-term by nature, although their maturity is 1, 3 or 6 months.

At the end of the reporting period, Pihlajalinna had EUR 45.5 million of unused committed credit limits (31 Dec. 2015: EUR 58.0 million).

Capital expenditure and acquisitions

Gross investments, including acquisitions, in the reporting period totalled EUR 21.9 (17.1) million. The Group's gross investments in property, plant and equipment and intangible assets, which consisted of normal additional and replacement investments required for growth, amounted to EUR 3.8 (4.0) million during the reporting period. Capital expenditure relating to the opening of new units totalled EUR 0.1 (2.0) million. Gross investments attributable to M&A transactions, including goodwill, totalled EUR 18.0 (10.8) million.

On 8 February 2016, Pihlajalinna implemented the purchase of shares in Itä-Suomen Lääkärikeskus Oy (ITE). The transaction price paid in cash on the execution date was EUR 6.8 million. At the beginning of July, Pihlajalinna paid a contingent consideration of EUR 1.5 million related to the transaction. The contingent consideration was based on the company's profit development as shown in its adopted Annual Accounts 2015, which turned out better than anticipated. Pihlajalinna also paid a sum corresponding to ITE's net cash at the time of the transaction, EUR 0.4 million.

On 9 February 2016, Pihlajalinna further strengthened its private clinic operations in Lappeenranta by purchasing the majority of shares in Lääkäriasema DokTori Oy. On 7 March 2016, Pihlajalinna strengthened its presence in Seinäjoki and elsewhere in Southern Ostrobothnia by acquiring the majority of the shares of Etelä-Pohjanmaan Sydäntutkimuspalvelu Oy, Kompassi Hammaslääkärikeskus Oy and Kompassi Lääkärikeskus Oy. The acquisition was finalised on 1 April 2016.

On 6 June 2016, Pihlajalinna strengthened its Dental Care service area in the Helsinki Metropolitan Area by acquiring the shares of Ala-Malmin Hammaslääkärit Oy.

The Group's investment commitments are related to the renovation of business premises, as well as clinical equipment and shared services' IT system development projects. In total, these investment commitments amount to around EUR 0.5 million.

Personnel

The Group's personnel averaged 4,385 (2,363) persons in the reporting period, an increase of 2,022 persons or 86 per cent. At the end of the period, the number of personnel amounted to 4,470 (2,905). The increase in personnel was mainly due to the implementation of new complete outsourcing contracts for social and healthcare services in Kuusiokunnat and Jämsä (in total approximately 1,600 persons transferred). During the reporting period, the Group's employee benefit expenses totalled EUR 124.4 (68.3) million, an increase of 82 per cent.

Changes in Group structure

At the beginning of the reporting period, the following subsidiary mergers were implemented: On 1 January 2016, Palvelukoti Sarahovi Oy merged with Palvelukoti Sofianhovi Oy (renamed in this connection as IkiPihlaja Sofianhovi Oy); on 1 January 2016, Dextra Suunterveydenhoito Oy merged with Wiisuri Oy; on 1 February 2016, Imatran Kliininen Laboratorio Oy, Lääkärikeskus Irmeli Elomaa Oy, Lääkärikeskus Labeho Oy, Medilappi Oy, Tammerkosken Hammasklinikka Oy, Tampereen Hammashoito Oy and Zirlab Oy merged with Dextra Oy.

Management changes

Tuomas Ojala was appointed Chief Information Officer (CIO) of Pihlajalinna from 1 January 2016 onwards.

Niclas Köhler was appointed Chief Financial Officer (CFO) and a member of the Group's management team as of 11 March 2016.

On 11 March 2016, Pihlajalinna Group announced the nomination of Aarne Aktan as the company's new CEO. He assumed his new position on 8 August 2016 and simultaneously stepped down from the company's Board of Directors. On 29 April 2016, Aarne Aktan took over as the Executive Vice President of the Private Clinics and Specialised Care (C&S) segment and as a member of the Group management team.

Pihlajalinna's Annual General Meeting of 4 April 2016 elected the then CEO, Mikko Wirén, as a member of the Board of Directors. Wirén's term as a Board member began on the same day as Aarne Aktan began as the company's CEO.

On 29 April 2016, Leena Niemistö, Pihlajalinna's previous Deputy CEO and EVP of the Private Clinics and Specialised Care segment, stepped down from her operative management positions in Pihlajalinna Plc and will concentrate on her Board positions in Pihlajalinna and other companies. Niemistö will continue as Pihlajalinna's Senior Adviser, especially in M&As.

Juha Rautio was appointed as Deputy CEO of Pihlajalinna Plc from 7 September 2016 onwards. He had previously served as SVP of the Primary and Social Care segment. In the same connection, Virpi Holmqvist, who had previously served as Outsourcing Business Director, was appointed as SVP of the Primary and Social Care segment.

On 7 September 2016, Siri Markula took over as Head of Communications and IR.

Management Team

On 7 September 2016, Pihlajalinna Group changed its Management Team structure and established an Extended Management Team to support the Management Team.

As of the same date, the Group's Management Team will include the following five (5) members: Aarne Aktan, CEO (also Executive Vice President of the C&S segment); Juha Rautio, Executive Vice President and Head of Group Projects; Virpi Holmqvist, Senior Vice President of the P&S segment; Niclas Köhler, CFO; and Hanne Keidasto, General Counsel.

In addition to the Management Team members, the Extended Management Team includes the following five (5) members: Joni Aaltonen, Head of Mergers and Acquisitions; Sanna Hildén, Head of Human Resources; Siri Markula, Head of Communications and IR; Tuomas Ojala, CIO; and Kimmo Saarinen, Medical Director.

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

Board of Directors

The Annual General Meeting on 4 April 2016 decided that the number of members of the Board of Directors shall be six (6) at a time. Ms. Leena Niemistö, Mr. Jari Sundström and Mr. Aarne Aktan were re-elected and Ms. Seija Turunen, Mr. Jari Eklund, Mr. Timo Everi and Mr. Mikko Wirén were elected as new members of the Board of Directors for a term ending at the end of the next Annual General Meeting.

The term of office of Mikko Wirén as a member of the Board of Directors began on 8 August 2016 when his appointment as the CEO of the company ended. On the same day, Aarne Aktan stepped down from the Board of Directors and assumed the position of CEO.

Pihlajalinna Plc Board of Directors elected Leena Niemistö as Chairman and Jari Sundström as Deputy Chairman in its constitutive meeting on 4 April 2016. As of 8 August 2016, the Board of Directors elected Mikko Wirén as Chairman and Leena Niemistö as Deputy Chairman.

Committees nominated by the Board

Audit Committee: Seija Turunen (Chairman), Jari Eklund and Leena Niemistö (for the period 4 April 2016–9 May 2016: Seija Turunen (Chairman), Jari Eklund and Aarne Aktan).

Nomination and Remuneration Committee: Mikko Wirén (Chairman), Jari Sundström and Timo Everi (for the period 4 April 2016–8 August 2016: Leena Niemistö (Chairman), Jari Sundström and Timo Everi).

Remuneration of the members of the Board of Directors

The Annual General Meeting of 4 April 2016 decided that remuneration shall be paid to the members of the Board of Directors as follows: to the Chairman EUR 3,500, to the Deputy Chairman EUR 2,500 and to the other members EUR 2,000 per month.

In addition, the AGM decided that each Board member shall be paid a meeting fee of EUR 500 for each Board and Committee meeting. Moreover, travel compensation will be paid according to the collective agreement concerning compensation for travelling expenses.

Shares and shareholders

At the end of the reporting period, Pihlajalinna Plc's share capital entered in the Trade Register amounted to EUR 80,000 and the total number of shares outstanding was 20,613,146. The company has one share series, with each share entitling its holder to one vote at the Annual General Meeting. All shares bestow their holders with equal rights to dividends and other distribution of the company's assets. At the end of the reporting period, the Company had 7,953 (3,136) 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 OMX Helsinki main market is PIHLIS, and Pihlajalinna Plc has been classified as a Mid Cap company in the Healthcare sector.

By the end of the reporting period, a total of 6,839,099 Pihlajalinna shares (33.2 %) had been traded at a total exchange value of EUR 112,155,573. The highest price of the reporting period was EUR 18.87 (15.00), the lowest price EUR 12.90 (11.38), the average price EUR 16.40 (11.48) and the closing price EUR 16.13 (15.00). The market value of the share capital based on the closing price was EUR 332.5 (286.7) million.

Flagging notifications

On 11 May 2016, Pihlajalinna received three disclosure notices in accordance with Chapter 9, Section 5 of the Securities Markets Act.

According to the first notification, Sentica Buyout III Ky and Sentica Buyout III Co-Investment Ky (together referred to as the "Funds") had sold their shares in Pihlajalinna in privately negotiated transactions (the "Share Sale Transactions"), in which the Funds sold a total of 3,515,990 shares to LocalTapiola General Mutual Insurance Company, LocalTapiola Mutual Life Insurance Company and Elo Mutual Pension Insurance Company on 11 May 2016. After the transactions, the Funds' ownership of the shares and votes of Pihlajalinna is 0 per cent.

Before the transactions, the Funds' ownership of the shares and votes of Pihlajalinna was 17.06 per cent.

According to the second notification, LähiTapiola Group's (LähiTapiola General Mutual Insurance Company and LähiTapiola Mutual Life Insurance Company) holdings of Pihlajalinna Plc's stock had increased to 23.42 per cent of Pihlajalinna's total shares and votes. After the transaction, LähiTapiola Group owns 4,827,526 Pihlajalinna shares.

According to the third notification, Elo Mutual Pension Insurance Company's holding of Pihlajalinna Plc's stock had increased to 6.15 per cent of Pihlajalinna's total shares and votes. After the transaction, Elo Mutual Pension Insurance owns 1,267,161 Pihlajalinna shares.

Auditing

At Pihlajalinna's AGM of 4 April 2016, KPMG Oy Ab, a firm of authorised public accountants, was elected as the company's auditor for the financial year 1 January–31 December 2016. Ms. Lotta Nurminen, APA, will be the auditor with principal responsibility.

Authorisation for the acquisition of the company's own shares

The Annual General Meeting of 4 April 2016 decided to authorise the Board of Directors to resolve on the repurchase of an aggregate maximum of 2,061,314 of the company's own shares. The authorisation will remain in force until the end of the next AGM, however, no longer than until 30 June 2017.

The authorisation revokes all previous authorisations to resolve on the repurchase of the company's own shares.

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

Authorisation to decide on a share issue

The Annual General Meeting of 4 April 2016 decided to authorise the Board of Directors to resolve on the issuance of shares and special rights entitling to shares. The aggregate number of shares to be issued on the basis of the authorisation may not exceed 4,122,629 shares. The authorisation will remain in force until the end of the next AGM, however, no longer than until 30 June 2017.

The authorisation revokes all previous authorisations to resolve on the issuance of shares and special rights entitling to shares.

The authorisation concerns both the issuance of new shares as well as the transfer of the company's own shares. The Board of Directors decides on all other terms and conditions of the issuance of shares and special rights entitling to shares. The authorisation includes a right to deviate from the shareholders pre-emptive right to subscription (directed issue).

Risks and uncertainties in business operations

As the population ages and the structures of healthcare services change, social policies may have a material impact on the private healthcare sector's business environment both in the short and long term. New policies may impact on business opportunities and profitability, particularly with respect to the availability of competent personnel.

In addition to the aforementioned factors, possible appeals and trials related to public contracts, Pihlajalinna Group's contractual and operational risks and uncertainties in the long term concern the continuity of key existing customer relationships and contracts, and the financial impacts of new commitments and contracts, which are continuously increasing in value. It is estimated that the competitive situation in Pihlajalinna Group's business areas will remain unchanged.

Political decision-making and structural reforms in the public sector also affect social care and healthcare services and may directly or indirectly impact on the Group's business and growth opportunities. The future overall effects of the Social and Healthcare Reform and any other possible changes in the arrangement of social and healthcare services are difficult to predict. Reforms may hamper the Group's operations in some areas of social and healthcare services but, on the other hand, the Group's extensive operations in different operating areas may partially balance out the effects of reforms.

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

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

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

Current incentive schemes

As part of the contract terms of the new CEO, Aarne Aktan, Pihlajalinna Plc's Board of Directors decided on a new long-term share-based incentive scheme for the years 2016–2018.

There are three earnings periods in the incentive scheme, each equivalent to one full calendar year: 1 January 2016–31 December 2016, 1 January 2017–31 December 2017 and 1 January 2018–31 December 2018. The earnings criteria of the share-based incentive scheme have been connected to the profitability development of the company's business operations. The amount of any share compensation paid to the CEO depends on achieving the targets set on the earnings criteria.

The maximum total incentive paid to the CEO consists of company shares and a monetary contribution. Based on the incentive scheme, the CEO can be granted a maximum of 37,500 shares (gross amount before applicable taxes) as a compensation. The possible share compensation will be paid after the financial statements of each earnings period (financial year) have been confirmed, in 2017, 2018 and 2019.

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

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

Events after the end of the reporting period

In its meeting of 8 September 2016, Tervola municipal council chose Pihlajalinna as partner for the municipality's social and healthcare services. According to tendering, the contract's duration is at least 10 years and at most 15 years. Provisionally, the service production will begin on 1 July 2017.

Tervola municipality's population is about 3,200 and the contract's value is about EUR 13 million per year.

In its meeting of 10 October 2016, the Municipal Board decided to return the purchase decision to the Council for a second examination. The Municipal Board deemed that decision-makers who were disqualified had participated in making the Council's decision. Pihlajalinna will assess the impact of the decision once the Municipal Council has re-examined the matter.

On 1 November 2016, Pihlajalinna implemented the acquisition of the entire share capital of Jämsän Lääkärikeskus Oy. The company will become part of the Dextra chain.

Accounting policies

This Interim Report has been prepared in compliance with the recording and valuation principles of the IFRS Standards, but not all of the requirements of the IAS 34 Standard have been complied with. All of the figures presented in the tables and notes have been rounded, due to which the actual total of individual figures may differ from the total presented.

The preparation of the financial statements in accordance with IFRS requires the management to make estimates and assumptions that affect the valuation of the reported assets and liabilities and contingent assets and liabilities on the statement of financial position, and recognition of the amount of income and expenses. Although the estimates are based on the management's best knowledge of current events and actions, the actual results may differ from the estimates.

The figures presented in this interim report are unaudited.

Tables and notes

1 January–30 September 2016

Consolidated statement of comprehensive income

EUR million	7-9/2016 3 mths	7-9/2015 3 mths	1-9/2016 9 mths	1-9/2015 9 mths	2015 12 mths
Revenue	93.9	50.9	295.4	150.7	213.3
Other operating income	0.4	0.2	1.2	0.6	0.8
Materials and services	-38.9	-19.4	-124.4	-57.9	-81.9
Employee benefit expenses	-39.1	-23.3	-124.4	-68.3	-97.4
Other operating expenses	-9.6	-5.3	-27.1	-16.9	-23.2
Share of profit in associated companies and joint ventures	0.1	0.0	0.2	0.0	-0.1
EBITDA	6.8	3.1	20.8	8.2	11.6
Adjusted EBITDA	7.8	2.9	21.8	9.0	12.5
Depreciation, amortisation and impairment	-3.2	-2.1	-9.6	-5.9	-8.0
Operating profit (EBIT)	3.6	1.0	11.3	2.3	3.6
Adjusted operating profit (EBIT)	4.7	0.9	12.8	3.2	4.5
Financial income	0.1	0.0	0.1	0.1	0.2
Financial expenses	-0.4	-0.6	-1.2	-2.1	-2.5
Profit before tax	3.3	0.4	10.2	0.3	1.3
Income tax	-0.9	0.1	-2.4	0.2	-0.1
Profit for the period **	2.4	0.5	7.8	0.5	1.2
Total comprehensive income for the period	2.4	0.5	7.8	0.5	1.2
Total comprehensive income for the period attributable:					
To the owners of the parent	1.7	0.2	5.7	-0.2	0.5
To non-controlling interests	0.7	0.3	2.1	0.7	0.8
Earnings per share calculated on the basis of the profit for the period attributable to owners of the parent (EUR)					
Basic and diluted	0.08	0.01	0.27	-0.01	0.03

**** The Group has not had any other comprehensive income items**

Consolidated statement of financial position

EUR million	09/2016	09/2015	12/2015
ASSETS			
Non-current assets			
Property, plant and equipment	46.1	39.6	48.6
Goodwill	89.6	64.6	76.1
Other intangible assets	16.2	10.2	15.1
Interests in associates	2.8	0.0	2.8
Available-for-sale financial assets	0.0	0.0	0.0
Other receivables	2.9	4.8	2.8
Deferred tax assets	2.8	2.4	2.5
Total non-current assets	160.4	121.7	148.0
Current assets			
Inventories	1.9	1.5	1.8
Trade and other receivables	27.7	21.2	19.7
Current tax assets	0.5	0.4	0.3
Cash and cash equivalents	23.2	19.6	15.3
Total current assets	53.3	42.7	37.1
Total assets	213.8	164.4	185.1
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	0.1	0.1	0.1
Reserve for invested unrestricted equity	87.9	62.9	87.9
Retained earnings	4.1	3.7	3.6
Result for the review period	5.7	-0.2	0.5
	97.8	66.5	92.1
Non-controlling interests	3.1	1.3	1.3
Total equity	100.9	67.7	93.5
Non-current liabilities			
Deferred tax liabilities	5.5	4.3	5.2
Financial liabilities*	50.5	22.5	36.3
Other non-current liabilities	1.9	2.0	1.9
Non-current provisions	0.6	0.0	0.0
Total non-current liabilities	58.5	28.8	43.5
Current liabilities			
Trade and other payables	48.8	38.1	42.0
Current tax liabilities	1.9	0.8	0.7
Financial liabilities*	3.7	29.0	5.5
Total current liabilities	54.4	67.9	48.2
Total liabilities	112.9	96.6	91.7
Total equity and liabilities	213.8	164.4	185.1

* In deviation from the financial statements of 31 December 2015, the Group presents drawdowns from the revolving credit facility under non-current financial liabilities. The Group has adjusted the presentation of this loan in its statement of financial position of 31 December 2015. Drawdowns from the revolving credit facility are actually long-term by nature, although their maturity is 1, 3 or 6 months.

Consolidated statement of changes in equity

EUR million					
	Share capital	Reserve for invested unrestricted equity	Retained earnings	Non-controlling interests	Total equity
Total equity, 1 Jan. 2015	0.0	5.1	4.3	1.0	10.4
Profit for the period			-0.2	0.7	0.5
Total comprehensive income for the period			-0.2	0.7	0.5
Bonus issue	0.1	-0.1			
Share issue		57.9			57.9
Dividends paid				-0.5	-0.5
Total transactions with the owners of the parent	0.1	57.8			57.4
Changes in non-controlling interests that result in a change of control			-0.6	0.1	-0.5
Total changes in subsidiary holdings			-0.6	0.1	-0.5
Total equity, 30 Sep. 2015	0.1	62.9	3.5	1.3	67.7
Total equity, 1 Jan. 2016	0.1	87.9	4.1	1.3	93.5
Profit for the period			5.7	2.1	7.8
Total comprehensive income for the period			5.7	2.1	7.8
Dividends paid			0.0	-0.3	-0.3
Total transactions with the owners of the parent			0.0	-0.3	-0.3
Total equity, 30 Sep. 2016	0.1	87.9	9.8	3.1	100.9

Consolidated statement of cash flows

EUR million	7-9/2016 3 mths	7-9/2015 3 mths	1-9/2016 9 mths	1-9/2015 9 mths	2015 12 mths
Cash flow from operating activities					
Cash receipts from sales	95.0	51.8	297.0	153.4	210.4
Cash receipts from other operating income	0.4	0.0	1.0	0.5	0.6
Operating expenses paid	-85.1	-50.6	-276.9	-142.1	-192.1
Operating cash flow before financial items and taxes	10.3	1.2	21.2	11.8	18.9
Interest received	0.1	0.0	0.1	0.0	0.1
Taxes paid	-0.6	-0.1	-2.2	-1.2	-1.3
Net cash flow from operating activities	9.8	1.1	19.1	10.6	17.7
Cash flow from investing activities					
Investments in tangible and intangible assets	-1.1	-1.0	-3.2	-5.8	-7.8
Proceeds from disposal of property, plant and equipment and intangible assets and prepayments	0.1	0.0	0.2	7.9	7.9
Changes in other investments		0.0	0.0	0.4	0.4
Changes in loan receivables		-2.0	0.0	-2.1	-0.1
Dividends received	0.0	0.0	0.3	0.0	0.0
Acquisition of subsidiaries less cash and cash equivalents on date of acquisition	-1.9	-0.4	-16.6	-13.4	-33.8
Disposal of subsidiaries less cash and cash equivalents				1.3	1.3
Net cash flow from investing activities	-2.8	-3.2	-19.5	-11.7	-32.1
Cash flow from financing activities					
Proceeds from issuing shares		-0.8	0.0	57.4	82.3
Changes in non-controlling interests				-0.5	-0.5
Proceeds from borrowings		26.7	14.5	31.1	31.1
Repayment of borrowings	-2.1	-36.0	-3.1	-75.2	-90.4
Repayment of financial lease liabilities	-0.6	-0.3	-1.8	-0.8	-1.2
Interest and other operational financial expenses	-0.4	-0.4	-1.1	-1.7	-2.0
Dividends paid and other profit distribution			-0.3	-0.5	-0.6
Net cash flow from financing activities	-3.2	-10.9	8.2	9.8	18.8
Changes in cash and cash equivalents	3.8	-13.1	7.9	8.6	4.4
Cash at the beginning of the financial period	19.4	32.6	15.3	11.0	11.0
Cash at the end of the financial period	23.2	19.6	23.2	19.6	15.3

Operating segments

EUR million	7-9/2016 3 mths	7-9/2015 3 mths	1-9/2016 9 mths	1-9/2015 9 mths	2015 12 mths
Revenue					
C&S	48.6	26.8	158.8	87.5	119.5
P&S	46.9	24.8	140.7	65.3	96.8
Unallocated	0.0	0.0	0.2	0.0	0.0
Eliminations	-1.5	-0.7	-4.3	-2.2	-2.9
Total consolidated revenue	93.9	50.9	295.4	150.7	213.3
Adjusted EBITDA					
C&S	3.4	1.6	13.1	6.6	9.2
P&S	5.1	1.3	10.0	2.8	3.9
Unallocated	-0.6	0.1	-1.2	-0.3	-0.6
Consolidated adjusted EBITDA	7.8	2.9	21.8	9.0	12.5
Adjustment items	-1.0	0.1	-1.0	-0.9	-0.9
Consolidated EBITDA	6.8	3.1	20.8	8.2	11.6
Adjusted EBITDA, % of revenue					
C&S	6.9	5.8	8.2	7.5	7.7
P&S	10.8	5.2	7.1	4.3	4.1
Consolidated adjusted EBITDA, % of revenue	8.3	5.8	7.4	6.0	5.9
Consolidated EBITDA, % of revenue	7.3	6.0	7.1	5.4	5.4
Adjusted operating profit					
C&S	0.8	-0.1	5.8	1.8	2.8
P&S	4.6	0.8	8.5	1.6	2.3
Unallocated	-0.7	0.2	-1.5	-0.2	-0.6
Consolidated adjusted operating profit	4.7	0.9	12.8	3.2	4.5
Adjustment items	-0.1	0.0	-1.5	-0.9	-0.9
Consolidated operating profit	3.6	1.0	11.3	2.3	3.6
Adjusted operating profit, % of revenue					
C&S	1.6	-0.5	3.7	2.0	2.3
P&S	9.8	3.2	6.0	2.5	2.4
Consolidated adjusted operating profit, % of revenue	5.0	1.7	4.3	2.1	2.1
Consolidated operating profit, % of revenue	3.8	1.9	3.8	1.5	1.7

Adjusted EBITDA and operating profit

EUR million	7-9/2016 3 mths	7-9/2015 3 mths	1-9/2016 9 mths	1-9/2015 9 mths	2015 12 mths
EBITDA	6.8	3.1	20.8	8.2	11.6
Adjustments to EBITDA					
Costs of the sale of shares in connection with listing		-0.1		0.9	0.9
Costs arising from the integration of business operations	0.1		0.1		
Compensation for a production agreement of Surgical Operations that expired in the previous financial period	0.9		0.9		
Adjustments to EBITDA in total	1.0	-0.1	1.0	0.9	0.9
Adjusted EBITDA	7.8	2.9	21.8	9.0	12.5
Depreciation, amortisation and impairment	-3.2	-2.1	-9.6	-5.9	-8.0
Adjustments to depreciation, amortisation and impairment					
Restructuring of Dental Care and Surgical Operations (impairment of assets)	0.1		0.5		
Adjustments to depreciation, amortisation and impairment in total	0.1	0.0	0.5	0.0	0.0
Adjusted operating profit (EBIT)	4.7	0.9	12.8	3.2	4.5
Operating profit (EBIT)	3.6	1.0	11.3	2.3	3.6

Changes in property, plant and equipment

EUR million	1-9/2016	1-9/2015	1-12/2015
Cost at the beginning of the period	62.6	45.1	45.1
Additions	3.0	15.1	15.6
Business combinations	1.0	0.6	10.5
Disposals	-0.4	-8.5	-8.4
Cost at the end of the period	66.2	52.2	62.6
Accumulated depreciation at the beginning of the period	-14.0	-9.7	-9.7
Depreciation and amortisation for the reporting period	-6.2	-3.7	-5.1
Accumulated depreciation on disposals	0.2	0.8	0.7
Accumulated depreciation at the end of the period	-20.1	-12.6	-14.0
Carrying amount at the end of the period	46.1	39.6	48.6

Changes in intangible assets

EUR million	1-9/2016	1-9/2015	1-12/2015
Cost at the beginning of the period	98.7	70.6	70.6
Additions	0.9	1.5	3.5
Business combinations	17.1	9.8	25.8
Disposals	0.0	-0.2	-1.2
Cost at the end of the period	116.7	81.7	98.7
Accumulated depreciation at the beginning of the period	-7.5	-4.7	-4.7
Depreciation and amortisation for the reporting period	-3.3	-2.2	-2.9
Accumulated depreciation on disposals	0.0	0.0	0.0
Accumulated depreciation at the end of the period	-10.9	-6.9	-7.5
Carrying amount at the end of the period	105.8	74.8	91.2

Contingent liabilities and commitments

EUR million	09/2016	09/2015	12/2015
Collateral given on own behalf			
Pledged collateral notes	1.3		1.0
Collateral given on behalf of associates			
Other contingent liabilities	3.8	2.1	4.0
Other contingent liabilities			
Lease commitments	31.8	26.4	25.8

The Group's material subsidiaries as specified in the loan agreement have provided a suretyship in the parent company's loan facility. The balance of the loan at the time of the interim report was EUR 24.5 million.

Share quantities

No. of shares	7-9/2016 3 mths	7-9/2015 3 mths	1-9/2016 9 mths	1-9/2015 9 mths	2015 12 mths
No. of shares outstanding at the end of the period	20,613,146	19,113,146	20,613,146	19,113,146	20,613,146
Average no. of shares outstanding during the period	20,613,146	19,113,146	20,613,146	15,889,703	16,767,940

Quarterly information

EUR million	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME							
Revenue	93.9	101.4	100.1	62.6	50.9	51.9	47.9
EBITDA	6.8	7.0	7.0	3.4	3.1	2.1	3.0
Adjusted EBITDA	7.8	7.0	7.0	3.4	2.9	3.0	3.1
Adjusted EBITDA, %	8.3	6.9	7.0	5.5	5.8	5.8	6.4
Depreciation, amortisation and impairment	-3.2	-3.5	-2.9	-2.1	-2.1	-2.0	-1.8
Operating profit (EBIT)	3.6	3.5	4.2	1.4	1.0	0.1	1.3
Adjusted operating profit (EBIT)	4.7	3.9	4.2	1.4	0.9	1.0	1.3
Adjusted operating profit (EBIT), %	5.0	3.9	4.2	2.2	1.7	1.9	2.7
Financial income	0.1	0.0	0.0	0.0	0.0	0.1	0.0
Financial expenses	-0.4	-0.4	-0.4	-0.4	-0.6	-0.8	-0.7
Profit before tax	3.3	3.1	3.8	1.0	0.4	-0.7	0.6
Income tax	-0.9	-0.5	-1.0	-0.3	0.1	0.1	0.0
Profit for the period	2.4	2.6	2.7	0.7	0.5	-0.6	0.6
Personnel at the end of the period	4,470	4,589	4,228	3,047	2,905	2,525	2,261
Change in personnel during the quarter	-119	361	1,181	142	380	264	547

EUR million	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15
C&S segment							
Revenue	48.6	56.1	54.1	32.0	26.8	30.8	29.9
EBITDA	2.5	4.6	5.1	2.6	1.6	1.9	3.1
Adjusted EBITDA	3.4	4.6	5.1	2.6	1.6	1.9	3.1
Operating profit (EBIT)	-0.2	1.7	2.9	1.0	-0.1	0.4	1.6
Adjusted operating profit (EBIT)	0.8	2.1	2.9	1.0	-0.1	0.4	1.6
P&S segment							
Revenue	46.9	47.0	46.8	31.4	24.8	22.0	18.5
EBITDA	4.9	2.6	2.3	1.1	1.3	1.3	0.2
Adjusted EBITDA	5.1	2.6	2.3	1.1	1.3	1.3	0.2
Operating profit (EBIT)	4.4	2.1	1.8	0.7	0.8	0.9	0.0
Adjusted operating profit (EBIT)	4.6	2.1	1.8	0.7	0.8	0.9	0.0
Unallocated							
Revenue	0.0	0.1	0.1	0.0	0.0	0.0	0.0
EBITDA	-0.6	-0.3	-0.4	-0.3	0.2	-1.1	-0.3
Adjusted EBITDA	-0.6	-0.3	-0.4	-0.3	0.1	-0.2	-0.2
Operating profit (EBIT)	-0.7	-0.3	-0.5	-0.3	0.3	-1.2	-0.3
Adjusted operating profit (EBIT)	-0.7	-0.3	-0.5	-0.3	0.2	-0.2	-0.2

Financial reporting in 2017

Pihlajalinna will publish a financial statements bulletin for 2016 on Friday 17 February 2017.

The annual report for 2016, including financial statements and the Board of Directors' report, will be available during week 11 at the latest. Pihlajalinna's Annual General Meeting is scheduled for Tuesday 4 April 2017.

Interim report January–March: Thursday 11 May 2017

Interim report January–June: Thursday 17 August 2017

Interim report January–September: Thursday 9 November 2017

Helsinki, 10 November 2016

Pihlajalinna Plc's Board of Directors

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CALCULATION OF KEY FIGURES

Return on equity (ROE), %

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

Return on capital employed (ROCE), %

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

Gearing, %

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

Equity ratio, %

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

Earnings per share (EPS), EUR

$$\frac{\text{Profit for the period attributable to owners of the parent}}{\text{Average number of shares during the period}}$$

Equity per share, EUR

$$\frac{\text{Equity attributable to owners of the parent}}{\text{Number of shares at period end}}$$

EBITDA	Operating profit + depreciation, amortisation and impairment
EBITDA, %	$\frac{\text{EBITDA} \times 100}{\text{Revenue}}$
Net debt/Adjusted EBITDA (rolling 12 mths)	$\frac{\text{Interest bearing net debt}}{\text{Adjusted EBITDA (rolling 12 mths)}}$
Cash flow after investments	Cash flow from operating activities + Cash flow from investing activities
Adjusted EBITDA*	Operating profit + depreciation, amortisation and impairment + adjustment items
Adjusted operating profit (EBIT)*	Operating profit + adjustment items
Adjusted EBIT margin*	$\frac{\text{Adjusted operating profit (EBIT)} \times 100}{\text{Revenue}}$
Gross investments	Increase in property, plant and equipment and intangible assets excluding other investments and non-current receivables
* These definitions correspond to the key figures reported earlier as "excluding non-recurring items".	

Pihlajalinna in brief

Pihlajalinna is one of the leading private social and healthcare services providers in Finland. The Company provides social and healthcare services for households, companies, insurance companies and public sector entities in private clinics, health centres, dental clinics and hospitals around Finland. Pihlajalinna provides general practitioner and specialised care services, including emergency and on-call services, a wide range of surgical services, occupational healthcare and dental care services, in private clinics and hospitals operating under the Dextra brand. Under the Pihlajalinna brand the Company, in cooperation with the public sector, offers social and healthcare service provision models to public sector entities with the aim of providing high quality services for public pay healthcare customers.