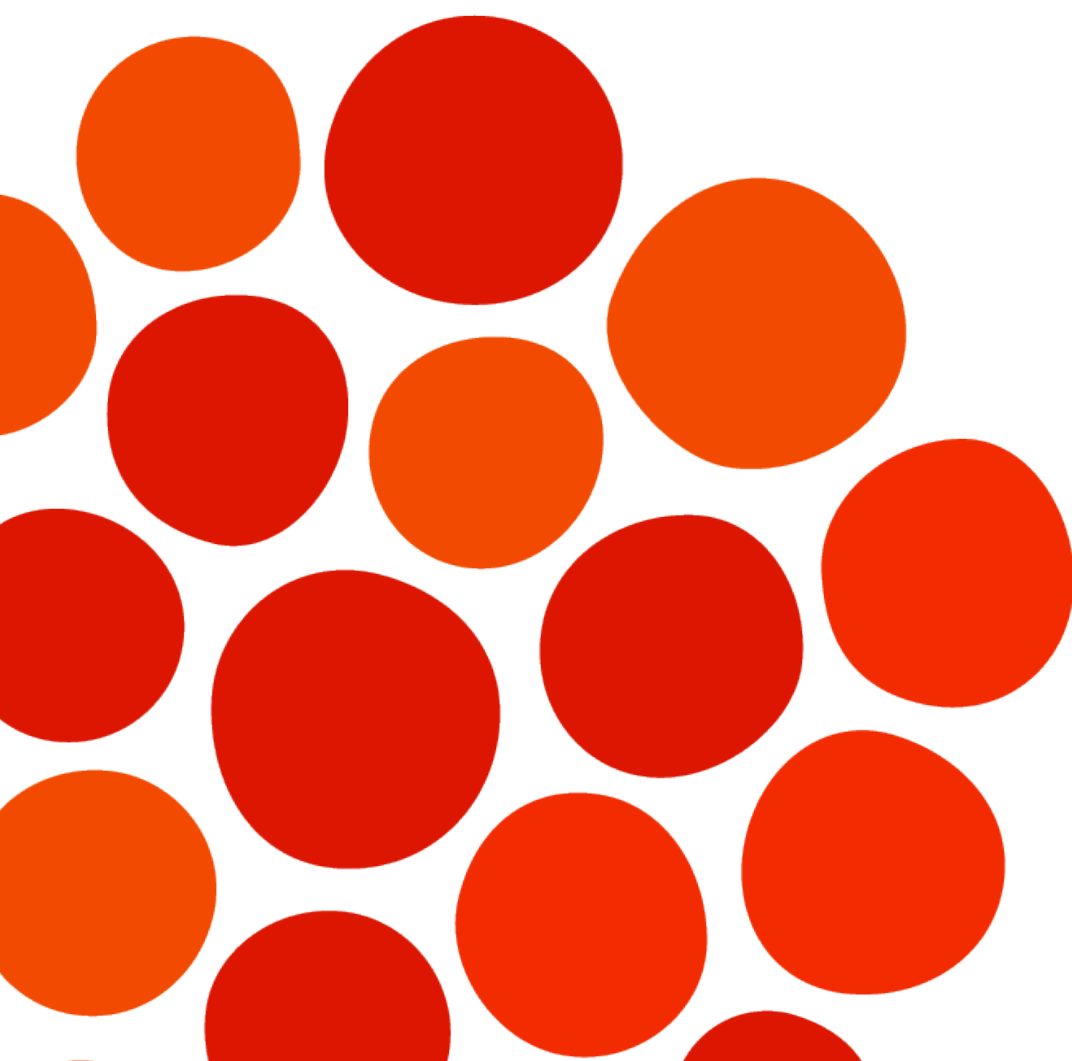


INTERIM REPORT
1 January–31 March 2017



Pihlajalinna Interim Report 1 January–31 March 2017 (3 months)

Profitability improvement continued, Pihlajalinna prepares for the healthcare and social welfare reform

Brief look at January–March:

- Revenue amounted to EUR 110.0 (100.1) million – an increase of 10 per cent
- Operating profit (EBIT) amounted to EUR 5.4 (4.2) million
- Adjusted operating profit (EBIT) amounted to EUR 5.7 (4.2) million – an increase of 37 per cent
- EBITDA amounted to EUR 8.9 (7.0) million
- Adjusted EBITDA amounted to EUR 9.1 (7.0) million – an increase of 30 per cent
- Number of personnel at the end of the reporting period was 4,519 (4,228)
Earnings per share was EUR 0.15 (0.10)

KEY FIGURES AND RATIOS	1–3/2017 3 mths	1–3/2016 3 mths	2016 12 mths
INCOME STATEMENT			
Revenue, EUR million	110.0	100.1	399.1
Adjusted EBITDA, EUR million	9.1	7.0	28.9
Adjusted EBITDA, %	8.3	7.0	7.2
EBITDA, EUR million	8.9	7.0	27.9
EBITDA, %	8.1	7.0	7.0
Adjusted operating profit (EBIT), EUR million	5.7	4.2	16.6
Adjusted operating profit, %	5.2	4.2	4.2
Operating profit (EBIT), EUR million	5.4	4.2	15.1
Operating profit, %	4.9	4.2	3.8
Profit before tax (EBT), EUR million	5.0	3.8	13.7
SHARE RELATED INFORMATION			
Earnings per share (EPS), EUR	0.15	0.10	0.39
Equity per share, EUR	4.89	4.56	4.74
OTHER INFORMATION			
Return on capital employed (ROCE), %	10.3	4.8	10.8
Return on equity (ROE), %	11.7	3.5	11.1
Equity ratio, %	42.9	43.8	46.5
Gearing, %	27.2	21.5	21.9
Interest-bearing net debt, EUR million	28.2	20.7	22.1
Net debt/adjusted EBITDA, 12 mths	0.9	1.3	0.8
Gross investments, EUR million*	4.6	10.3	27.4
Cash flow from operating activities, EUR million	13.5	14.0	32.3
Cash flow after investments, EUR million	9.5	3.9	6.8
Average number of personnel (FTE)**	3,686	3,365	3,503
Personnel at the end of the period	4,519	4,228	4,407

* Finance leases are not included in Gross investments

** Pihlajalinna has on 1 January, 2017 transitioned to reporting the number of personnel on average as full-time equivalents (FTE) instead of the previous Average number of personnel indicator.

Aarne Aktan, CEO of Pihlajalinna:

Pihlajalinna had a good first quarter of 2017. The organic growth of 5.2 per cent in revenue is reasonable, and we can be satisfied with the improvement in profitability.

The first quarter went according to plan in the Primary and Social Care (P & S) segment and its profitability improved as expected. We can be particularly happy with the Omapihlaja health centres included in the segment ranking at the top of the health centre comparison by the City of Tampere, in which quality and queuing time were among the criteria. Pihlajalinna is also taking part in the freedom of choice experiment in Tampere, in which the residents of certain areas can select the provider of their social and healthcare services.

The Private Clinics and Specialised Care segment's (C & S) quarter was reasonable. The development of profitability was a slight disappointment. The profitability of Private Clinics and Dental Care fell slightly short of expectations. Within the segment, the profitability of Occupational Healthcare and Surgical Operations improved delightfully. From this quarter onwards, we will report the revenue and profitability of Public Specialised Care separately. This provides a better picture of the profitability of other business operations.

We will strongly develop our digital services this year. We launched a new remote doctor application during the first quarter. We will continue the investments to reach our objective of having the best digital services in the market by the end of the year.

The national expansion plan we announced in February has been detailed further. We will open new private clinics at least in Oulu, Turku and Tapiola in Espoo this year. In all, we will open approximately 15 new private clinics across Finland during 2017 and 2018. We estimate that the investments required for this will remain under EUR 40 million. At the same time, we will proceed towards a single brand, Pihlajalinna.



The government's proposal on the legislation on the freedom of choice relating to the healthcare and social welfare reform was introduced on Tuesday, 9 May. The proposal lacks the liability of the primary care provider for the costs of specialised care, which we consider regrettable. Should the primary care provider be liable for the costs, the providers would have a strong incentive for prevention and swift effective treatment. Based on current knowledge, we expect the Act to pass in the fall.

There is strong political pressure on possible new municipal outsourcings. This has slowed down decision-making in many municipalities. In other respects, the company's operating environment has remained stable.

Pihlajalinna's outlook for 2017 unchanged

Pihlajalinna's revenue is expected to grow and adjusted EBITDA to improve compared to 2016. In the financial year 2016, revenue was EUR 399.1 million and the adjusted operating profit was EUR 16.6 million.

Consolidated revenue and result

January–March 2017

Pihlajalinna's revenue for the reporting period amounted to EUR 110.0 (100.1) million, an increase of EUR 9.9 million, or 10 per cent. Organic growth amounted to EUR 5.3 million (53 per cent), including the commencement of social and healthcare service production in Soini on 1 January 2017. M&A transactions accounted for EUR 4.7 million (47 per cent) of the growth in revenue.

EBITDA for the reporting period amounted to EUR 8.9 (7.0) million, an increase of EUR 1.9 million, or 27 per cent. Adjusted EBITDA for the reporting period amounted to EUR 9.1 (7.0) million, an increase of EUR 2.1 million, or 30 per cent. EBITDA for the reporting period was burdened by a conciliation agreement concerning the Group's facility expenses realised during the reporting period, totalling EUR 0.2 million. This item was treated as an adjustment to EBITDA and was not allocated to the operating segments.

Transfer taxes and expert fees relating to the M&A transactions added a burden of EUR 0.2 (0.3) million to the result for the reporting period.

Depreciation, amortisation and impairment for the reporting period totalled EUR 3.5 (2.9) million. Amortisation and impairment of intangible assets during the reporting period was EUR 1.3 (1.0) million, of which amortisation of intangible assets related to the allocation of costs at the time of M&A transactions totalled EUR 1.0 (0.8) million. Depreciation, amortisation and impairment of property, plant and equipment totalled EUR 2.2 (1.9) million.

The depreciation, amortisation and impairment for the reporting period includes an impairment loss of EUR 0.1 million due to the closing down of the Ilmarisenkatu dental care clinic in Jyväskylä. This item has been treated as an adjustment of operating profit.

Pihlajalinna's operating profit for the reporting period amounted to EUR 5.4 (4.2) million, an increase of EUR 1.2 million, or 29 per cent. The EBIT-to-revenue ratio (EBIT margin) for the past reporting period was 4.9 (4.2) per cent. Pihlajalinna's adjusted operating profit for the reporting period amounted to EUR 5.7 (4.2) million, an increase of EUR 1.5 million, or 37 per cent. Adjusted EBIT margin was 5.2 (4.2) per cent.

The Group's net financial expenses for the reporting period totalled EUR -0.4 (-0.4) million.

Profit before taxes for the reporting period amounted to EUR 5.0 (3.8) million, an increase of EUR 1.2 million, or 31 per cent.

Taxes for the reporting period amounted to EUR -1.1 (-1.0) million. The profit for the period amounted to EUR 3.9 (2.7) million. Earnings per share (EPS) was EUR 0.15 (0.10).

Market and legislation review

The legislation package connected to the social services, health care and regional government reform was put to Parliament at the beginning of March. The proposal includes 34 acts. In accordance with the government proposal, counties will be established on 1 July 2017, at which time they will begin to prepare their operations and administration. The counties would commence actual operations on 1 March 2018 and assume the responsibility for organising social and healthcare services on 1 January 2019.

The government's proposal for the Freedom of Choice Act was published on 9 May. According to the proposal, the health and social services centres will provide services comparable to the current health centres and versatile social services. The dental clinics will also provide a wide array of basic services. In addition to direct choice services, health and social services vouchers and personal budgeting will be used. According to the Ministry of Social Affairs and Health, the size of the market within the freedom of choice will be approximately EUR 6 billion. The Ministry estimates that in addition, the county can still supplement their provision by procuring services from the private market as they do today.

There is strong political pressure on possible new municipal outsourcings, which has slowed down decision-making in many municipalities. The Joint Municipal Welfare Authority in the Forssa region selected Pihlajalinna as its possible social services and healthcare partner in February. The realisation of the agreement is subject to the approval of the municipal councils of the individual municipalities forming the Joint Municipal Authority. The population of the region is approximately 34,500. The Joint Municipal Authority has estimated that the value of the possible outsourcing agreement would be roughly EUR 37 million per year.

At the end of March, Kouvola decided not to establish a joint venture with any private service provider.

Several cities and municipalities have expressed their interest in or started tendering of outsourcing social and healthcare services.

The market of the C & S segment is stable. Demand in the insurance market has increased, which has contributed to hospital operations in particular. Demand in the occupational healthcare market has remained stable. Demand among private individuals who pay for their services themselves fluctuates to some extent, which has manifested itself as decreasing demand for dental healthcare services.

Operating segments

January–March 2017

Private Clinics and Specialised Care (C & S)

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

The C & S segment's revenue during the past reporting period amounted to EUR 62.7 (54.1) million, an increase of EUR 8.6 million, or 16 per cent. Organic growth accounted for EUR 4.4 million (51 per cent) and M&A transactions for EUR 4.2 million (49 per cent) of the growth in revenue. Revenue developed favourably, especially in the Occupational Healthcare service area. Moreover, Surgical Operations and Public Specialised Care significantly increased its revenue year-on-year.

The social and healthcare outsourcings in which Pihlajalinna has the service provision responsibility are reported as follows in the Group's segment reporting: The share of primary care and social care service production is reported in the P & S segment and the specialised care of the outsourcings in question and service provision of hospital outsourcings are reported in the C & S segment.

The C & S segment's EBITDA and adjusted EBITDA during the past reporting period amounted to EUR 5.2 (5.1) million. In particular, increased efficiency and capacity utilisation rates in the Occupational Healthcare service area improved the segment's profitability. On the other hand, the Private Clinics service area and Public Specialised Care impaired the segment's profitability compared to the previous year.

The C & S segment's depreciation, amortisation and impairment for the reporting period totalled EUR 2.5 (2.2) million. Amortisation of intangible assets related to the allocation of costs at the time of M&A transactions totalled EUR 0.8 (0.7) million. The depreciation, amortisation and impairment for the reporting period

includes an impairment loss of EUR 0.1 million due to the closing down of the Ilmarisenkatu dental care clinic in Jyväskylä. This item has been treated as an adjustment of operating profit.

The C & S segment's operating profit for the reporting period amounted to EUR 2.7 (2.9) million and adjusted operating profit to EUR 2.8 (2.9) million.

The C & S segment's revenue includes EUR 21.9 million of revenue from Public Specialised Care. The EBITDA of Public Specialised Care amounted to EUR 0.1 million and operating profit to EUR 0.1 million for the reporting period.

Primary and Social Care (P & S)

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

The P & S segment's revenue during the reporting period amounted to EUR 49.5 (46.8) million, an increase of EUR 2.7 million, or 6 per cent. Organic growth of revenue totalled EUR 2.2 million (81 per cent), mainly as a result of increased sales of staffing services and the commencement of service production for Soini on 1 January 2017. M&A transactions accounted for EUR 0.5 million (19 per cent) of the growth in revenue.

The P & S segment's EBITDA and adjusted EBITDA during the past reporting period amounted to EUR 4.4 (2.3) million. In particular, the social and healthcare outsourcing in Parkano and increased volumes of staffing services in Other Business Operations improved the segment's profitability. On the other hand, the social and healthcare outsourcing in Jämsä impaired the segment's profitability year-on-year.

The P & S segment's depreciation, amortisation and impairment for the reporting period totalled EUR 0.9 (0.5) million. Amortisation of intangible assets related to the allocation of costs at the time of M&A transactions totalled EUR 0.1 (0.0) million.

The P & S segment's EBITDA and adjusted EBITDA during the reporting period amounted to EUR 3.5 (1.8) million.

Performance of the segments

Quarter	C & S		P & S	
	1– 3/2017	1– 3/2016	1– 3/2017	1– 3/2016
Revenue, EUR million	62.7	54.1	49.5	46.8
EBITDA, EUR million	5.2	5.1	4.4	2.3
EBITDA, %	8.3	9.5	9.0	4.8
Adjusted EBITDA, EUR million	5.2	5.1	4.4	2.3
Adjusted EBITDA, %	8.3	9.5	9.0	4.8
Operating profit, EUR million	2.7	2.9	3.5	1.8
Operating profit, %	4.3	5.4	7.1	3.8
Adjusted operating profit (EBIT), EUR million	2.8	2.9	3.5	1.8
Adjusted operating profit, %	4.4	5.4	7.1	3.8

Consolidated cash flow and financial position

At the end of the reporting period, Pihlajalinna Group's total statement of financial position was EUR 242.9 (219.6) million. Consolidated cash and cash equivalents stood at EUR 37.9 (32.4) million.

The Group's net cash flow from operating activities during the reporting period amounted to EUR 13.5 (14.0) million. A total of EUR 5.2 (7.4) million in working capital was released during the reporting period.

Net cash flow from investing activities totalled EUR -4.0 (-10.1) million. The impact of subsidiary acquisitions on net cash flow in the reporting period was EUR -2.7 (-9.1) million. Investments in property, plant and equipment and intangible assets during the reporting period totalled EUR -1.4 (-1.0) million, and proceeds from the disposals of property, plant and equipment and subsidiaries totalled EUR 0.1 (0.0) million.

The Group's cash flow after investments was EUR 9.5 (3.9) million.

Net cash flow from financing activities totalled EUR 0.9 (13.2) million. During the reporting period, the Group withdrew EUR 5.0 (14.5) million of new loans within its credit limits and repaid its financial liabilities to a total amount of EUR 0.5 (0.4) million. The Group distributed EUR 2.3 million of dividends to non-controlling interests during the reporting period.

After the reporting period, Pihlajalinna Plc distributed EUR 3.1 million of dividends on 13 April 2017.

The Group's gearing was 27.2 (21.5) per cent at the end of the reporting period. Interest-bearing net debt amounted to EUR 28.2 (20.7) million. For the financial year 2016, the facility leases of three care homes in Southwest Finland were reported as operating leases. The Group's gearing for the reporting period is increased by the replacement of said leases by new 15-year leases, which are considered as finance leases. The present value of these finance leases was EUR 12.5 million at the beginning of the financial year.

In the reporting period, return on capital employed was 10.3 (4.8) per cent and return on equity was 11.7 (3.5) per cent.

Pihlajalinna has a revolving credit facility (RCF) worth EUR 60 million valid until 2020 and credit limit agreements worth a total of EUR 10 million valid until further notice. The notice period of the credit limit agreements is one month. The RCF includes a financial covenant based on the ratio of net debt to EBITDA. The Group met the set covenants on 31 March 2017.

At the end of the reporting period, Pihlajalinna had a total of EUR 40.5 million of unused credit limits (EUR 45.2 million on 31 December 2016).

Capital expenditure and acquisitions

Gross investments, including acquisitions, in the reporting period totalled EUR 4.6 (10.3) 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 1.8 (1.2) million during the reporting period. Gross investments associated with M&A transactions totalled EUR 2.9 (9.1) million.

On 2 January 2017, Pihlajalinna acquired the entire share capital of Itä-Suomen Lääkäritalo Oy. Itä-Suomen Lääkäritalo provides a wide variety of private clinic and hospital services in its three locations (ITE Lasaretti Kuopio, Lääkärikeskus ITE Leppävirta and Lääkärikeskus ITE Suonenjoki). Pihlajalinna acquired Itä-Suomen Lääkäritalo to strengthen its position and services in the Kuopio region. Itä-Suomen Lääkäritalo has, under the name Lääkärikeskus ITE, worked in close cooperation with Itä-Suomen Lääkärikeskus Oy, which Pihlajalinna acquired on 1 February 2016.

The Group's investment commitments related to ordinary additional, replacement and development investments amount to approximately EUR 1.2 million. In addition to this, Pihlajalinna is committed to making a facility investment of approximately EUR 5.0 million to build a wellbeing centre in Hattula. The commitment is associated with the tendering for the primary care services of the municipality of Hattula, which Pihlajalinna won on 14 December 2016. The procurement decision has been appealed to the Market Court.

If certain criteria are met, Pihlajalinna has committed to redeeming a total of 20 per cent of the shares in its subsidiary Kolmostien Terveys Oy and 30 per cent of the shares in Mäntänvuoren Terveys Oy by the end of 2018. If the transactions materialize the Group's holding in both companies will be 81 per cent in 2018. The total purchase price is estimated to be approximately EUR 9.0 million.

In February, Pihlajalinna announced its plans to expand to over ten new locations before the start of the healthcare and social welfare reform, i.e. by 2019, primarily by opening completely new clinics. In addition, the company may expedite the pace of expansion with acquisitions. New private clinics will be opened at least in Oulu, Turku and Tapiola in Espoo in 2017. In all, approximately 15 new private clinics will be opened across Finland during 2017 and 2018. The investments required for this will remain under EUR 40 million.

Personnel

At the end of the reporting period, the number of personnel amounted to 4,519 (4,228), an increase of 291 persons or 7 per cent. The Group's personnel averaged 3,686 (3,365) persons as full-time equivalents, an increase of 321 persons or 10 per cent. The increase in the Group's average number of personnel (FTE) was due to several acquisitions in late 2016, the commencement of Soini's social and healthcare service production on 1 January 2017 and the acquisition of Itä-Suomen Lääkäritalo in January 2017. During the reporting period, the Group's employee benefit expenses totalled EUR 44.1 (42.1) million, an increase of 5 per cent.

Changes in Group structure

The following subsidiary mergers were implemented during the reporting period: Laser Tilkka Oy merged with Dextra Oy on 1 March 2017 and Oikare Oy merged with Hoitokoti Setälänpiha Oy on 1 March 2017.

Koskisairaala Oy was dissolved on 1 January 2017.

Management changes

LL.M. and Master of Science (Econ.) Pauliina Rannikko was appointed as General Counsel of Pihlajalinna. She started in her role and joined the Group's Management Team on 18 April 2017.

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

Management Team

The Group's Management Team includes the following five (5) members: Aarne Aktan, CEO (also Executive Vice President of the C&S segment); Juha Rautio, Deputy CEO and Head of Group Projects; Joni Aaltonen, SVP of the Primary and Social Care segment and Head of Corporate Planning; Niclas Köhler, CFO; and Pauliina Rannikko, General Counsel (as of 18 April 2017).

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

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

Board of Directors

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

Ms. Seija Turunen and Mr. Mikko Wirén were re-elected as members of the Board of Directors for a term ending at the end of the next Annual General Meeting.

At its organising meeting on 4 April 2017, Pihlajalinna Plc's Board of Directors elected Mikko Wirén as its Chairman and Leena Niemistö as its Vice-Chairman.

Shareholders' Nomination Board

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

Committees nominated by the Board

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

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

Remuneration of the members of the Board of Directors

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

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

Shares and shareholders

At the end of the reporting period, Pihlajalinna Plc's share capital entered in the Trade Register amounted to EUR 80,000 and the total number of shares outstanding was 20,613,146. The company has one share series, with each share entitling its holder to one vote at the Annual General Meeting. All shares bestow their holders with equal rights to dividends and other distribution of the company's assets. At the end of the reporting period, the Company had 10,025 (6,118) shareholders. The company does not hold any treasury shares. A list of the largest shareholders is available on the company's investor website at investors.pihlajalinna.fi.

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

A total of 1,093,595 (1,287,517) Pihlajalinna shares (5.3 per cent) were traded during the reporting period at a total exchange value of EUR 19,041,791 (19,977,002). The highest price of the reporting period was EUR 18.42 (18.87), the lowest price EUR 16.21 (12.90), the average price EUR 17.41 (15.52) and the closing price EUR 16.28 (16.83). The market value of the share capital based on the closing price was EUR 335.6 (346.9) million.

Auditing

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

Amendments to the Articles of Association

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

4 §: The Company has a Board of Directors, which consists of not less than four (4) and not more than ten (10) members.

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

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

Authorisation for the repurchase of the company's own shares

The Annual General Meeting of 4 April 2017 decided to authorise the Board of Directors to resolve the repurchase of an aggregate maximum of 2,061,314 of the Company's own shares. The authorisation revokes the authorisation given by the Annual General Meeting on 4 April 2016 to decide on the repurchase of the Company's own shares. The authorisation will remain in force until the end of the next AGM, however, no longer than until 30 June 2018.

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

Authorisation to decide on a share issue

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

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

The Board of Directors decides on all other terms and conditions of the issuance of shares and other special rights entitling to shares. The authorisation includes a right to deviate from the shareholders pre-emptive right to subscription (directed issue) if there are weighty reasons for the Company. The authorisation may be used, for example, to finance acquisitions or other business arrangements and investments or the implementation of the Company's share-based incentive plans, as well as other purposes determined by the Company's Board of Directors.

Risks and uncertainties in business operations

During the first quarter, Pihlajalinna conducted a comprehensive survey of its risks in cooperation with an external expert. The Group's key personnel took part in the survey. At the same time, the Group adopted a new risk management tool for actively managing and monitoring risks. The main objective is to minimise the identified risks and to better predict risks.

Political decision-making and structural reforms in the public sector also affect social care and healthcare services, and may directly or indirectly impact 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.

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

The Group closely monitors political decision-making processes. For instance, foreseeing 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, tax-related risks and the commitment and recruitment of competent management.

Flagging notifications

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

Current incentive schemes

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

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

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

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

Events after the end of the reporting period

Pihlajalinna announced on 5 April 2017 that it will offer healthcare personnel and doctors the opportunity to become co-owners of some of the new private clinics to be set up around Finland. With this new operating model, Pihlajalinna wants to strengthen the local aspect in private healthcare. When the companies that run the private clinics are registered in the localities in which they operate, they will pay their taxes locally.

The Annual General Meeting was held on 4 April 2017. The meeting adopted the Annual Accounts for 2016 and discharged the members of the Company's Board of Directors and the CEO from liability for the financial year 2016. The General Meeting resolved to pay a dividend of EUR 0.15 per share for 2016 (for a total of EUR 3.1 million). The dividend record date was 6 April 2017 and the payment date was 13 April 2017. The other decisions of the AGM are reported in this interim report under the subheadings Board of Directors, Remuneration of the members of the Board of Directors, Auditing, Shareholders' Nomination Board, Amendments to the Articles of Association and Authorisations.

Pihlajalinna's private clinics Dextra Koskiklinikka and Dextra Kangasala are taking part in the freedom of choice experiment in the Ministry of Social Affairs and Health's key project Services to be based on customer needs in Tampere. In Tampere, the experiment concerns health centre services and social counselling, and it will continue until the end of 2018. The experiment prepares for expanded freedom of choice included in the social services, healthcare and regional government reform, which is to enter into force at the beginning of 2019.

Accounting policies

This (unaudited) Interim Report has been prepared in compliance with the IFRS, applying the same accounting policies and calculation methods as in the financial statements for 2016, but not all of the requirements of IAS 34 (Interim Financial reporting) were complied with. All figures have been rounded, due to which the actual total of individual figures may differ from the total presented.

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

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

Pihlajalinna will adopt the IFRS 15 Revenue from Contracts with Customers standard as from 1 January 2018. As part of preparing for the adoption of the new standard, Pihlajalinna launched a contract-specific IFRS 15 adoption project concerning revenue recognition in autumn 2016, surveying the services sold and provided by segment. The primary performance obligations were surveyed segment-specifically, and the survey covered approximately 65 per cent of the Group's revenue for 2016. At the time of preparing the interim report, Pihlajalinna estimates that the adoption of the standard will not have a significant impact compared to the revenue recognition principles currently applied by Pihlajalinna.

Tables and notes

1 January–31 March 2017

Consolidated statement of comprehensive income

EUR million	1–3/2017 3 mths	1–3/2016 3 mths	2016 12 mths
Revenue	110.0	100.1	399.1
Other operating income	0.3	0.3	1.5
Materials and services	-47.2	-42.1	-168.0
Employee benefit expenses	-44.1	-42.1	-167.2
Other operating expenses	-10.2	-9.2	-37.7
Share of profit in associated companies and joint ventures	0.1	0.1	0.2
EBITDA	8.9	7.0	27.9
Adjusted EBITDA	9.1	7.0	28.9
Depreciation, amortisation and impairment	-3.5	-2.9	-12.8
Operating profit (EBIT)	5.4	4.2	15.1
Adjusted operating profit (EBIT)	5.7	4.2	16.6
Financial income	0.0	0.0	0.1
Financial expenses	-0.4	-0.4	-1.5
Profit before tax	5.0	3.8	13.7
Income tax	-1.1	-1.0	-3.0
Profit for the period *	3.9	2.7	10.8
Total comprehensive income for the period	3.9	2.7	10.8
Total comprehensive income for the period attributable:			
To the owners of the parent	3.2	2.0	8.0
To non-controlling interests	0.7	0.8	2.7
Earnings per share calculated on the basis of the profit for the period attributable to owners of the parent (EUR)			
Basic and diluted	0.15	0.10	0.39

* The Group has no other comprehensive income items

Consolidated statement of financial position

EUR million	03/2017	03/2016	12/2016
ASSETS			
Non-current assets			
Property, plant and equipment	56.9	48.3	45.5
Goodwill	93.7	82.9	92.3
Other intangible assets	17.2	16.0	16.3
Interests in associates	2.9	3.0	2.8
Available-for-sale financial assets	0.0	0.0	0.0
Other receivables	2.9	2.8	2.8
Deferred tax assets	1.9	2.7	1.6
Total non-current assets	175.6	155.8	161.3
Current assets			
Inventories	2.0	2.0	2.0
Trade and other receivables	26.5	29.1	26.1
Current tax assets	1.0	0.3	0.8
Cash and cash equivalents	37.9	32.4	27.5
Total current assets	67.4	63.8	56.4
Total assets	242.9	219.6	217.7
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	0.1	0.1	0.1
Reserve for invested unrestricted equity	87.9	87.9	87.9
Retained earnings	9.7	4.1	1.7
Result for the period	3.2	2.0	8.0
	100.9	94.1	97.8
Non-controlling interests	3.0	2.1	3.2
Total equity	103.9	96.1	101.0
Non-current liabilities			
Deferred tax liabilities	5.7	5.4	5.5
Financial liabilities	64.5	50.5	48.3
Other non-current liabilities	1.8	1.9	1.9
Non-current provisions	1.0	0.3	0.8
Total non-current liabilities	73.0	58.1	56.7
Current liabilities			
Trade and other payables	59.3	58.5	55.0
Current tax liabilities	2.7	1.7	1.3
Financial liabilities	4.1	5.1	3.7
Total current liabilities	66.1	65.3	60.1
Total liabilities	139.1	123.4	116.7
Total equity and liabilities	242.9	219.6	217.7

Consolidated statement of changes in equity

	Equity attributable to owners of the parent				
EUR million	Share capital	Reserve for invested unrestricted equity	Retained earnings	Non-controlling interests	Equity Total
Total equity, 1 Jan. 2016	0.1	87.9	4.1	1.3	93.5
Profit for the period			2.0	0.8	2.7
Total comprehensive income for the period			2.0	0.8	2.7
Changes in non-controlling interests that have not resulted in a change of control				-0.1	-0.1
Total changes in ownership interests				-0.1	-0.1
Total equity, 31 Mar. 2016	0.1	87.9	6.1	2.1	96.1
Total equity, 1 Jan. 2017	0.1	87.9	9.7	3.2	101.0
Profit for the period			3.2	0.7	3.9
Total comprehensive income for the period			3.2	0.7	3.9
Dividends paid			-0.1	-1.0	-1.1
Total transactions with owners			-0.1	-1.0	-1.1
Total equity, 31 Mar. 2017	0.1	87.9	12.9	3.0	103.9

Consolidated statement of cash flows

EUR million	1–3/2017 3 mths	1–3/2016 3 mths	2016 12 mths
Cash flow from operating activities			
Cash receipts from sales	108.6	98.4	400.5
Cash receipts from other operating income	0.0	0.3	1.4
Operating expenses paid	-94.8	-84.4	-367.3
Operating cash flow before financial items and taxes	13.9	14.2	34.6
Interest received	0.0	0.0	0.1
Taxes paid	-0.4	-0.3	-2.4
Net cash flow from operating activities	13.5	14.0	32.3
Cash flow from investing activities			
Investments in tangible and intangible as- sets	-1.4	-1.0	-4.9
Proceeds from disposal of property, plant and equipment and intangible assets and prepayments	0.1	0.0	0.3
Changes in other investments	0.0	0.0	0.0
Changes in loan receivables		0.0	0.0
Dividends received	0.0		0.3
Acquisition of subsidiaries less cash and cash equivalents at date of acquisition	-2.7	-9.1	-21.1
Net cash flow from investing activities	-4.0	-10.1	-25.5
Cash flow from financing activities			
Proceeds from issuing shares		0.0	0.0
Changes in non-controlling interests			-1.1
Proceeds from borrowings	5.0	14.5	14.9
Repayment of borrowings	-0.5	-0.4	-3.6
Repayment of financial lease liabilities	-0.8	-0.6	-2.4
Interest and other operational financial ex- penses	-0.5	-0.3	-1.4
Dividends paid and other profit distribution	-2.3	0.0	-1.0
Net cash flow from financing activities	0.9	13.2	5.4
Changes in cash and cash equivalents	10.4	17.1	12.2
Cash at the beginning of the financial period	27.5	15.3	15.3
Cash at the end of the review period	37.9	32.4	27.5

Operating segments

EUR million	1–3/2017 3 mths	1–3/2016 3 mths	2016 12 mths
Revenue			
C & S	62.7	54.1	215.6
P & S	49.5	46.8	189.8
Unallocated	0.0	0.1	0.4
Eliminations	-2.2	-1.0	-6.7
Total consolidated revenue	110.0	100.1	399.1
Adjusted EBITDA			
C & S	5.2	5.1	17.3
P & S	4.4	2.3	13.0
Unallocated	-0.5	-0.4	-1.4
Consolidated adjusted EBITDA	9.1	7.0	28.9
Adjustment items	-0.2	0.0	-1.0
Consolidated EBITDA	8.9	7.0	27.9
Adjusted EBITDA, % of revenue			
C & S	8.3%	9.5%	8.0%
P & S	9.0%	4.8%	6.9%
Consolidated adjusted EBITDA, % of revenue	8.3%	7.0%	7.2%
Consolidated EBITDA, % of revenue	8.1%	7.0%	7.0%
Adjusted operating profit			
C & S	2.8	2.9	7.5
P & S	3.5	1.8	11.0
Unallocated	-0.6	-0.5	-1.9
Consolidated adjusted operating profit	5.7	4.2	16.6
Adjustment items	-0.3	0.0	-1.5
Consolidated operating profit	5.4	4.2	15.1
Adjusted operating profit, % of revenue			
C & S	4.4%	5.4%	3.5%
P & S	7.1%	3.8%	5.8%
Consolidated adjusted operating profit, % of revenue	5.2%	4.2%	4.2%
Consolidated operating profit, % of revenue	4.9%	4.2%	3.8%

Adjusted EBITDA and operating profit

EUR million	1–3/2017 3 mths	1–3/2016 3 mths	2016 12 mths
EBITDA	8.9	7.0	27.9
Adjustments to EBITDA			
Closing down of dental clinic, Jyväskylä	0.0		
Conciliation agreement concerning the Group's facility expenses	0.2		
Costs arising from the integration of Care Services			0.1
Compensation related to a production agreement of the Surgical Operations service area that expired in the previous financial year			0.9
Adjustments to EBITDA in total	0.2	0.0	1.0
Adjusted EBITDA	9.1	7.0	28.9
Depreciation, amortisation and impairment	-3.5	-2.9	-12.8
Adjustments to depreciation, amortisation and impairment			
Closing down of dental clinic, Jyväskylä	0.1		
Closing down of dental clinic, Muurame			0.4
Closing down of Surgical Operations clinic, Tampere			0.1
Adjustments to depreciation, amortisation and impairment in total	0.1	0.0	0.5
Adjusted operating profit (EBIT)	5.7	4.2	16.6
Operating profit (EBIT)	5.4	4.2	15.1

Contingent liabilities and commitments

EUR million	03/2017	03/2016	12/2016
Collateral given on own behalf			
Pledged collateral notes	1.1	1.1	1.1
Sureties	0.3	0.3	0.3
Collateral given on behalf of associates			
Sureties	3.4	3.9	3.4
Other contingent liabilities			
Lease commitments	28.9	33.2	30.6

The Group's material subsidiaries as specified in the loan agreement have provided a suretyship in the parent company's loan facility. The balance of the loan at the time of the interim report was EUR 29.5 million.

Share quantities

No. of shares	03/2017	03/2016	12/2016
No. of shares outstanding at the end of the period	20,613,146	20,613,146	20,613,146
Average no. of shares outstanding during the period	20,613,146	20,613,146	20,613,146

Quarterly information

EUR million	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME								
Revenue	110.0	103.7	93.9	101.4	100.1	62.6	50.9	51.9
EBITDA	8.9	7.1	6.8	7.0	7.0	3.4	3.1	2.1
Adjusted EBITDA	9.1	7.1	7.8	7.0	7.0	3.4	2.9	3.0
Adjusted EBITDA, %	8.3	6.8	8.3	6.9	7.0	5.5	5.8	5.8
Depreciation and amortisation	-3.5	-3.2	-3.2	-3.5	-2.9	-2.1	-2.1	-2.0
Operating profit (EBIT)	5.4	3.9	3.6	3.5	4.2	1.4	1.0	0.1
Adjusted operating profit (EBIT)	5.7	3.9	4.7	3.9	4.2	1.4	0.9	1.0
Adjusted operating profit (EBIT), %	5.2	3.7	5.0	3.9	4.2	2.2	1.7	1.9
Financial income	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1
Financial expenses	-0.4	-0.3	-0.4	-0.4	-0.4	-0.4	-0.6	-0.8
Profit before tax	5.0	3.5	3.3	3.1	3.8	1.0	0.4	-0.7
Income tax	-1.1	-0.5	-0.9	-0.5	-1.0	-0.3	0.1	0.1
Profit for the period	3.9	3.0	2.4	2.6	2.7	0.7	0.5	-0.6
Personnel at the end of the period	4,519	4,407	4,470	4,589	4,228	3,047	2,905	2,525
Change in personnel during the quarter	112	-63	-119	361	1,181	142	380	264

EUR million	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15
C & S segment								
Revenue	62.7	56.8	48.6	56.1	54.1	32.0	26.8	30.8
EBITDA	5.2	4.2	2.5	4.6	5.1	2.6	1.6	1.9
Adjusted EBITDA	5.2	4.2	3.4	4.6	5.1	2.6	1.6	1.9
Operating profit (EBIT)	2.7	1.7	-0.2	1.7	2.9	1.0	-0.1	0.4
Adjusted operating profit (EBIT)	2.8	1.7	0.8	2.1	2.9	1.0	-0.1	0.4
P & S segment								
Revenue	49.5	49.1	46.9	47.0	46.8	31.4	24.8	22.0
EBITDA	4.4	3.1	4.9	2.6	2.3	1.1	1.3	1.3
Adjusted EBITDA	4.4	3.1	5.1	2.6	2.3	1.1	1.3	1.3
Operating profit (EBIT)	3.5	2.5	4.4	2.1	1.8	0.7	0.8	0.9
Adjusted operating profit (EBIT)	3.5	2.5	4.6	2.1	1.8	0.7	0.8	0.9
Unallocated								
Revenue	0.0	0.2	0.0	0.1	0.1	0.0	0.0	0.0
EBITDA	-0.7	-0.2	-0.6	-0.3	-0.4	-0.3	0.2	-1.1
Adjusted EBITDA	-0.5	-0.2	-0.6	-0.3	-0.4	-0.3	0.1	-0.2
Operating profit (EBIT)	-0.8	-0.3	-0.7	-0.3	-0.5	-0.3	0.3	-1.2
Adjusted operating profit (EBIT)	-0.6	-0.3	-0.7	-0.3	-0.5	-0.3	0.2	-0.2

Financial reporting in 2017

Half year financial report January–June: Thursday 17 August 2017

Interim report January–September: Thursday 9 November 2017

Briefing

Pihlajalinna Plc will hold a briefing for analysts and the media on Thursday 11 May 2017 at 9.30 a.m. in the Paavo Nurmi room at Hotel Kämp, Pohjoisesplanadi 29, 00100 Helsinki, Finland.

Helsinki, 10 May 2017

Pihlajalinna Plc's Board of Directors

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CALCULATION OF KEY FIGURES

Return on equity (ROE), %	$\frac{\text{Profit for the period (rolling 12 mths)} \times 100}{\text{Equity (average)}}$
Return on capital employed (ROCE), %	$\frac{\text{Profit before taxes (rolling 12 mths)} + \text{interest and other financial expenses (rolling 12 mths)} \times 100}{\text{Total statement of financial position – non-interest-bearing liabilities (average)}}$
Gearing, %	$\frac{\text{Interest-bearing net debt} \times 100}{\text{Total equity}}$
Equity ratio, %	$\frac{\text{Equity} \times 100}{\text{Total statement of financial position – prepayments received}}$
Earnings per share (EPS), EUR	$\frac{\text{Profit for the period attributable to owners of the parent}}{\text{Average number of shares during the period}}$
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	Net cash flow from operating activities + net cash flow from investing activities
Adjusted EBITDA*	Operating profit + depreciation, amortisation and impairment + adjustment items
Adjusted operating profit (EBIT)*	Operating profit + adjustment items
Adjusted EBIT margin*	$\frac{\text{Adjusted operating profit (EBIT)} \times 100}{\text{Revenue}}$
Gross investments	Increase in property, plant and equipment and intangible assets excluding finance leases

* The calculation principles of the adjustment items with effects on comparability are presented in Pihlajalinna's Annual Report 2016.

Pihlajalinna in brief

Pihlajalinna is one of the leading private social and healthcare services providers in Finland. The Company provides social and healthcare services for households, companies, insurance companies and public sector entities in private clinics, health centres, dental clinics and hospitals around Finland. Pihlajalinna provides general practitioner and specialised care services, including emergency and on-call services, a wide range of surgical services, occupational healthcare and dental care services, in private clinics and hospitals 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.