



**Pihlajalinna**

**2017**

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**REVENUE**  
**424.0**  
EUR million  
(2016: 399.1)  
**↑ 6%**

**OPERATING  
PROFIT (EBIT)**  
**19.1**  
EUR million  
(2016: 15.1)  
**↑ 26%**

**EBITDA**  
**33.3**  
EUR million  
(2016: 27.9)  
**↑ 19%**

## Pihlajalinna in 2017

**NET DEBT/EBITDA**  
**1.0**  
31 Dec 2017  
(31 Dec 2016: 0.8)  
**target below 3**

**EARNINGS  
PER SHARE**  
**0.46**  
EUR  
(2016: 0.39)  
**↑ 18%**

**NUMBER OF  
PERSONNEL**  
**4,753**  
31 Dec 2017  
(31 Dec 2016: 4,407)  
**↑ 8%**

## Timeline 2017

### 2.1.

Pihlajalinna acquires Itä-Suomen Lääkäritalo Oy in Kuopio.

### 11.2.

Pihlajalinna announces it will expand nationwide and move all of its private clinics under the Pihlajalinna brand.

### 3.4.

Pihlajalinna launches an AI-assisted remote doctor application.

### 29.5.

Pihlajalinna becomes a social and healthcare service partner for the municipalities of Forssa, Humpvila and Ypäjä.

### 16.6.

Market Court annuls Hattula's procurement decision on social and healthcare services.

### 27.6.

Joint venture negotiations between Pihlajalinna and Tervola are concluded without success.

### 6.7.

Pihlajalinna acquires imaging businesses in Kuopio and Joensuu.

### 3.8.

Pihlajalinna acquires Caritas Lääkärit Oy in Oulu.

### 21.8.

Forssa revokes its procurement decision concerning the organisation of social and healthcare services.

### 21.11.

Pihlajalinna revises its strategy, publishes its new values and announces a plan to change its operating structure.

### 4.12.

Pihlajalinna acquires Paraisten Lääkärikeskus.

### 11.12.

Pihlajalinna appoints a new CEO.

### 19.12.

Pihlajalinna informs about acquisition of private clinics in Salo and Somero.

# Pihlajalinna in brief

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

## PIHLAJALINNA

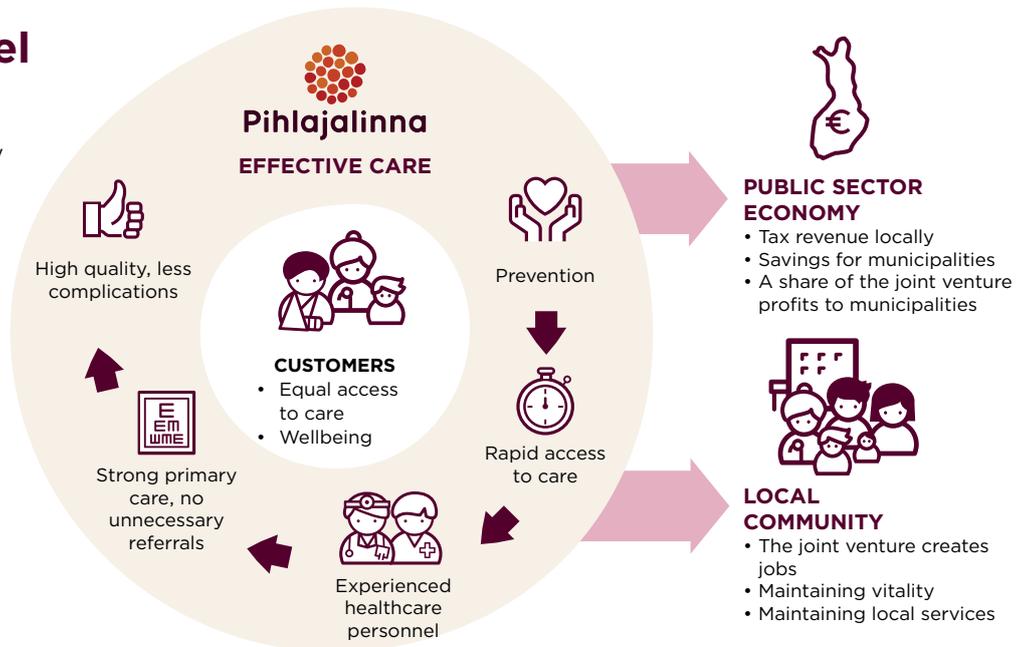
- Market leader in social and healthcare outsourcing in Finland
- The company pays all of its taxes to Finland

- Headquartered in Kehräsaari, Tampere
- Extensive range of services offered to both private and public sector customers
- Strong geographical presence in Pirkanmaa, South Ostrobothnia, Central Finland and the Helsinki Metropolitan Area
- The company's aim is to grow to become the largest social and healthcare service provider in Finland
- Listed on the main list of Nasdaq Helsinki in 2015

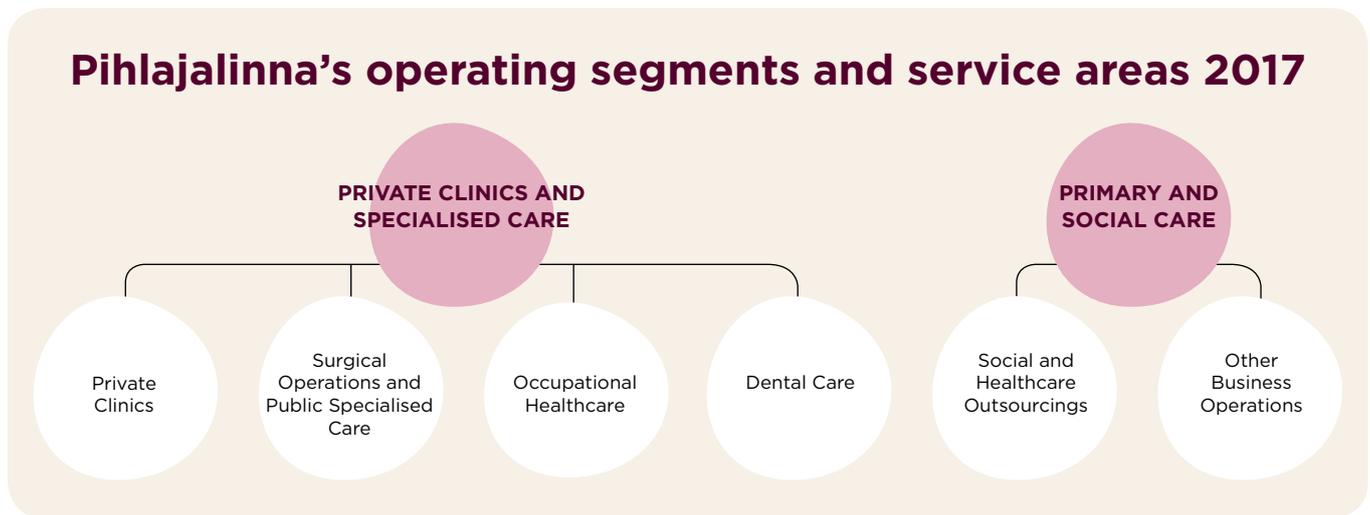


## Pihlajalinna model

The Pihlajalinna operating model and its social effects culminate in our way of working in cooperation with municipalities. When a joint venture of Pihlajalinna and a municipality is responsible for producing the municipality's social and healthcare services on a long-term agreement, the company has a strong incentive to promote health and to adopt effective operating models. Approximately 60 per cent of Pihlajalinna's revenue comes from complete outsourcing agreements for municipal social and healthcare services. The average agreement period is 10+5 years.



## Pihlajalinna's operating segments and service areas 2017





## From the Chairman of the Board of Directors

The past year was characterised by uncertainty over the form and implementation of the structural reform of healthcare and social services. While the schedule of the reforms has been delayed, the need for them has not gone away – quite on the contrary. The ageing of the Finnish population and the sustainability gap in public finances mean that the production of social and healthcare services must become more efficient. If we fail to accomplish this as a society, the result would be worsening inequality with regard to access to care, for example.

In Pihlajalinna's experience, the best results can be achieved by combining the best aspects of public and private providers. We have developed innovative solutions that have been proven to

be effective, and these solutions can be utilised in a broader scale. For this reason, we believe that partnership with Pihlajalinna will create added value for the public operators also in the future.

Cooperation between the public and private sectors will be necessary in areas such as specialised care. Public specialised care will already be increasingly centralised in a small number of units in 2018 pursuant to the new Finnish Health Care Act. This is why we believe that private sector operators will play an important role as partners to the public sector in specialised care. Pihlajalinna already has diverse experience of these partnerships.

The current legislative proposal for Finland's health and social services reform would see freedom of choice

and competition between providers introduced to basic-level social and healthcare services, such as health centre services similar to those that exist today. Both freedom of choice and competition between providers have intrinsic value. In practice, the combination of freedom of choice and competition means that people have access to a doctor when necessary, and the quality of care will be improved.

I am convinced that, if we can move away from the juxtaposition of public and private and turn the scenario into one of positive competition, we will achieve a win-win outcome for customers and society both.

**MIKKO WIRÉN**

Chairman of the Board of Directors



## From the CEO

Pihlajalinna's growth in 2017 was more moderate than before as municipalities awaited information on the final form that Finland's health and social services reform will take. This gave us the opportunity to focus on our existing business while also preparing for the health and social services reform.

In early 2017, we announced our plans to expand to over ten new locations, primarily by opening completely new clinics. At the same time, we announced that we will start operating under a single brand: Pihlajalinna. The brand revamp was completed as planned and the new-look brand was launched in autumn 2017. The first clinics using our new concept opened at the turn of the year in Turku and Oulu. Before the planned start of the health

and social services reform, we intend to expand to five new regional capitals and increase the density of our network in the Helsinki Metropolitan Area.

Pihlajalinna is well positioned to meet the challenges of the future regardless of the outcome of Finland's health and social services reform. We have taken major steps forward in our digital services, for example. In spring 2017, we introduced Finland's first AI (artificial intelligence)-assisted remote doctor service.

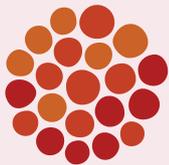
We have also prepared for our upcoming shift to a geographically structured organisation. We are confident that the new structure will enable us to provide even better and more diverse services to our customers. We also aim to improve Pihlajalinna's internal cooperation

between different units in the same geographical area.

We started 2018 by expanding into a new area, wellbeing services, by acquiring the Forever fitness centre chain. Promoting wellbeing will be increasingly important in the future as the business model moves towards fixed-price services.

Pihlajalinna's mission is to help Finns to live a better life. We believe that by combining wellbeing services, healthcare and social services, we can create an effective offering that gives us an excellent capacity to carry out our mission.

**JONI AALTONEN**  
CEO



## VALUE: OPEN-MINDEDNESS

# Artificial intelligence helps both customers and physicians

One of the ways open-mindedness is manifested in Pihlajalinnna's operations is the development of digital services, such as a remote doctor application. Instead of following the same path as everyone else, Pihlajalinnna's development team is constantly looking for new and better ways to serve customers through digital solutions.

In April 2017, Pihlajalinnna rolled out an AI-assisted remote doctor application. This marked the first time AI (artificial intelligence) was introduced to Finnish consumers in healthcare. "First and foremost, the purpose of AI in the application is to make everyday life easier for patients by quickly and conveniently referring them to the appropriate treatment," says **Wille Komulainen** (pictured right), Pihlajalinnna's Chief Physician for eHealth services. Komulainen and Director of Digital Health Services **Juho Koponen** work together to steer the development of Pihlajalinnna's remote doctor application.

### THE APP GUIDES THE CUSTOMER

In the Pihlajalinnna application, customers first chat with the AI interface to establish the necessary basic information regarding their symptoms. A human physician then takes over and discusses the issue further with the customer. In addition to instant messaging, the application supports video calls and photos.

"We want digital solutions to be a natural part of the care chain. The application can let the patient know what will happen next. It can serve as a compass. The patient doesn't need to think about what he or she needs to do next. The application also provides a convenient way to get in touch with a physician without having to make an appointment and physically get over to the clinic," Juho Koponen explains.

Artificial intelligence and new operating models are bound

to be met with narrow-mindedness. Both customers and healthcare professionals have old misconceptions of how things should be done.

"When we launched our remote doctor services, some physicians were suspicious: can the AI ask the right questions? Can we trust it? After trying the system, they can't imagine going back to the old way of doing things. Now they ask us if we have any openings for new remote doctors," Komulainen says.

### GOOD SERVANT, BAD MASTER

"This solution also requires customers to adopt a new way of thinking. Instead of making an appointment with a specific physician, they use the application and get referred to the right place based on their symptoms," Koponen adds.

Komulainen points out that artificial intelligence is a good servant but a bad master. It should be primarily used for routine tasks that require accuracy and diligence. The machine always asks every single question in the preliminary questionnaire and records the responses automatically. This also improves the legal protection of healthcare professionals. A human physician is always ultimately responsible for making the diagnosis.

Pihlajalinnna's business model supports digital development better than the traditional private sector model based on performance-based pricing. The majority of Pihlajalinnna's revenue comes from fixed-price services, which means that digital services improve the result instead of eroding it.

"Under the Pihlajalinnna model, everyone has a mutual interest in developing the services. This includes Pihlajalinnna itself, but also municipalities, occupational healthcare customers and insurance companies," Komulainen concludes.



## OPERATING ENVIRONMENT

# The new division of tasks will boost the market

The demand for social welfare and healthcare services is growing in Finland due to factors such as the ageing of the population (see page 9).

Faced with economic pressures, the public sector is centralising service production and the range of services funded by tax revenue is likely to decrease. This presents private service providers with the opportunity to increase their share of primary care as well as specialised care, where the private sector's share is relatively small at present.

In dental care, private operators have a longer tradition and larger market share, because the public dental care services have been limited and their availability has been poor.

### PIHLAJALINNA IS IN A GOOD POSITION

Pihlajalinna is well positioned ahead of the possible healthcare and social welfare reform. As a provider of a wide range of social and healthcare services, the company can offer a complete and effective care chain to individual customers as well as the counties that organise care. As a clear market leader in municipal outsourcing, Pihlajalinna also has the strongest experience and expertise in operating under fixed pricing. This experience will be an essential key to success in Finland's future social welfare and healthcare service model, where service providers are primarily paid a fixed price for their services. This means that

they will no longer be paid for individual services produced, such as appointments with a doctor or a single MRI image.

Pihlajalinna expects that the legislation required for the healthcare and social welfare reform will be approved by parliament in June 2018. Should the healthcare and social welfare reform not be implemented, Pihlajalinna could continue as a partner to the public sector under its existing models, such as complete outsourcing produced through joint ventures.

### HEALTHCARE AND SOCIAL WELFARE REFORM MOVES FORWARD

The preparations for the restructuring of social welfare and healthcare services

moved forward in 2017, although the implementation was postponed. The new counties are intended to become operational in 2019, and they would be responsible for organising social and healthcare services starting from 1 January 2020. The freedom of choice in social and healthcare services would enter into effect gradually starting from 2020. As freedom of choice increases, private operators will increasingly produce publicly funded social and healthcare services. Initially, these services will focus particularly on primary care and care services.

### COUNTIES WILL HAVE CONTROL

In the proposed new model, counties play a key role in determining the division of duties between the private and public sectors as well as how service providers are steered and compensated. For example, the counties will determine the price that health and social services centres will receive for treating each customer. They can also steer private providers towards service integration and disease prevention, for instance.

As the counties will not have taxation rights, they must get by on state-allocated funds and customer fees. This will drive the counties to utilise increasingly efficient solutions for organising and producing social and healthcare services.

The counties will also establish policies on the extent to which private operators will be used to produce specialised care services. Pihlajalinna expects that the counties will use private service providers also in specialised care, either as partners or in a complementary role to supplement the county's service production when

necessary. One step in this direction is the Finnish Health Care Act that entered into force at the beginning of 2018. Under the new Act, surgical procedures will be significantly centralised.

### GROWTH IN THE MARKET

The overall market for social and healthcare services has grown at a conservative rate in recent years. The growth in the market for private operators has mainly stemmed from the changing division of tasks between public and private producers.

The growth of the private producers' market has outpaced the growth of the rest of the market in recent years, and the healthcare and social welfare reform is estimated to more than double the size of the applicable market.

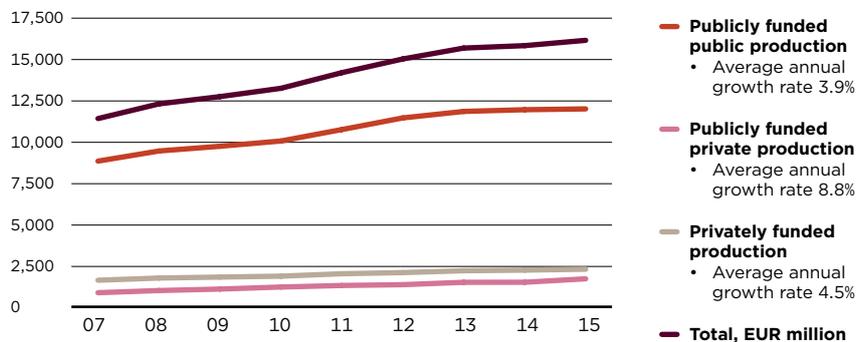
At present, private operators produce healthcare services for approximately EUR 4.2 billion per year. Of this total,

EUR 2.4 billion is privately funded private production. This includes, for example, surgical procedures covered by insurance, occupational healthcare and dental care. The rest of the amount is publicly funded private production, such as social and healthcare services outsourced by municipalities.

Regulators have tried to slow down the outsourcing of social and healthcare services by implementing interim legislation that restricts complete outsourcing measures.

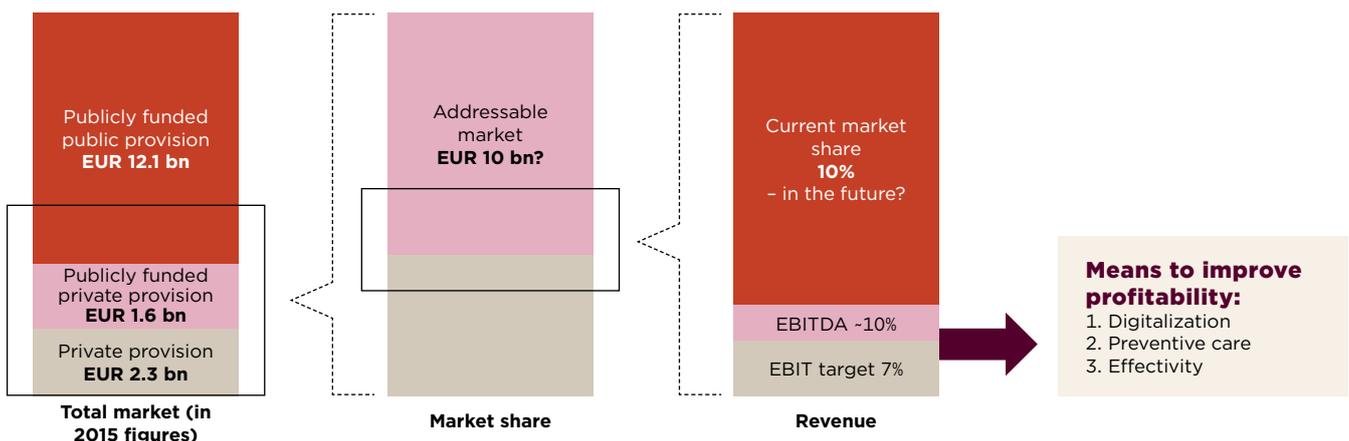
In spite of these restrictions, municipalities have looked to ensure the provision of local services to residents by entering into various partnerships with private producers. They are also under intense pressure to keep their increasing social and healthcare service costs under control until the responsibility is possibly shifted to the newly established counties in 2020.

### THE MARKET FOR HEALTHCARE SERVICES IN FINLAND\* EUR million



\*Includes long-term care for the elderly and the disabled.  
Source: NIHW: Health Expenditure and Financing 2015, Pihlajalinna

### MARKET POTENTIAL IN 2022 CREATED BY THE PROPOSED HEALTHCARE AND SOCIAL WELFARE REFORM





## VALUE: ENERGY

# Positive spirit comes across to customers

Energy is part of Pihlajalinna's service culture. According to **Jutta Tikkanen**, Director of Customer Experience, expressing energy in service encounters is increasingly important.

"In our work, we see the full range of human life. Sometimes there are no standard responses to the situations we come across. Energy means taking responsibility, getting in the flow of things and being solution-oriented. It also means having a certain lightness and a positive attitude. After all, our customers are why we do what we do," Tikkanen says.

Pihlajalinna has systematically developed its customer experience during the past year.

"Pihlajalinna is a service company and everyone here is in a service role with the shared mission of helping Finns to live a better life," Tikkanen adds.

## ENERGY CAN BE COMPOSURE

While the foundation of the customer experience lies in high-level competence in social and healthcare services, it is a sum of many different factors. "Ultimately, our success depends on how we at Pihlajalinna work with our customers and what kind of partner we are," Tikkanen explains.

Tikkanen's thoughts on the importance of energy are echoed by secretary **Katriina Salmi** (pictured), from Pihlajalinna Dextra in Helsinki's Munkkivuori district.

"Energy is essential in customer service. A person with energy gets things done, takes initiative and doesn't give up easily. Having energy doesn't mean fussing about. I think it means you have a degree of composure and self-control. Good energy can manifest itself as being calm," Salmi says.

The customer service team in Munkkivuori has a positive spirit, and Salmi believes it is something that comes across to customers as well. The team has spent a lot of time thinking about good customer service.

"My secretary colleague **Marja Helin** and I have consciously focused on communication and exchanging information. We have set practices for passing information on finished and unfinished tasks between the morning and evening shifts. We also get together every Friday to review tasks that are in progress," Salmi explains.

## CONTACT WITH THE CUSTOMER

The team has also agreed on how to greet customers. "When a customer walks in, we always establish contact in some way, even if we are in the middle of doing something else. This can take the form of eye contact or a friendly nod to let the customer know that we've seen them come in," Salmi says. "When all of our business locations have the same service spirit and consistent operating methods, the customer will be more likely to use Pihlajalinna's services again in the future," Salmi adds. "As individuals, we can all have a significant impact on the customer experience, especially the last person the customer interacts with on his or her visit," she reflects.

According to Salmi, good customer service is professional and personal. "Customer service personnel must be consistent and efficient, flexible and sensible. In certain situations, you also need to be firm; for example, to ensure that data protection standards are met", she says. "You also have to be respectful, friendly and responsible and of course be proud of your work."

BUSINESS AND STRATEGY

# From treating illnesses to promoting wellbeing

Pihlajalinna's business starts from its mission: we help Finns to live a better life. In order to realise this mission, Pihlajalinna is expanding across Finland to new operating locations and building a broader range of services. This allows Pihlajalinna to respond to people's needs by providing easily accessible local services.

In 2017, Pihlajalinna prepared to open full service private clinics in Turku, Oulu and Seinäjoki, and the expansion to new cities will continue. Pihlajalinna will expand to five new regional capitals in 2018–2019 and substantially strengthen its network of business locations in the Helsinki Metropolitan Area. In addition to establishing new locations, the company will continue to make strategic acquisitions. Pihlajalinna's hospital network will be completed in spring 2018. The surgical units will be located in Helsinki (2), Tampere, Turku, Oulu, Kuopio, Joensuu, Seinäjoki, Jämsä, Hämeenlinna and Ähtäri.

In addition to expanding the private clinic network, Pihlajalinna will also expand its network of imaging units and dental clinics before the health and social services reform. In 2017, the company acquired medical imaging businesses in Kuopio and Joensuu. Pihlajalinna believes that magnetic imaging will become increasingly routine and that prices will fall as volume grows.

## MORE EFFECTIVE CARE

Pihlajalinna is expanding its range of services and competencies from the treatment of illnesses to wellbeing services and prevention. The company acquired the Forever fitness centre chain in February 2018. The main beneficiary of this development is the customer, but it also helps Pihlajalinna produce its services in even more efficient and effective packages. The fitness centre operations will complete the preventive occupational healthcare services and rehabilitation services carried out after specialised care procedures.

A broad range of services enables the company to grow in different operating environments and to diversify risks.

Pihlajalinna aims to take on a significant role in all types of services: insurance-based services, services paid for by customers and publicly funded services.

## CONTINUED STRONG DIGITAL DEVELOPMENT

Pihlajalinna is focusing heavily on developing its digital services. Digital service development is particularly effective in supporting the fixed-price business that constitutes the majority of Pihlajalinna's operations. Under the fixed-price model, the service provider, municipality and customer all share the same objective: keeping people healthy and maintaining their functional capacity. Pihlajalinna became the first operator in Finland to launch an AI-assisted remote doctor application in spring 2017.

In the summer and autumn, Pihlajalinna revamped its brand and put all of the Group's services under the Pihlajalinna brand name. The name was introduced for the Group's private clinics, hospitals and dental clinics in the autumn with the "Long live life!" marketing campaign. Pihlajalinna engages in marketing that differs from other operators in the industry primarily to increase Pihlajalinna's

spontaneous brand awareness. This work will continue in 2018.

## NEW OPERATING STRUCTURE

Pihlajalinna's two-segment operating structure does not fully correspond to future customer needs or the requirements of the operating environment after the intended healthcare and social welfare reform. The company has announced its plans to restructure its operations. The plan involves moving from a business-based structure to a geographical structure.

Pihlajalinna has two long-term financial targets. The ratio of net debt to EBITDA is currently in line with the target. The target for the operating profit (EBIT) margin is seven per cent of revenue. In 2017, operating profit (EBIT) was 4.5 per cent of revenue. The profitability of the public outsourcing business has improved rapidly, but investments in digital development, branding and new business locations will continue to weigh down profitability in 2018. The company is confident that the results of its investments will be reflected favourably in its operating profit in the near future.

**Vision**  
WE WILL BE THE MOST VALUED COMPANY IN THE HEALTHCARE AND SOCIAL SERVICES SECTOR IN FINLAND IN 2020

**Mission**  
WE HELP FINNS TO LIVE A BETTER LIFE

**Values**  
ETHICS, ENERGY AND OPEN-MINDEDNESS

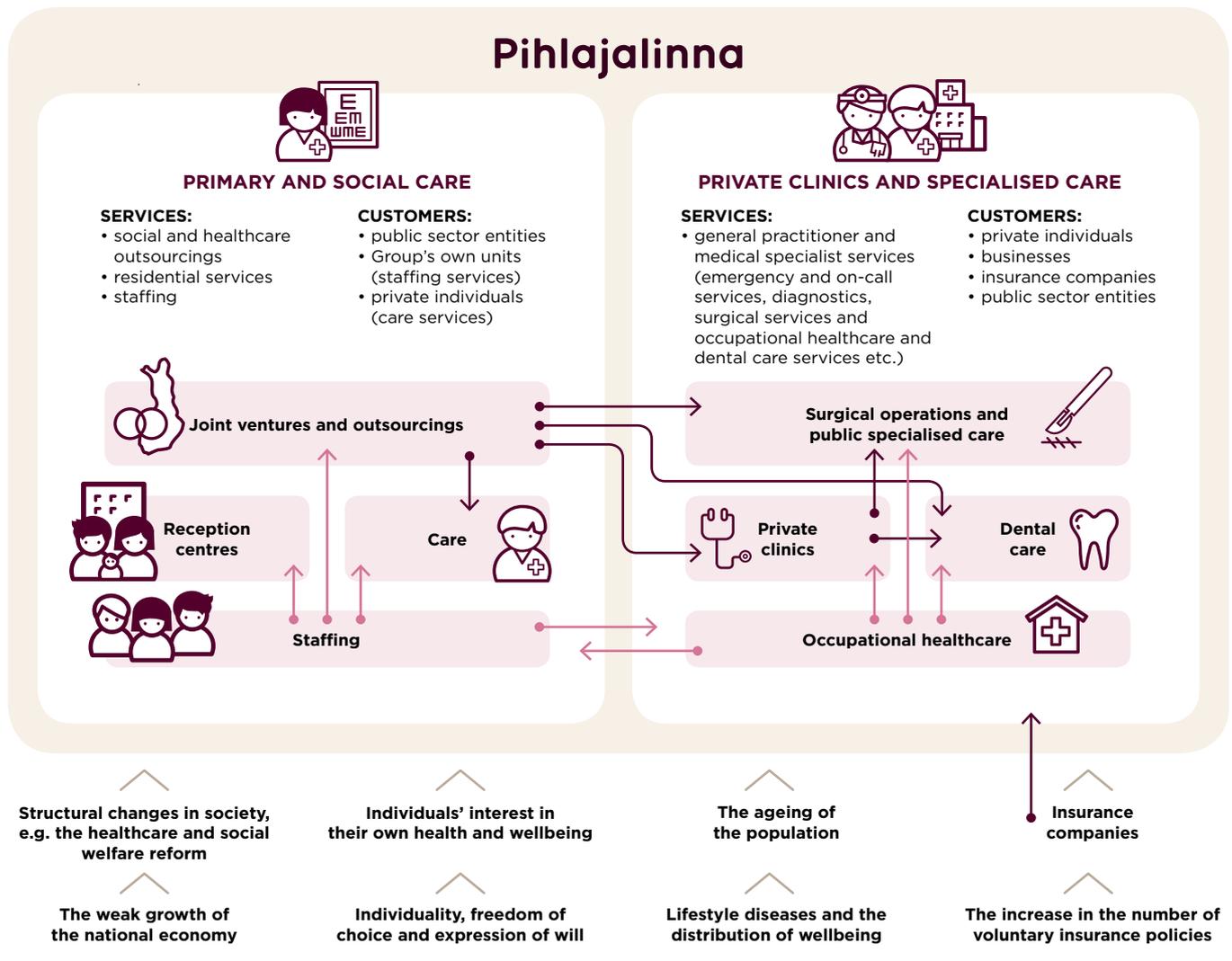
**PIHLAJALINNA'S LONG-TERM TARGETS**

NET DEBT  
**below 3 x**  
EBITDA

OPERATING PROFIT (EBIT)  
**exceeding 7%**  
of revenue

# Pihlajalinna's business operations in 2017 and influencing factors

## Pihlajalinna



## Trends and megatrends that boost business growth



### The weak growth of the national economy and the size of the public sector

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



### Lifestyle diseases and the distribution of wellbeing

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



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

The number of voluntary medical expenses insurance policies has clearly increased in recent years. The reasons behind this include concern about the availability of public services and the need to ensure rapid access to care. At the beginning of 2017, more than 1.1 million Finns had a voluntary medical expenses insurance policy. We assume that the demand for voluntary insurance policies will continue to grow at least until 2020.



### The ageing of the population

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



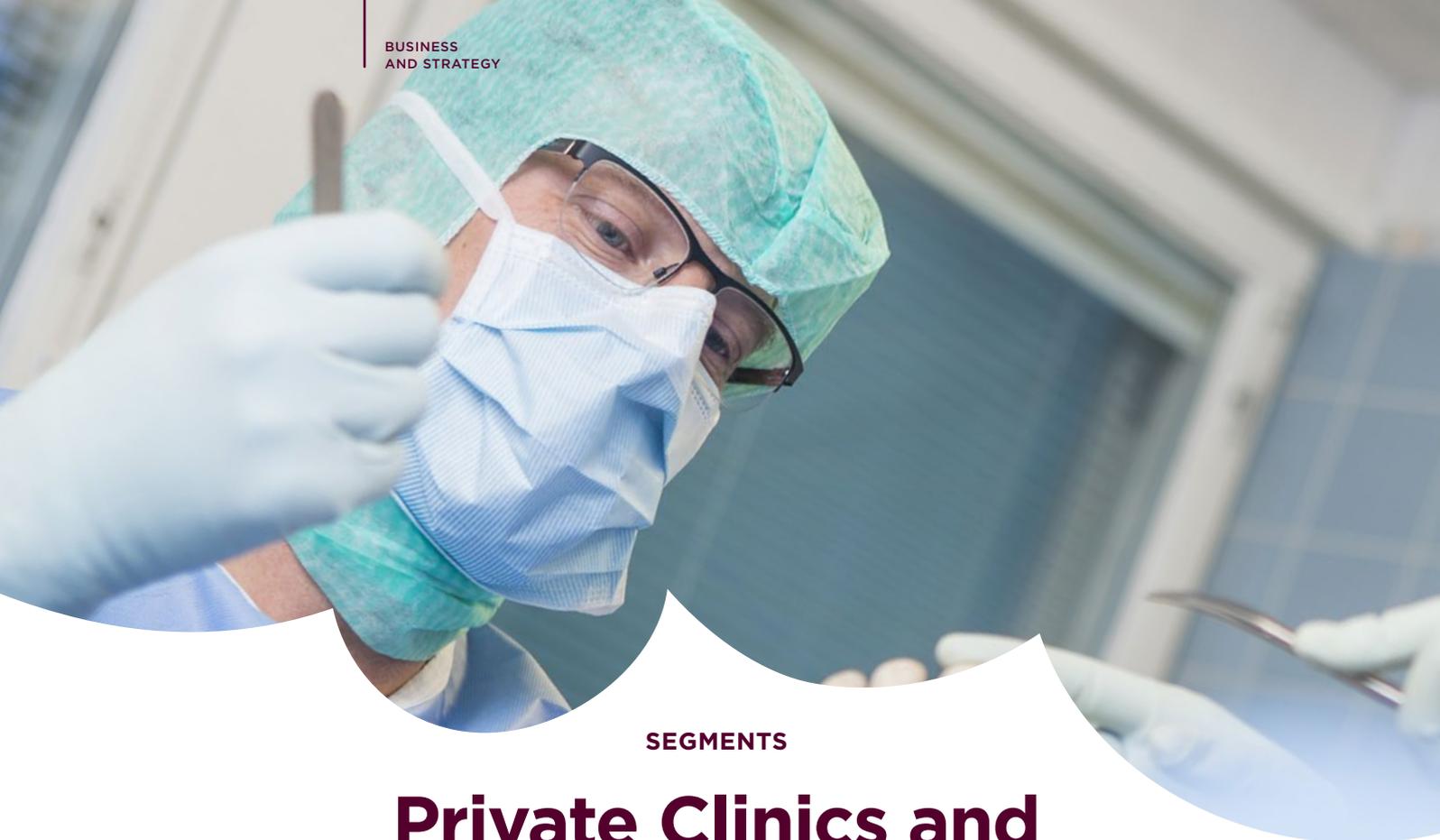
### Individuals' interest in their own health and wellbeing

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



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

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



SEGMENTS

# Private Clinics and Specialised Care

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

While investments in digital development and brand revamp had a negative effect on the result for the year, the company expects these investments to be reflected in improved profitability in the near future. In 2017, Pihlajalinna prepared to open full service private clinics in Turku, Oulu and Seinäjoki, and the expansion will continue in 2018.

**SERVICES:**

- general practitioner and medical specialist services, such as emergency and on-call services, diagnostics, surgical services and occupational healthcare and dental care services

**CUSTOMERS:**

- private individuals
- businesses
- insurance companies
- public sector entities

**ACQUISITIONS IN 2017**

- Itä-Suomen Lääkäritalo Oy
- Joen Magneetti Oy
- Sataman Röntgen Oy
- Caritas Lääkärit Oy
- Paraisten Lääkärikeskus Oy

**REVENUE**  
**234.1**  
EUR million  
(EUR 215.6 million 2016)  
+9%

**% OF CONSOLIDATED REVENUE**  
**54%**  
(53%)

**% OF CONSOLIDATED EBITDA**  
**41%**  
(59%)

**EBITDA**  
**13.7**  
EUR million (16.4)

**EBITDA, %**  
**5.8%**  
(7.6)

**OPERATING PROFIT**  
**3.6**  
EUR million  
(6.2)

**OPERATING PROFIT, %**  
**1.5%**  
(2.9)

**48**  
**OCCUPATIONAL HEALTH CENTRES**

**38**  
**PRIVATE CLINICS**

**8**  
**DENTAL CLINICS**

**6**  
**HOSPITALS**

## SEGMENTS

# Primary and Social Care

The Primary and Social Care segment is divided into two service areas: Social and Healthcare Outsourcings and Other Business Operations (outsourced health centres, residential services, reception centres and staffing services).

### SERVICES:

- social and healthcare outsourcing, residential services and staffing services

### CUSTOMERS:

- mainly public sector entities but also the Group's own units (staffing services) and private individuals (care services)

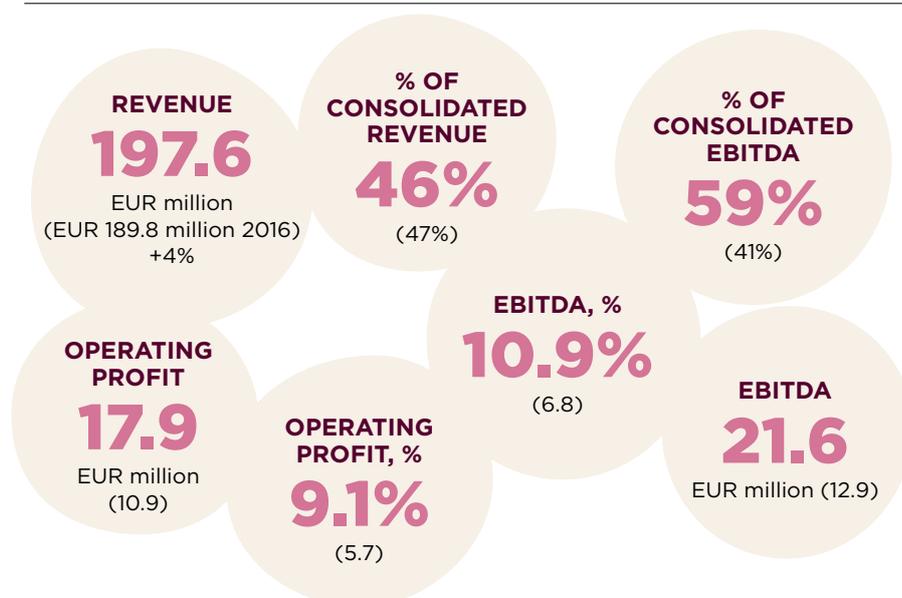
On 31 December 2017, Pihlajalinna produced social and healthcare services, excluding official duties, for nine municipalities under complete outsourcing arrangements. The agreements are long-term. Combined with the price increase mechanisms, this ensures stable cash flow for years to come.

In addition to joint ventures that produce outsourcing services, Pihlajalinna produces public and private specialised care services using the joint venture model in Jokilaakso Hospital in Jämsä. Jokilaakson Terveys Oy's shareholders, responsible for the operations of the hospital, are Pihlajalinna (51%), the City

of Jämsä (39%) and the Central Finland Hospital District (10%).

At the end of 2017, Pihlajalinna had three outsourced health centres, ten

Ikipihlaja homes with 24-hour assistance and three reception centres. In addition, the company took part in two freedom of choice pilots, in Tampere and Jyväskylä.



### COMPLETE OUTSOURCING AGREEMENTS OF PIHLAJALINNA'S JOINT VENTURES

Joint venture	Municipalities	Population	Revenue per year (2017)
Kuusiolinna Terveys Oy	Kuusio-kunnat (Alavus, Ähtäri, Kuortane) and Soini	21,827	EUR 91 million
Jämsän Terveys Oy	Jämsä	21,542	EUR 74 million
Mäntänvuoren Terveys Oy	Mänttä-Vilppula and Juupajoki	12,592	EUR 42 million
Kolmostien Terveys Oy	Parkano and Kihniö	8,804	EUR 34 million



# Responsibility

Pihlajalinna has a responsible mission: helping Finns to live a better life. Thousands of Pihlajalinna professionals look after the health and wellbeing of hundreds of thousands of Finns. Without the trust of customers and society, the company cannot realise its mission.

With this in mind, Pihlajalinna places the highest priority on ensuring the quality, safety and effectiveness of the services it produces, looking after its personnel and assuring the data protection and privacy of its customers. Pihlajalinna also bears responsibility for the use of society's funds and the payment of taxes to Finland. These material aspects of Pihlajalinna's responsibility are reported in this Annual Report.

## TOGETHER WITH STAKEHOLDERS

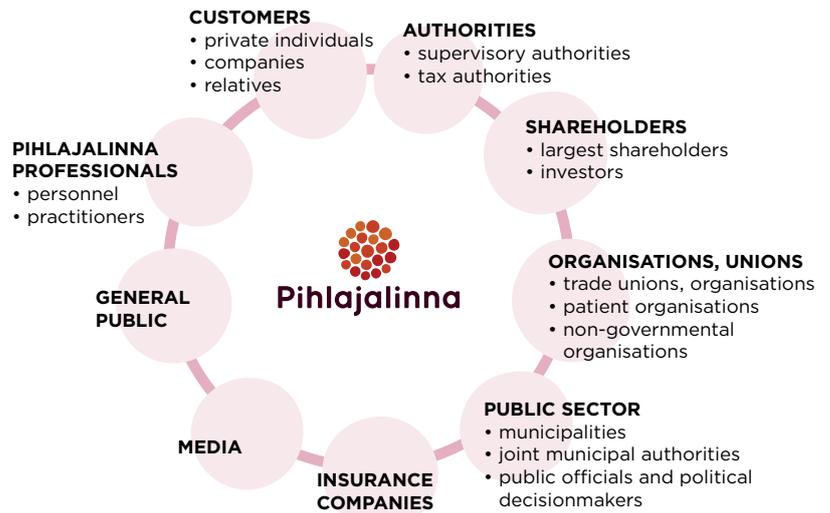
We maintain close contact with most of our stakeholders, often on a daily basis.

Our stakeholders, such as our customers, personnel and partners, are a regular source of feedback to us. Their feedback helps us evaluate our performance and determine which aspects of Pihlajalinna's operations are most important from their perspective.

The stakeholders' expectations regarding Pihlajalinna's responsibility were surveyed in autumn 2017 in theme-based interviews. According to the stakeholders, Pihlajalinna's key responsibility themes are as follows (ranked by priority):

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

## Pihlajalinna's major stakeholders



Pihlajalinna's Statement of non-financial information 2017 is available at company's investor website under Corporate Governance.  
<http://investors.pihlajalinna.fi/corporate-governance>

## RESPONSIBILITY

# The quality and safety of care always comes first

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

Responsibility for the quality of Pihlajalinna's social and healthcare services is borne by the Medical Director, the Regulations and Quality team, the directors in charge of healthcare, the chief medical officers and the individuals in charge of units. The management continuously monitors quality indicators

and targets, develops operations and takes action in response to any non-compliance. Results, targets and the progress of implemented measures are regularly monitored in management reviews, in management teams and in unit meetings.

In 2017, the ISO 9001 quality management system was expanded according to plan to cover all units of the Private Clinics and Specialised Care segment. The Omapihlaja health centre in Kehräsaari, Tampere, is also ISO 9001 certified. The purpose of certification is to further develop and improve the units' daily operations. They also help improve risk management and ensure that statutory requirements and self-monitoring objectives are met.

## CUSTOMER SATISFACTION

Patients are becoming empowered customers due to increased freedom of choice, through both insurance and the intended healthcare and social welfare

reform. Pihlajalinna continuously develops its services to make them even more customer-oriented and builds increasingly smooth and effective service paths. The goal is to make the customer experience a competitive advantage for Pihlajalinna. In 2017, the Group appointed for the first time a Director of Customer Experience to further develop the customer experience across all of Pihlajalinna's operations.

Pihlajalinna monitors customer satisfaction through surveys and feedback channels as well as recording customer feedback received in other ways. The Group has a Quality Director acting as the patient ombudsman who handles incoming notifications, feedback and non-compliances. Feedback comes directly from customers and personnel or through local supervisors or websites. Notifications, feedback and non-compliances are handled primarily locally but, when necessary, at the Group's management level and together with authorities.

## MEDICAL KEY FIGURES 2017

COMPLAINTS\*

**1.75**

OFFICIAL COMPLAINTS\*

**0.55**

PATIENT INJURY NOTIFICATIONS FILED IN 2017\*

**1.86**

According to the Patient Insurance Centre's decisions, the patient was entitled to compensation in

**26%**

of the notification cases resolved in 2017

TOTAL NUMBER OF VISITS

**914,048**

SURGICAL INFECTIONS\*\*  
deep infections

**0.15%**

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

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

**NPS INDEX,  
HOSPITALS  
89.5%**

Average hospital services NPS index 2017, includes Pihlajalinna Koskiklinikka, Pihlajalinna Laser Tilikka and Pihlajalinna Dextra, 1,045 respondents.

## CUSTOMER FEEDBACK FROM THE WEBSITE

	Percentage by topic	
	Negative	Positive
Technological problems	37%	
Quality of care	33%	54%
Invoicing	12%	
Encounters	12%	66%
Waiting time at the clinic	7%	34%



### VALUE: ETHICS

## Elderly people get to decide on their care

In caring for the elderly, Pihlajalinna places special attention on the right of the elderly and memory disorder patients to make decisions regarding their care. Even customers whose memory function and functional ability have diminished have the opportunity to influence what the home and service provided by Pihlajalinna includes.

Good care means staying by the patient's side and living on their terms. The principle that underpins the operations of Pihlajalinna's service housing units with 24-hour assistance is that the unit is the customer's home.

"The people here live in their own homes rather than in an institution," says **Arja Laitinen** (pictured), Service Director for Senior Services. At home, people spend their days according to their own personal rhythm and energy level. They can have a lie-in if they want to, and they can come to the breakfast room in their pyjamas.

### HUNDRED FACTS ABOUT THE CUSTOMER

At Pihlajalinna, the customer's life path is charted right at the start of the care relationship. The personal nurse gets to know the customer and finds out a hundred things about him or her. This allows them to find out what is important to the customer. They then plan how to make day-to-day life at the unit suit the patient's personality and habits.

Everyone needs relaxation, humour, exercise and someone to talk to. Doing things together improves the quality of life and reduces restlessness, aggression and pain. At Pihlajalinna, seniors have hobbies rather than stimuli. The shifts of the unit's personnel include a person between shifts who does not participate in the provision of primary care. Instead, they focus entirely on spending time with the customers and doing activities with them. Everything the

person between shifts does creates added value in the daily life of the customer.

According to Laitinen, the customers' family members are also closely involved in the customers' daily lives and plans. The number of personnel assigned to different shifts is based on the customers' needs and rhythms. "For Finns, it is customary to have a sauna on a Saturday rather than a Tuesday morning, for example. With that in mind, we make sure we have enough staff on Saturday evenings to allow our residents to maintain their habitual rhythms," Laitinen explains.

### DOORS ALWAYS OPEN TO VISITORS

The nurses have their own assigned home departments. Customers and their family members can feel at peace when life at the unit has a sense of continuity and changes are minimised. Substitute staff are equally committed to their work and they always know how each customer is doing.

Close contact is maintained with family members. Newsletters, Facebook groups, customer panels, home meetings and customer satisfaction surveys are all part of daily life in the units. The use of social media does not revolve around planned specific moments. Instead, the activities most always hold up to close scrutiny. "Our doors are always open to family members, cooperation partners and visitors. Our activities internally must match the outward image we convey," Laitinen adds.

The nurses do important work with elderly people in the twilight of their lives. Pihlajalinna is committed to providing training to supervisors as well as nurses. "By providing training to students, we can help ensure that we will have a larger future pool of competent practical nurses who are committed to working with the elderly," Laitinen concludes.



ECONOMIC RESPONSIBILITY

# Responsibility for the use of society's funds

At Pihlajalinna, we believe that responsible social and healthcare services are also efficient. Limited resources, such as tax revenue, must be converted into the highest possible amount of wellbeing. With this in mind, Pihlajalinna is continuously developing more effective operating methods.

As the only major private provider of social and healthcare services, Pihlajalinna has gained extensive experience in taking on overall responsibility for a large population. At the end of 2017, the Group was responsible for the social and healthcare services of approximately 100,000 individuals, taking into account complete outsourcing arrangements as well as health centre outsourcings.

At the end of 2017, Pihlajalinna was still the only private provider of social and healthcare services utilising the joint venture model in working with municipalities. Under the model developed by the company, Pihlajalinna establishes a joint venture with the municipality or joint municipal authority in question. Typically, Pihlajalinna owns 51 per cent and the municipality or joint municipal authority 49 per cent of the joint venture.

The model benefits society in many different ways. The price of the joint venture operations for the municipality

is lower than that of earlier, purely public operations. The municipality also receives its share of the profits, which it can then use for any purpose it chooses. Furthermore, when the joint venture produces a profit, part of that profit goes back to the local community in the form of tax revenue, as the companies are domiciled in the municipalities they operate in. The financial and operational results of the joint ventures are reported on pages 20–23.

## EFFECTIVENESS OF TREATMENT AND PREVENTION

The significance of prevention and effective, fast care is continuously increasing in social care and healthcare. One of the underlying reasons is the change of the funding model from service-specific pricing more and more towards fixed pricing. This benefits everyone, as service providers have a strong incentive to develop more effective operating methods, such as digital services (see page 4).

The majority of Pihlajalinna's business, approximately 60 per cent, is fixed-price business. In fixed pricing, Pihlajalinna is not paid for a single MRI image, for instance, but for adopting the responsibility for an individual's

healthcare services. In practice, this means that, for instance, the company is paid a standard compensation for each customer.

The model developed by Pihlajalinna for municipal services (see page 1) is based on keeping people as healthy as possible through prevention, quick and effective primary care as well as immediate specialised care available locally. This reduces the need for expensive specialised care.

## WE PAY ALL OF OUR TAXES TO FINLAND

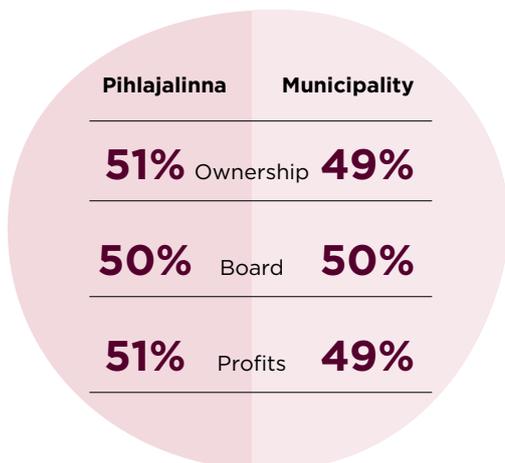
Pihlajalinna is a Finnish listed company that is, for the most part, approximately 89 per cent, under Finnish ownership. The company pays all of its taxes to Finland. Pihlajalinna is headquartered in Tampere and all of its subsidiaries are registered in Finland.

Pihlajalinna's tax footprint is on the next page.

## PIHLAJALINNA'S OWNERSHIP

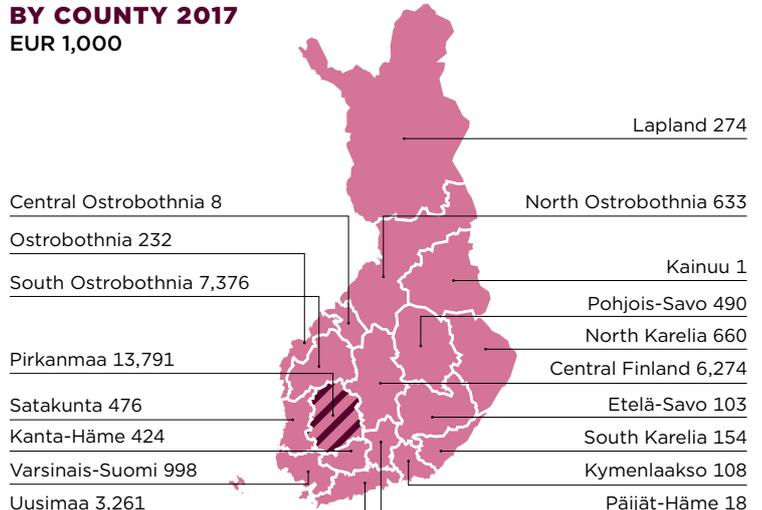
31 Dec. 2017	OWNERSHIP PERCENTAGE
Outside Finland	0.2%
Nominee registered	10.7%
Finnish ownership	89.1%

## PIHLAJALINNA'S TYPICAL MUNICIPALITY MODEL



## PIHLAJALINNA'S TAX WITHHOLDINGS BY COUNTY 2017

EUR 1,000



## TAX FOOTPRINT

# All taxes paid to Finland

## PIHLAJALINNA GROUP'S TAX FOOTPRINT

EUR million	2017	2016
<b>Paid taxes</b>		
Income taxes	4.3	2.5
Employer part of pension insurance contributions	25.7	24.6
Social security contributions	1.6	2.9
Employer part of unemployment insurance contributions	4.0	4.3
Accident and group life insurance contributions	0.9	0.9
Employer contributions, total	32.1	32.7
Real estate taxes	0.1	0.0
Transfer taxes	0.4	0.7
<b>Paid taxes, total</b>	<b>36.8</b>	<b>36.0</b>
<b>Cost of value added taxes</b>		
Value added taxes, estimate	9.0	10.4
<b>Taxes collected</b>		
Tax withholdings	35.3	33.6
Employee part of pension insurance contributions, calculatory	9.5	7.7
Employee part of unemployment insurance contributions, calculatory	2.3	1.5
Salary taxes	47.1	42.8
Net value added tax	1.8	0.5
<b>Taxes collected, total</b>	<b>48.9</b>	<b>43.3</b>
Revenue, EUR million	424.0	399.1
Result before taxes, EUR million	17.4	13.7
Average number of personnel (FTE)	3,879	3,526
Public subsidies, EUR million	0.8	0.7

PAID TAXES  
2017, TOTAL  
**€36.8**  
million  
(36.0)

TAXES COLLECTED  
2017  
**€48.9**  
million  
(43.3)

*Kehräsaari is our very own haven,  
and an island located in Tampere,  
Finland, where Pihlajalinna's  
headquarters are located too.*



## RESPONSIBILITY

# Responsibility for personnel

Having professional, highly competent and committed personnel is essential for Pihlajalinna's business operations. Social and healthcare services are based on trust, and the personnel plays a key role in producing high-quality and responsible services. The significance of wellbeing at work, work ability, recruitment and the workplace atmosphere is also reflected in the company's result, as Pihlajalinna professionals play a very significant role in creating customer value.

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

Pihlajalinna respects internationally recognised human rights and complies with Finnish labour law and collective agreements as well as the legislation governing human rights and equality in all of its business locations. Pihlajalinna respects its employees' right of organisation and collective bargaining. Pihlajalinna does not condone discrimination based on employees' and practitioners' origin, nationality, religious beliefs, ethnicity, gender, age or any other such factor.

## HIGH-QUALITY MANAGEMENT AND SUPERVISORY WORK

At Pihlajalinna, supervisory work and management are aimed at giving employees the opportunity to perform well at their jobs. Management involves inspiring employees and engaging in concrete communication on goals and feedback. High-quality supervisory work plays an important role in the development of day-to-day operations and quality.

Supervisory work and its development were one of the focus areas of Pihlajalinna's HR function in 2017. A degree-based Specialist Qualification in Management was organised for supervisors with a focus on supervisors' tasks and responsibilities, a coaching

NUMBER OF  
EMPLOYEES AT  
THE END OF THE  
PERIOD  
**4,753**  
(4,407)

and solution-oriented approach to work, managing change and managerial communications. The pilot group of students consisted of 19 participants representing Pihlajalinna's healthcare services and services for the elderly. Pihlajalinna also organised its first internal managerial training for middle and senior management. A total of 15 managers and directors from the private and municipal sectors participated in the training.

## IMPROVING WELLBEING AT WORK

Pihlajalinna aims to improve wellbeing at work among its personnel by, among other things, high-quality supervisory work, occupational healthcare and wellbeing projects. The Group introduced a new active caring model in 2017. The model involves agreeing on responsibilities and operating methods aimed at resolving challenges related to work ability and performance in a proactive and systematic manner. Supervisors, occupational safety and health delegates and employee representatives were invited to participate in training related to the new model. More than 220 people participated in the training.

In municipal outsourcing, two wellbeing pilot projects were launched at Mäntänvuoren Terveys, Jämsän Terveys and Jokilaakson Terveys. The pilot projects covered approximately one thousand employees. Among other things, the projects include events and information bulletins for all personnel. They also include exercise and life management coaching for individuals with an elevated work ability risk. In 2018, the wellbeing programmes will be expanded to include Kuusiolinna Terveys and Kolmostien Terveys.

## EMPOWERING EMPLOYEES

Pihlajalinna aims to empower its employees to exercise influence on their jobs and working environments. In 2017, Pihlajalinna launched Together activities under a cooperative organisation that spans the entire Group. The people involved in the activities include Together representatives selected by employees as well as the employee delegate and occupational safety and health organisation. The aim of the activities is to create a coherent company culture, develop dialogue and respond to the statutory requirements concerning employer-employee cooperation.

## PROACTIVE HR PLANNING AND RESOURCE ALLOCATION

At Pihlajalinna, unit supervisors are responsible for HR and shift planning. Shift planning complies with the applicable legislation and collective agreements as well as the permits issued by the supervisory authorities. The planning is based on customer needs as well as fairness towards personnel. Shifts are planned proactively, taking into account known absences and part-time periods. Substitutes are generally hired in the case of absences. If the customer volume is lower than usual and the number of personnel is sufficient, a substitute is not hired. If the attempts to hire a necessary substitute

PERSONNEL EXIT  
TURNOVER

**7.4%**

(7.2%)

SICKNESS-  
RELATED  
ABSENCES\*

**7.7%**

(6.7%)

\* The sickness-related absence rate is calculated as the ratio of sickness-related absences to planned working hours. The figure includes sickness-related absences caused by accidents.

for a short absence are unsuccessful, the supervisor concerned will see whether a substitute can be arranged from another unit through internal arrangements. Over-time is subject to the provisions of the collective agreements and records of hours worked are based on actual shifts worked.

### UNIFORM EMPLOYEE BENEFITS FOR ALL PERSONNEL

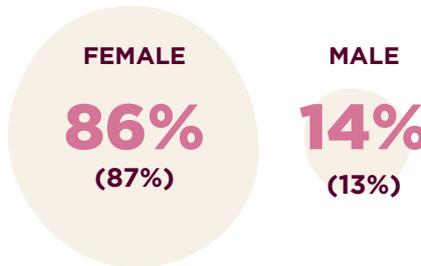
Pihlajalinna prepared an extensive reform of employee benefits in 2017. The new uniform employee benefits entered into effect on 1 January 2018. For most Pihlajalinna professionals, the uniform benefits represent a significant improvement on their previous benefits.

In reforming the employee benefits, the primary principle was to provide equal benefits to all personnel. The primary objective of the benefits is to ensure employee wellbeing. With the introduction of the new benefits, Pihlajalinna is significantly increasing its investment in employee benefits. Previously, benefits were inherited from acquisitions and municipal outsourcing arrangements, for example, and they were very varied. Pihlajalinna's employee benefits include comprehensive occupational healthcare, leisure-time accident insurance, sports benefits and culture benefits, among others.

### CONTINUOUS DEVELOPMENT OF COMPETENCE

At Pihlajalinna, competence development focuses primarily on sharing knowledge, training and learning on the job.

### GENDER DISTRIBUTION

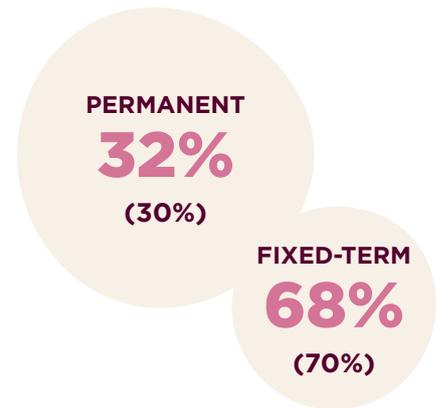


Pihlajalinna Academy, an online learning environment launched in March 2017, is an important element of internal training. The focus areas of training include the development of managerial and interaction skills as well as developing the customer experience. The contents of the Academy are also developed based on employees' wishes.

The Group implemented a new uniform introductory training plan. The aim is that all new employees, internally reassigned employees, employees taking up supervisory positions and those returning from extended leave receive introductory training related to the organisation and their specific job in accordance with the introductory training plan. In addition to permanent employees, fixed-term employees, trainees, agency workers and practitioners will also receive introductory training.

Professional training is provided by both Pihlajalinna's own experts and external training providers. In annual target-setting and development

### EMPLOYMENT TYPE



discussions, an individual competence development plan is drafted for each employee.

### RECRUITMENT AND PERSONNEL RESTRUCTURING

Pihlajalinna's recruitment service acquires human resources representing various professional groups for the Group's business locations across Finland. The principle of recruitment is to ensure equal opportunities and fair treatment to both new applicants and existing employees.

In 2017, the Group held 8 employer-employee cooperation negotiations on production-related and financial grounds. These negotiations concerned 96 employees and they resulted in 43 redundancies. Of these, 12 employees found new jobs within the Group.

### PERSONNEL INDICATORS

Indicator	2017	2016
Average number of personnel (FTE)	3,879	3,526
Practitioners	992	942
Wages and salaries incl. social security expenses	EUR 172.5 million	EUR 163.5 million
Ratio of average annual pay to highest annual pay	8.0%	7.3%
Full-time / part-time / on call personnel, %	61/18/21	60/14/26
Care personnel / other personnel / doctors / administration, %	67/17/11/5	77/15/5/3
Equality and non-discrimination plan	valid	valid
Action plan against inappropriate treatment at work	valid	valid
Occupational accidents* / work-related fatalities	284/0	244/0
Infringements against labour law	1**	0

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

\*\*On 25 October 2017, Pihlajalinna was ordered by a court to pay compensation to one plaintiff for the unjustified termination of an employment contract as well as compensation for discrimination in relation to a dismissal that took place in 2015.

### HR focus areas in 2017

- Deployment of new employee information system
- Implementing an active caring model
- Significant investments in managerial training
- Development and training of the occupational safety and health organisation
- HR indicators for business use
- Together meetings, i.e. the Pihlajalinna cooperation model
- Harmonisation of employee benefits



RESPONSIBILITY

# Information security

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

In the context of providing social and healthcare services, patient information is only processed by the individuals who participate in the patient's care or handle tasks related to care. Information security related to user actions is guided with rules and guidelines as well as by continuously providing training and information.

The Group's business operations require that IT systems function safely and without disturbances. The company prepares itself for disturbances and exceptional conditions

so that operations can be continued with as little disruption as possible in all circumstances. Information security is monitored actively and deviations are

processed quickly. Information security is established and maintained with state-of-the-art, up-to-date solutions.

**INFORMATION**

**SECURITY INDICATORS**

	Target	2017	2016
Number of successful attempts to gain unauthorised access	0	2*	0
Number of detected viruses and malware	Computers are free of viruses and malware	0	0
Volume of junk mail	Less than 1% of junk mail makes it through to users	Target achieved	Target achieved
Information security updates are current	All information security updates are installed within 24 hours of being released	Target not achieved, part of ongoing activity	Target achieved

\* The attempts to gain unauthorised access were detected quickly, the situation was normalised and the systems were subsequently updated.

## Information security practices



**TRAINING**

The personnel receive regular training on information security issues and they have access to up-to-date guidelines.



**RISK ASSESSMENT**

Information security risks are assessed and analysed regularly once a year and always in the new system specification phase and in connection with significant changes.



**USER RIGHT MANAGEMENT**

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



**SUPERVISION AND MONITORING**

The information security status is reported in connection with internal and external audits. Technical information security is constantly assessed and separate information security inspections are made to the most critical environments.



**SERVICE PROVIDER MONITORING**

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



**PROCESSING OF DEVIATIONS IN INFORMATION SECURITY**

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



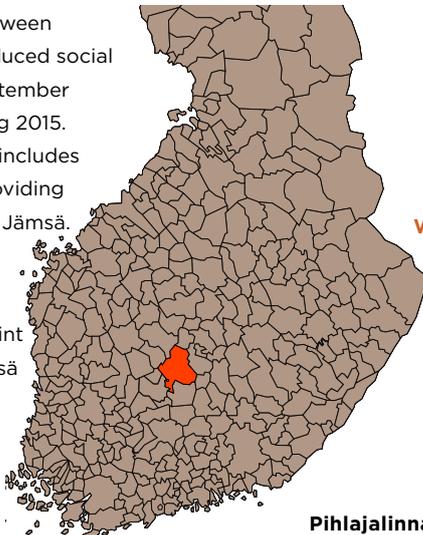
**CONNECTION TO THE DATA NETWORK**

A connection to Pihlajalinna Group's data network and associated services can only be formed with hardware and software managed or approved by data administration. In order to ensure information security, software and file formats used in the systems are supervised and, when necessary, restricted.

# JÄMSÄN TERVEYS AND JOKILAAKSO HOSPITAL

Jämsän Terveys (JT) is a joint venture established between Pihlajalinna and the municipality of Jämsä. It has produced social and healthcare services for Jämsä starting from 1 September 2015 under an outsourcing agreement signed in spring 2015. The agreement period is 10 years and the agreement includes a five-year option. The company is responsible for providing primary and specialised care to 22,000 inhabitants in Jämsä.

Jokilaakso Hospital is a hospital that provides public specialised care. The hospital's services are produced by Jokilaakson Terveys (JLT, established in 2010), a joint venture between Pihlajalinna, the municipality of Jämsä and the Central Finland Hospital District. Jokilaakson Terveys Oy's shareholders are Pihlajalinna (51%), the municipality of Jämsä (39%) and the Central Finland Hospital District (10%).



EUR 177,256 (JT)  
EUR 628,728 (JLT)  
**Corporate taxes to the municipality**

EUR 3,373,677 (JT)  
EUR 1,710,060 (JLT)  
**Withholding taxes to the municipality**

EUR 6,274,429  
**Pihlajalinna Group's withholding taxes to the regional government: Central Finland**

EUR 490,000 (JLT)  
**Dividends to the municipality**

EUR 2,744,000  
**Pihlajalinna's joint venture dividends to partner municipalities (municipalities, total)**

## NUMBER OF EMPLOYEES

609 (JT)  
227 (JLT)



76 (JT) & 40 (JLT) LOCAL SUB-CONTRACTORS  
Value of cooperation  
EUR 532,047 (JT) & EUR 86,741 (JLT)

OWNERSHIP, JÄMSÄN TERVEYS  
• Pihlajalinna 51% • Jämsä municipality 49%

OWNERSHIP, JOKILAAKSON TERVEYS  
• Pihlajalinna 51% • Jämsä municipality 39%  
• Central Finland Hospital District 10%

## JÄMSÄN TERVEYS BOARD OF DIRECTORS

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

3.58 WELLBEING AT WORK, AVERAGE TOTAL SCORE (scale 1-5, year 2016)

## EMPLOYMENT TYPE

PERMANENT 65% (JT)  
82% (JLT)  
FIXED-TERM 35% (JT)  
18% (JLT)



AVERAGE AGE OF PERSONNEL 41  
LARGEST AGE GROUP 50-55 (JT)  
55-60 (JLT)

## SPECIALISED CARE AND SERVICES

- 22 specialities (Jokilaakso Hospital)
- Most significant specialities: orthopaedics and surgery, internal medicine, neurology, cardiology
- Nearly 2,000 surgical operations annually

## APPOINTMENTS WITH PHYSICIANS

- Primary care: 21,867
- Emergency and on-call services: 13,151
- Specialised care: 15,829
- Dental care: 19,896
- Mental health centre: 2,221
- Substance abuse clinic: 208
- Family service centre: 3,044

COMPLAINTS AND OFFICIAL COMPLAINTS 21

95,986 DAYS OF CARE

## HAPPY OR NOT RESULTS IN THE COMPANIES

JÄMSÄN TERVEYS



79%



12%



3%



6%

JOKILAAKSON TERVEYS

83%

10%

2%

5%

# KOLMOSTIEN TERVEYS

## ESTABLISHED IN 2015

Kolmostien Terveys is a joint venture established between Pihlajalinna and the municipality of Parkano. It has produced social and healthcare services for Parkano and Kihniö starting from 1 September 2015 under an outsourcing agreement signed in spring 2015. The agreement period is 10 years and the agreement includes a five-year option. The company is responsible for providing social and healthcare services to 9,000 inhabitants in Parkano and Kihniö.



EUR 136,928  
Corporate taxes to the municipality

EUR 2,333,774  
Withholding taxes to the municipality

EUR 13,791,016  
Pihlajalinna Group's withholding taxes to the regional government: Pirkanmaa

EUR 343,000  
Dividends to the municipality

EUR 2,744,000  
Pihlajalinna's joint venture dividends to partner municipalities (municipalities, total)

### NUMBER OF EMPLOYEES

415



**85** LOCAL SUB-CONTRACTORS  
Value of cooperation  
EUR 357,567

### OWNERSHIP ARRANGEMENT WITH THE MUNICIPALITY

- Pihlajalinna 61%
- Parkano municipality 39%

### BOARD OF DIRECTORS

50% PIHLAJALINNA REPRESENTATIVES (3)

50% PARKANO MUNICIPALITY REPRESENTATIVES (3)

**3.7** WELLBEING AT WORK, AVERAGE TOTAL SCORE  
(scale 1-5, year 2016)

### EMPLOYMENT TYPE

PERMANENT 78%  
FIXED-TERM 22%



AVERAGE AGE OF PERSONNEL **40**

LARGEST AGE GROUP **55-60**

### SPECIALISED CARE AND SERVICES

- 7 specialised services
- geriatrics, psychiatry, youth psychiatry, neurology, internal medicine, radiology and general medicine

213,735  
DAYS OF CARE

23,841  
APPOINTMENTS WITH PHYSICIANS

### COMPLAINTS

14

OFFICIAL COMPLAINTS  
5

### HAPPY OR NOT RESULTS

KOLMOSTIEN TERVEYS



83%



8%



3%

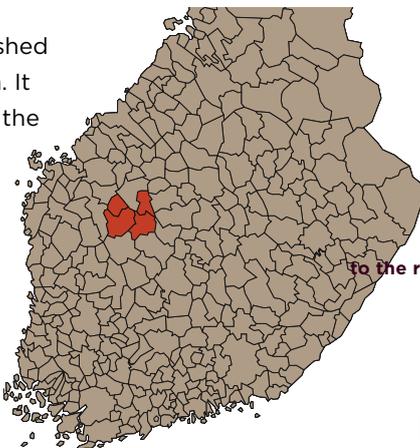


6%

# KUUSIOLINNA TERVEYS

## ESTABLISHED IN 2016

Kuusiolinna Terveys Oy is a joint venture established by Pihlajalinna and the Kuusiokunnat sub-region. It has produced social and healthcare services for the sub-region since 1 January 2016. The agreement period is 10 years and the agreement includes a five-year option. The municipalities own 49% of the joint venture, while Pihlajalinna owns the remaining 51%. Service production began in Alavus, Kuortane and Ähtäri on 1 January 2016 and in Soini on 1 January 2017. The company is responsible for social and healthcare services to 24,000 inhabitants in total.



EUR 1,016,744  
Corporate taxes to the municipality

EUR 7,065,347  
Withholding taxes to the municipality

EUR 7,376,018  
Pihlajalinna Group's withholding taxes to the regional government South Ostrobothnia

EUR 980,000  
Dividends to the municipality

EUR 2,744,000  
Pihlajalinna's joint venture dividends to partner municipalities (municipalities, total)

### NUMBER OF EMPLOYEES

957



### 227 LOCAL SUB-CONTRACTORS

Value of cooperation  
EUR 2,876,772

#### OWNERSHIP ARRANGEMENT WITH THE MUNICIPALITY

- Pihlajalinna 51%
- Kuusiokunnat sub-region 49%

### BOARD OF DIRECTORS

50% PIHLAJALINNA REPRESENTATIVES (4)

50% KUUSIOKUNNAT REPRESENTATIVES (4)

3.66 WELLBEING AT WORK, AVERAGE TOTAL SCORE  
(scale 1-5, year 2016)

### EMPLOYMENT TYPE

PERMANENT 84%  
FIXED-TERM 16%



AVERAGE AGE OF PERSONNEL 41

LARGEST AGE GROUP 55-60

### SPECIALISED CARE AND SERVICES

- 14 specialised services
- Most significant special services: internal medicine, geriatrics, cardiology, orthopaedics and surgery, urology, ENT

### APPOINTMENTS WITH PHYSICIANS

- Appointments with physicians and emergency and on-call services: 36,234
- Specialised care: 2,468
- Dental care: 21,314
- Outpatient psychiatric clinic: 1,223
- Family services: 3,138

COMPLAINTS AND OFFICIAL COMPLAINTS  
11

181,006  
DAYS OF CARE

### HAPPY OR NOT RESULTS

EMERGENCY AND ON-CALL SERVICES IN ALAVUS



76%



11%



3%



10%

PHYSICIAN'S APPOINTMENTS IN ÄHTÄRI

81%

11%

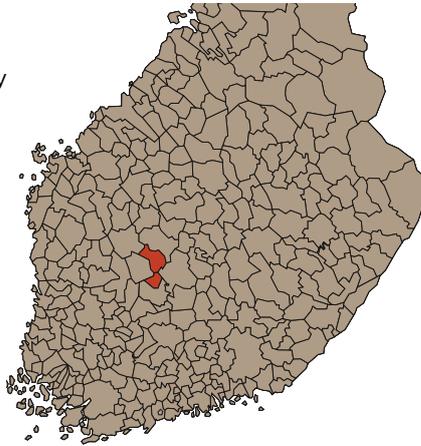
2%

6%

# MÄNTÄNVUOREN TERVEYS

## ESTABLISHED IN 2013

Mäntänvuoren Terveys Oy is a joint venture established in 2013 between the municipality and Pihlajalinna. The municipality owns 34% of the joint venture, while Pihlajalinna owns the other 66%. The current agreement between the municipality and Pihlajalinna is valid until 2026, followed by a five-year option period. Mäntänvuoren Terveys is responsible for providing social and healthcare services to 13,000 customers in Mänttä-Vilppula and Juupajoki (from 1 January 2018).



EUR 590,275

Corporate taxes to the municipality

EUR 2,456,002

Withholding taxes to the municipality (Mänttä-Vilppula)

EUR 13,791,016

Pihlajalinna Group's withholding taxes to the regional government: Pirkanmaa

EUR 931,000

Dividends to the municipality

EUR 2,744,000

Pihlajalinna's joint venture dividends to partner municipalities (municipalities, total)

## NUMBER OF EMPLOYEES

381



## 73 LOCAL SUB-CONTRACTORS

Value of cooperation  
EUR 1,308,977

## OWNERSHIP ARRANGEMENT WITH THE MUNICIPALITY

- Pihlajalinna 66%
- Mänttä-Vilppula municipality 34%

## BOARD OF DIRECTORS

50% PIHLAJALINNA REPRESENTATIVES (3)

50% MÄNTTÄ-VILPPULA MUNICIPALITY REPRESENTATIVES (3)

3.57 WELLBEING AT WORK, AVERAGE TOTAL SCORE  
(scale 1-5, year 2016)

## EMPLOYMENT TYPE

PERMANENT 83%  
FIXED-TERM 17%



AVERAGE AGE OF PERSONNEL 42

LARGEST AGE GROUP 55-60

## SPECIALISED CARE AND SERVICES

- 6 specialised services
- geriatrics, surgery, pediatrics, orthopaedics, plastic surgery, psychiatry, internal medicine
- also includes a dialysis unit

74,746  
DAYS OF CARE

31,500  
APPOINTMENTS WITH PHYSICIANS

COMPLAINTS AND OFFICIAL COMPLAINTS

22

## HAPPY OR NOT RESULTS

MÄNTÄNVUOREN TERVEYS



75%



11%



4%



11%

# Board of Directors



MIKKO  
WIREN

b. 1972, Lic.Med., Member of the Board of Directors since 2016  
Chairman of Pihlajalinna Plc's Board of Directors

**Primary work experience:** founded Pihlajalinna in 2001, Group's CEO 2014-2016, Pihlajalinna Terveys Oy CEO 2005-2016, General Practitioner and Occupational Health Physician 2001-2011. Health Centre Physician in Parkano in 2001-2005, MWW Yhtiö Oy CEO 2004-

**Main simultaneous positions of trust:** Vice Chairman of the Board of LocalTapiola's Pirkanmaa regional company, Member of the Board of Ipanala Oy

**Shareholding, 1 Mar 2018:** 2,309,010 shares



LEENA  
NIEMISTÖ

b. 1963, D.Med.Sc., Specialist in Psychiatrics, Member of the Board of Directors since 2014

Vice-Chairman of Pihlajalinna Plc's Board of Directors  
Independent of major shareholders  
**Primary work experience:** Pihlajalinna Plc Deputy CEO 2013-2016, Dextra Oy CEO 2003-2016, Kuntoutus Orton Specialist 2000-2004

**Main simultaneous positions of trust:** Vice Chairman of the Board of Stockmann Plc, Member of the Board of Elisa Corporation, Raisio Plc, Yliopiston Apteekki and Suomen Messut Osuuskunta, Chairman of the Board of the Finnish National Opera and Ballet

**Shareholding, 1 Mar 2018:** 703,475 shares



JARI  
EKLUND

b. 1963, M.Sc. (Econ.), Member of the Board of Directors since 2016  
Group Director of LocalTapiola Group  
Independent of the Company

**Primary work experience:** Investment Director of Tapiola General and Tapiola Life 1998-2012, Unit Director 1996-1997, Head of Department 1994-1995 and Head of Securities 1993-1994

**Main simultaneous positions of trust:** Member of the Supervisory Board of Ilkka-Yhtymä Oyj, Member of the Board of Turva Mutual Insurance Company, LocalTapiola Mutual Life Insurance Company, General Mutual Insurance Company, Asset Management and Real Estate Asset Management Ltd's and Pellervon Taloustutkimus PTT Ry

**Shareholding, 1 Mar 2018:** 0 shares



TIMO  
EVERI

b.1963, BBA and eMBA, Member of the Board of Directors since 2016  
Executive Partner at Hasan & Partners Group

Independent of the Company and its major shareholders

**Primary work experience:** Hasan & Partners Executive Partner 1991-, Wataniya Telecom Plc Chief Commercial Officer and Director of Marketing 2004-2006

**Main simultaneous positions of trust:** Chairman of the Board of Oy HIFK-Hockey Ab and Projekti GH Oy, Member of the Board of Restamax Plc and Champions Hockey League Ag

**Shareholding, 1 Mar 2018:** 0 shares



JARI  
SUNDSTRÖM

b. 1960, LL.M., trained on the bench, Member of the Board of Directors since 2015

Managing Director of LocalTapiola General Mutual Insurance Company  
Independent of the Company

**Primary work experience:** LocalTapiola Group Director of Company Group 2009-2014, Nordea Director 2006-2009, Nordea Asset Management Managing Director 1998-2006

**Main simultaneous positions of trust:** Member of the Board of Turva Mutual Insurance Company, LocalTapiola Real Estate Asset Management, Asset Management and Finance Ltd's

**Shareholding, 1 Mar 2018:** 0 shares



SEIJA  
TURUNEN

b. 1953, M.Sc. (Econ.), Member of the Board of Directors since 2016  
Board Professional

Independent of the Company and its major shareholders

**Primary work experience:** Finnlines Plc Adviser of the Board 2013-2014, Vice President and CFO 2007-2013, Director of harbour functions and CEO of harbour companies (Finnsteve companies) 2010-2013, Director of Finance 1992-2007

**Main simultaneous positions of trust:** Member of the Board of Elisa Corporation, Chairman of the Board of Finnpiilot Pilotage Ltd

**Shareholding, 1 Mar 2018:** 0 shares

# Management Team



b. 1970, BBA  
CEO  
Employed by the company since 2008  
**Primary work experience:**  
Pihlajalinna Plc SVP, P & S segment and Head of Corporate Planning 2016–2017, COO 2015–2016, CFO 2008–2015, Plenware Oy CFO 2005–2008, KPMG Oy Ab Auditor 2001–2004  
**Main simultaneous positions of trust:**  
Vendero Oy, Kemvit Oy and Posa Oy Chairman of the Board, Sinister Oy Deputy Member of the Board  
**Shareholding, 1 Mar 2018:** 81,920 shares



b. 1969, M. Sc. (Admin.)  
Executive Vice President, Head of Group Projects  
Employed by the company since 2010  
**Primary work experience:**  
Pihlajalinna Plc SVP, P & S segment 2015–2016, Mäntänvuoren Terveys Oy Managing Director 2013–2016, Jokilaakson Terveys Oy Managing Director 2010–2016, Plenware Oy Vice President, Administration 2004–2009, Head of Finance and Administration 2001–2004 ja Financial Manager 2000–2001  
**Main simultaneous positions of trust:**  
none  
**Shareholding, 1 Mar 2018:** 57,850 shares



b. 1970, Master of Laws, M.Sc. (Econ.)  
General Counsel, Head of HR (vt.)  
Employed by the company since 2017  
**Primary work experience:**  
Componenta Corporation SVP Legal and HR 2015–2017, General Counsel 2010–2015, Onninen Oy General Counsel 2007–2010, Finnair Plc Legal Counsel 2001–2007  
**Main simultaneous positions of trust:**  
Silmäsäätiö Foundation Member of the Board  
**Shareholding, 1 Mar 2018:** 0 shares



b. 1981, M.Sc. (Econ.)  
CFO  
Employed by the company since 2017  
**Primary work experience:**  
Mikeva Oy Group CFO & Deputy CEO 2012–2017, Group CFO 2010–2012, ISS Palvelut Oy Chief Controller (in addition to other duties) 2010, M&A Director 2008–2010, Change Manager 2007–2008, Business Controller 2005–2007  
**Main simultaneous positions of trust:**  
none  
**Shareholding, 1 Mar 2018:** 0 shares

In addition to the Management Team members, the Extended Management Team included the following members on 1 March 2018:

- **Siri Markula**, Head of Communications and IR
- **Perttu Monthan**, CDO
- **Kimmo Saarinen**, Medical Director
- **Pauli Waroma**, CMO

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.



Pihlajalinna's Corporate Governance Statement 2017 is online at company's investor website under Corporate Governance.  
**<http://investors.pihlajalinna.fi/corporate-governance>**

**Pihlajalinna Plc**



**Report by the  
Board of Directors  
and  
Financial Statements  
2017**

# Report by the Board of Directors 1 Jan–31 Dec 2017

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# Report by the Board of Directors for the financial year 1 Jan–31 Dec 2017

## **JONI AALTONEN, CEO OF PIHLAJALINNA:**

Pihlajalinna Group's revenue and profitability for 2017 developed as expected. While investments in digital development and brand revamp had a negative effect on the result for the year, I am confident that these investments will be reflected in improved profitability in the near future.

In the Primary and Social Care (P&S) segment, positive development continued in the final quarter. The profitability of complete outsourcings, in particular, improved substantially compared to the previous year. All in all, the segment's profitability has improved and reached our target level faster than we expected, which is something we can be very satisfied with.

In the Private Clinics and Specialised Care (C&S) segment, the fourth-quarter result was in line with expectations. Cost development in Public Specialised Care was in line with expectations. In accordance with the nature of Public Specialised Care, there is substantial variation between quarters. The segment's revenue developed well during the financial year, but profitability was weighed down by investments in digital development and brand revamp. The revenue and profitability of the acquisitions made during the financial year have developed as expected.

The national expansion we announced a year ago has progressed according to plan. The first new full-service business locations opened at the turn of the year in Turku and Oulu, with Seinäjoki to follow. We plan to expand to five new regional capitals and substantially strengthen our network of business locations in the Helsinki Metropolitan Area. In addition to establishing new locations, we have made-and will continue to make-strategic acquisitions. These include the acquisitions of Salon Lääkintälaboratorio, Linnan Klinikka in Hämeenlinna and Kymijoen Työterveys Oy in Kymenlaakso, all of which were completed after the end of the financial year.

The postponement of the health and social services reform activated the municipal market in the final quarter. Due to the planned policies related to health and social services, municipalities are seeking solutions primarily on a property-driven basis. Pihlajalinna will assess projects on a case-by-case basis and pursue projects in which we can leverage regional synergies. This is influenced by having a sufficient population base, the extent of service voucher usage and the opportunities for care and health services in the region in question.

After the reporting period, the Finnish government presented the most recent draft on the legislative proposal concerning the Act on Freedom of Choice, related to the health and social services reform. The latest version eliminates the regional governments' obligation to issue customer vouchers for specialised care except when the care guarantee is not realised. In our view, this will not have a major impact on the future market. As the population ages and the public sector cuts and centralises specialised care, there will be opportunities for the private sector to complement the public sector's services, particularly in basic-

level specialised care and non-urgent specialised care. This will present private operators with the opportunity to increase their share of specialised care service production.

The acquisition of the Forever fitness centre chain, published after the financial year, expands Pihlajalinna's service offering to wellbeing services. The fitness centre operations will complete the preventive occupational healthcare services and rehabilitation services carried out after specialised care procedures. Furthermore, promoting wellbeing will increase its importance in the future as, due to the health and social services reform, an increasing proportion of the healthcare sector is moving from performance-based pricing towards a fixed-price business model. In this trend, Pihlajalinna is a forerunner since more than 60 per cent of our revenue comes from fixed-price business.

## **CONSOLIDATED REVENUE AND RESULT**

### **October–December 2017**

Pihlajalinna's revenue for the fourth quarter amounted to EUR 107.9 (103.7) million, an increase of EUR 4.2 million, or 4.0 per cent. Organic growth in revenue amounted to EUR 0.5 million, or 0.5 per cent, including the commencement of social and healthcare service production in Soini on 1 January 2017. Growth in revenue due to M&A transactions was EUR 3.6 million, or 3.5 per cent.

Fourth quarter EBITDA amounted to EUR 8.1 (7.1) million, an increase of EUR 1.1 million, or 15 per cent. Profitability improved particularly in Social and Healthcare Outsourcings. Public Specialised Care costs for the quarter were also below the previous year's level. Profitability was weighed down by the start-up costs of new business locations, investments in brand revamp and digitalisation, the write-downs of operating leases of Dental Care and Surgical Operations and the change of CEO. Transfer taxes and expert fees relating to M&A transactions amounted to EUR 0.3 (0.0) million.

Adjusted EBITDA amounted to EUR 8.5 (7.1) million, an increase of EUR 1.4 million, or 20 per cent. EBITDA adjustments for October–December totalled EUR 0.4 (0.0) million. To improve comparability between quarters, Pihlajalinna presents as adjustment items the fair value measurement of a subsidiary's previous assets, the re-estimated closure costs of business locations, and severance payments.

Adjusted EBITDA increased by EUR 0.6 million in the fourth quarter due to M&A transactions.

Depreciation, amortisation and impairment amounted to EUR 3.6 (3.2) million. Amortisation and impairment of intangible assets was EUR 1.4 (1.2) million, of which the purchase price allocation amortisation of intangible assets was EUR 1.0 (0.9) million. Depreciation, amortisation and impairment of property, plant and equipment amounted to EUR 2.2 (2.0) million.

Pihlajalinnä's operating profit amounted to EUR 4.6 (3.9) million, an increase of EUR 0.7 million, or 18 per cent. The EBIT-to-revenue ratio (EBIT margin) for the quarter was 4.2 (3.7) per cent. Adjusted operating profit for the quarter amounted to EUR 4.9 (3.9) million, an increase of EUR 1.0 million, or 27 per cent. The adjusted EBIT margin was 4.6 (3.7) per cent. The adjusted operating profit was affected by the same adjustment items as adjusted EBITDA.

The Group's net financial expenses for the quarter totalled EUR -0.4 (-0.3) million. Profit before taxes for the reporting period amounted to EUR 4.1 (3.5) million, an increase of EUR 0.6 million, or 17 per cent. Taxes on income were EUR -0.6 (-0.5) million. Profit for the quarter was EUR 3.5 (3.0) million. Earnings per share (EPS) was EUR 0.12 (0.12).

### January-December 2017

Pihlajalinnä's revenue for the financial year amounted to EUR 424.0 (399.1) million, an increase of EUR 24.9 million, or 6.2 per cent. Organic growth in revenue amounted to EUR 10.1 million, or 2.5 per cent, including the commencement of social and healthcare service production in Soini on 1 January 2017. Growth in revenue due to M&A transactions was EUR 14.8 million, or 3.7 per cent.

EBITDA amounted to EUR 33.3 (27.9) million, an increase of EUR 5.4 million, or 19 per cent. EBITDA grew, mainly due to an improvement in the profitability of Social and Healthcare Outsourcings and staffing services. Profitability was weighed down by investments in digitalisation and brand revamp, the start-up costs of new business locations, the write-downs of operating leases of Dental Care and Surgical Operations and severance payments. Transfer taxes and expert fees relating to M&A transactions amounted to EUR 0.9 (0.6) million.

Adjusted EBITDA amounted to EUR 34.1 (28.9) million, an increase of EUR 5.1 million, or 18 per cent. EBITDA adjustments for the financial year totalled EUR 0.7 (1.0) million. To improve comparability between financial years, Pihlajalinnä presents as adjustment items the remeasurement to fair value of pre-existing interest in acquiree, the write-downs of operating leases, severance payments and other items affecting comparability, such as compensation related to a production agreement of the Surgical Operations service area that expired in the previous financial year and had a negative effect of EUR 0.9 million on EBITDA in the comparison period.

Adjusted EBITDA increased by EUR 2.3 million during the financial year due to M&A transactions.

Depreciation, amortisation and impairment amounted to EUR 14.2 (12.8) million. Amortisation and impairment of intangible assets was EUR 5.2 (4.5) million, of which the purchase price allocation amortisation of intangible assets was EUR 3.8 (3.4) million. Depreciation, amortisation and impairment of property, plant and equipment amounted to EUR 9.0 (8.2) million.

The depreciation, amortisation and impairment includes an impairment loss of EUR 0.1 (0.5) million due to the closing down of Dental Care clinics and, in the comparison period, the closing down of Dental Care and Surgical Operations units. These items have been treated as an adjustment of operating profit to improve the comparability of business operations between the financial years.

Pihlajalinnä's operating profit amounted to EUR 19.1 (15.1) million, an increase of EUR 4.0 million, or 26 per cent. The EBIT-to-revenue ratio (EBIT margin) was 4.5 (3.8) per cent. The

adjusted operating profit for the financial year was EUR 20.0 (16.6) million, an increase of EUR 3.4 million, or 20 per cent. The adjusted EBIT margin was 4.7 (4.2) per cent. The aforementioned operating profit adjustments for the financial year totalled EUR 0.9 (1.5) million.

The Group's net financial expenses for the financial year totalled EUR -1.7 (-1.4) million. Profit before taxes for the reporting period amounted to EUR 17.4 (13.7) million, an increase of EUR 3.7 million, or 27 per cent. Taxes on income were EUR -3.4 (-3.0) million. Profit for the financial year was EUR 14.1 (10.8) million. Earnings per share (EPS) was EUR 0.46 (0.39).

## STRATEGIC ACTIONS DURING THE FINANCIAL YEAR

The focus areas of Pihlajalinnä's strategy during the financial year included the expansion of the network of business locations, the digitalisation of healthcare services, Pihlajalinnä's brand revamp and improvement of brand awareness, business intelligence, redesigning the website and booking service, and restructuring the Contact Center function.

The expansion of the network of business locations progressed according to plan. New full-service private clinics established by the Group started their operations at the beginning of the 2018 financial year in Oulu and Turku. During the reporting period, Pihlajalinnä expanded to Kuopio, Leppävirta, Suonenjoki, Oulu, Raahe and Parainen through M&A transactions.

The Pihlajalinnä mobile application was introduced for insurance and occupational healthcare customers during the financial year. The application's development and launch for new customer groups will continue at a rapid rate in the next financial year.

Pihlajalinnä prepared for the future freedom of choice during the financial year by gathering all of its services under one brand, Pihlajalinnä. The "Long live life!" launch campaign was very well received in the media and it significantly increased Pihlajalinnä's brand awareness nationally.

Pihlajalinnä revised its key strategic points as part of its preparation for the healthcare and social welfare reform. The main points are the company's mission, vision, values, service range and financial targets.

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

**Vision** We will be the most valued company in the healthcare and social services sector in Finland in 2020

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

The company's business will continue to be based on an extensive service range that enables the company to grow in different operating environments, diversify risks and guarantee effective and smooth care chains to its customers. The long-term financial targets the company published earlier remain unaltered: operating profit (EBIT) at above seven per cent of revenue and net debt at less than three times EBITDA.

In conjunction with revising its strategy, Pihlajalinnä announced it had assessed its operative structure in relation to the healthcare and social welfare reform and its effects on the operating environment. The company indicated that it had begun to plan a new structure because its existing structure did not fully meet the future needs of customers.

## MARKET AND LEGISLATION REVIEW

In January 2018, the Finnish government presented a revised draft of the legislative proposal concerning the Act on Freedom

of Choice, related to the structural reform of healthcare and social services. Among other changes, the latest version eliminates the regional governments' obligation to issue customer vouchers for specialised care except when the care guarantee is not realised. In Pihlajalinna's view, as the population ages and the public sector cuts and centralises specialised care in a smaller number of units, there will be opportunities for the private sector to complement the public sector's services, particularly in basic-level specialised care and non-urgent specialised care. This will present private operators with the opportunity to increase their share of specialised care service production.

The government is due to submit the proposal regarding the customer's freedom of choice in social services and healthcare to the parliament in early March 2018. The aim is to have the parliament decide on all legislation pertaining to the reform of Finland's regional government, healthcare and social services in June 2018, and for the reforms to enter into effect on 1 January 2020. Personal budgets and service vouchers should be adopted no later than on 1 July 2020. The health and social services centres would begin operating on 1 January 2021 and dental care units on 1 January 2022.

According to an estimate by the Ministry of Social Affairs and Health published in January, the size of the freedom-of-choice market would be approximately EUR 5.4 billion (of which health and social services centres would account for roughly EUR 1.9 billion, service vouchers for roughly EUR 1.6 billion, personal budgets for roughly EUR 1.5 billion and dental care units for roughly EUR 0.4 billion).

The postponement of the health and social services reform activated the municipal market in the final quarter of 2017. Due to the planned policies related to health and social services, municipalities are seeking solutions primarily on a property-driven basis. Pihlajalinna will assess projects on a case-by-case basis and pursue projects in which the company can leverage regional synergies.

The municipality of Hattula selected Pihlajalinna as the municipality's primary care and occupational healthcare service partner on 15 January 2018. According to the tendering documentation, the annual value of the agreement is approximately EUR 3.5 million. The duration of the agreement is five years at the minimum and eight years at the maximum. The outsourcing involves approximately 20 per cent of the social and healthcare services that are the responsibility of the municipality or joint municipal authority, therefore, the value of the agreement does not exceed the 30 per cent limitation set by the legislation setting limits on outsourcing. The procurement has been appealed to the Market Court.

The municipal council of Nokia decided on 12 February 2018 to initiate an assessment of having the city of Nokia join the Mänttä-Vilppula social and healthcare partnership area. If the municipalities reach an agreement on Nokia joining the partnership area, the partnership area can demand the Pihlajalinna alliance to produce social and healthcare services for the city of Nokia under the previously signed service production agreement with Mänttä-Vilppula. Nokia joining the partnership area is subject to approval by the municipal councils of Nokia, Mänttä-Vilppula and Juupajoki.

The market of the C&S segment is stable. The Occupational Healthcare market is expected to grow if municipalities and other public sector entities decide to divest the occupational healthcare providers they currently own. For example, the City of Kotka sold Kymijoen Työterveys Oy to Pihlajalinna in January 2018. Demand

among private individuals who pay for their services themselves fluctuates to some extent, which is visible in the weak demand for Dental Care services.

## OPERATING SEGMENTS

### Private Clinics and Specialised Care (C&S)

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

#### October–December 2017

The C&S segment's revenue for the quarter amounted to EUR 60.6 (56.8) million, an increase of EUR 3.8 million, or 6.6 per cent. Growth in revenue due to M&A transactions was EUR 4.6 million, or 8.0 per cent. The organic growth rate for the quarter was negative. Revenue grew as a result of M&A transactions mainly in the Private Clinics and Occupational Healthcare service areas.

The C&S segment's EBITDA for the quarter amounted to EUR 3.0 (4.2) million. The segment's profitability was weighed down by investments in digitalisation and the brand revamp, as well as the start-up costs of new business locations. Public Specialised Care costs for the quarter were below the previous year's level, which improved the segment's profitability.

Adjusted EBITDA was EUR 3.4 (4.2) million. EBITDA adjustments for the quarter totalled EUR 0.4 (0.0) million. The adjustments recognised to improve comparability between quarters were related to the write-downs of operating leases in Dental Care and Surgical Operations.

The C&S segment's depreciation, amortisation and impairment for the quarter totalled EUR 2.5 (2.5) million. Purchase price allocation amortisation of intangible assets totalled EUR 0.8 (0.8) million. Other depreciation, amortisation and impairment totalled EUR 1.7 (1.7) million.

The C&S segment's operating profit for the past quarter amounted to EUR 0.5 (1.7) million and adjusted operating profit to EUR 0.9 (1.7) million.

The C&S segment's revenue includes EUR 20.8 million of revenue from Public Specialised Care. The EBITDA and operating profit of Public Specialised Care for the quarter was EUR 0.0 million and EUR -0.1 million, respectively.

#### January–December 2017

The C&S segment's revenue for the financial year amounted to EUR 234.1 (215.6) million, an increase of EUR 18.4 million, or 8.6 per cent. Growth in revenue due to M&A transactions was EUR 12.7 million, or 5.9 per cent. Organic growth in revenue amounted to EUR 5.7 million, or 2.7 per cent. Revenue was increased by Occupational Healthcare, Private Clinics and Public Specialised Care.

The C&S segment's EBITDA for the financial year amounted to EUR 13.7 (16.4) million. The segment's profitability was weighed down by investments in digitalisation, the brand revamp and marketing, the start-up costs of new business locations and write-downs of operating leases in Dental Care and Surgical Operations. The profitability of the Private Clinics service area declined year-on-year.

Adjusted EBITDA was EUR 14.2 (17.3) million. EBITDA adjustments for the financial year totalled EUR 0.5 (0.9) million. The adjustments recognised during the financial year to improve comparability between financial periods were related to the write-downs of operating leases in Dental Care and Surgical

Operations, as well as severance payments. The EBITDA of the comparison year was weakened by the EUR 0.9 million compensation related to a production agreement of the Surgical Operations service area that ended in the previous year and has been treated as an adjustment item.

The C&S segment's depreciation, amortisation and impairment for the financial year totalled EUR 10.0 (10.2) million. Purchase price allocation amortisation of intangible assets totalled EUR 3.3 (3.3) million. Other depreciation, amortisation and impairment totalled EUR 6.8 (7.0) million.

The depreciation, amortisation and impairment includes an impairment loss of EUR 0.1 (0.5) million due to the closing down of Dental Care clinics and, in the comparison period, the closing down of Dental Care and Surgical Operations units. These items have been treated as an adjustment of operating profit to improve the comparability of business operations between the financial years.

The C&S segment's operating profit for the financial year amounted to EUR 3.6 (6.2) million and adjusted operating profit to EUR 4.3 (7.5) million. The aforementioned operating profit adjustments for the financial year totalled EUR 0.6 (1.4) million.

The C&S segment's revenue includes EUR 84.3 million of revenue from Public Specialised Care. The EBITDA and operating profit of Public Specialised Care amounted to EUR 0.9 million and EUR 0.7 million, respectively. The cost accumulation of Public Specialised Care involves random fluctuation. Individual cases falling under the scope of the hospital districts' pooling system for high-cost care may increase the total costs of specialised care considerably during the financial year in Pihlajalinna's municipal joint ventures.

### 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).

### October-December 2017

The P&S segment's revenue during the quarter amounted to EUR 49.4 (49.1) million, an increase of EUR 0.3 million, or 0.6 per cent. Growth in revenue due to M&A transactions was EUR 0.4 million, or 0.8 per cent. Organic revenue growth was negative in spite of the start of service production in Soini on 1 January 2017 and the increased sales of staffing services. The reason for the negative organic revenue development was the closure of two of Pihlajalinna's five reception centres during the financial year. New agreements were signed during the financial year for the reception centres that remain operational. Pihlajalinna is a framework agreement supplier for the Finnish Immigration Service.

The P&S segment's EBITDA for the quarter amounted to EUR 5.3 (3.1) million, an increase of EUR 2.3 million, or 75 per cent. Social and Healthcare Outsourcings improved profitability.

The P&S segment's depreciation, amortisation and impairment for the quarter totalled EUR 0.9 (0.5) million. Purchase price allocation amortisation of intangible assets totalled EUR 0.1 (0.1) million. Other depreciation, amortisation and impairment amounted to EUR 0.8 (0.5) million.

The P&S segment's operating profit for the quarter amounted to EUR 4.5 (2.5) million, an increase of EUR 1.9 million, or 77 per cent.

### January-December 2017

The P&S segment's revenue during the financial year amounted to EUR 197.6 (189.8) million, an increase of EUR 7.8 million, or 4.1 per cent. Organic growth in revenue amounted to EUR 5.8 million, or 3.1 per cent, mainly as a result of the start of service production in Soini on 1 January 2017. Growth in revenue due to M&A transactions was EUR 2.0 million, or 1.0 per cent.

The P&S segment's EBITDA for the reporting period was EUR 21.6 (12.9) million. Profitability improved due to Social and Healthcare Outsourcings as well as staffing services.

Adjusted EBITDA for the financial year amounted to EUR 21.6 (13.0) million, an increase of EUR 8.5 million, or 65 per cent. EBITDA adjustments for the financial year totalled EUR 0.0 (0.1)

## PERFORMANCE OF THE SEGMENTS

quarter	C & S		P & S	
	10-12/2017	10-12/2016	10-12/2017	10-12/2016
Revenue, EUR million	60.6	56.8	49.4	49.1
EBITDA, EUR million	3.0	4.2	5.3	3.1
EBITDA, %	5.0	7.4	10.8	6.2
Adjusted EBITDA, EUR million	3.4	4.2	5.3	3.1
Adjusted EBITDA, %	5.6	7.4	10.8	6.2
Operating profit (EBIT), EUR million	0.5	1.7	4.5	2.5
Operating profit, %	0.8	3.0	9.0	5.1
Adjusted operating profit (EBIT), EUR million	0.9	1.7	4.5	2.5
Adjusted operating profit, %	1.4	3.0	9.0	5.1
<b>cumulative</b>	<b>1-12/2017</b>	<b>1-12/2016</b>	<b>1-12/2017</b>	<b>1-12/2016</b>
Revenue, EUR million	234.1	215.6	197.6	189.8
EBITDA, EUR million	13.7	16.4	21.6	12.9
EBITDA, %	5.8	7.6	10.9	6.8
Adjusted EBITDA, EUR million	14.2	17.3	21.6	13.0
Adjusted EBITDA, %	6.1	8.0	10.9	6.9
Operating profit (EBIT), EUR million	3.6	6.2	17.9	10.9
Operating profit, %	1.5	2.9	9.1	5.7
Adjusted operating profit (EBIT), EUR million	4.3	7.5	17.9	11.0
Adjusted operating profit, %	1.8	3.5	9.1	5.8

million. The adjustment recognised in the previous financial year to improve comparability between financial periods was related to severance payments.

The P&S segment's depreciation, amortisation and impairment for the financial year totalled EUR 3.7 (2.0) million. Purchase price allocation amortisation of intangible assets totalled EUR 0.5 (0.2) million. Other depreciation, amortisation and impairment totalled EUR 3.1 (1.8) million.

The P&S segment's operating profit for the financial year was EUR 17.9 (10.9) million. The adjusted operating profit was EUR 17.9 (11.0) million, an increase of EUR 6.9 million, or 63 per cent.

## CONSOLIDATED CASH FLOW AND FINANCIAL POSITION

At the end of the financial year, Pihlajalinna Group's total statement of financial position was EUR 253.6 (217.7) million. Consolidated cash and cash equivalents stood at EUR 37.1 (27.5) million.

The Group's net cash flow from operating activities during the financial year amounted to EUR 34.9 (32.3) million. A total of EUR 6.6 (7.6) million in working capital was released during the financial year. The Group's working capital requirements vary through the year, following a seasonal pattern. Working capital is typically released towards the end of the year. During the summer holiday season, working capital is committed due to the payment of annual holiday pay. Significant TyEL employees' pension insurance advances also affect the commitment of working capital during the financial year.

Net cash flow from investing activities totalled EUR -18.5 (-25.5) million. Subsidiary acquisitions had an impact of EUR -8.9 (-21.1) million on net cash flow from investing activities during the financial year. Investments in property, plant and equipment and intangible assets during the financial year totalled EUR -10.1 (-4.9) million, and proceeds from the disposals of property, plant and equipment totalled EUR 0.2 (0.3) million. Dividends received amounted to EUR 0.1 (0.3) million.

The Group's cash flow after investments (free cash flow) was EUR 16.4 (6.8) million.

Net cash flow from financing activities totalled EUR -6.9 (5.4) million. During the financial year, the Group withdrew EUR 14.5 (14.9) million of new loans within its credit facility and repaid its financial liabilities, including changes in credit limits, by a total of EUR 6.4 (3.6) million. The Group's parent company distributed EUR 3.1 million in dividends during the financial year. In addition, EUR 2.8 (1.0) million in dividends was distributed to non-controlling interests during the financial year. Repayments of financial lease liabilities totalled EUR 3.2 (2.4) million and interest paid and other financial expenses amounted to EUR 1.8 (1.4) million. During the financial year, Pihlajalinna increased its holding in Mäntänvuoren Terveys Oy by purchasing, in accordance with its commitment, 15 per cent of the company's share capital. The Group also increased its holding in Kolmostien Terveys Oy during the financial year by purchasing, in accordance with its commitment, 10 per cent of the company's share capital, as in the previous year. Changes in non-controlling interests had an effect of EUR -4.0 (-1.1) million on cash flow.

The Group's gearing was 32.3 (21.9) per cent at the end of the financial year. Interest-bearing net debt amounted to EUR 34.2 (22.1) 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 financial year is increased

by the replacement of said leases by new 15-year leases, which are interpreted as finance leases. The current value of these finance leases at the beginning of the financial year was EUR 12.5 million.

In the financial year, return on capital employed was 11.8 (10.8) per cent and return on equity was 13.6 (11.1) per cent.

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

At the end of the financial year, Pihlajalinna had EUR 34.8 million in unused credit limits.

## CAPITAL EXPENDITURE AND ACQUISITIONS

On 31 December 2017, Pihlajalinna exercised its right to convert a proportion of a convertible bond issued by Dextra Lapsettomuskeskus Oy into new shares in the company in accordance with the terms of the bond. Pihlajalinna consolidates Dextra Lapsettomuskeskus Oy as an acquisition achieved in stages. The pre-existing interest in acquiree was remeasured to fair value and the gains were recognised through profit and loss. Following the conversion of the bond, Pihlajalinna's ownership in the company is approximately 51%.

In December, Pihlajalinna increased its ownership in Kolmostien Terveys Oy by acquiring 10 per cent of the company's share capital from the City of Parkano in accordance with Pihlajalinna's commitment. After the transaction, the Group owns 71 per cent of the company.

On the balance sheet date, 31 December 2017, Pihlajalinna's holdings in municipal joint ventures were as follows:

Company	Pihlajalinna's holding, %
Jokilaakson Terveys Oy	51%
Jämsän Terveys Oy	51%
Kuusiolinnat Terveys Oy	51%
Mäntänvuoren Terveys Oy	66%
Kolmostien Terveys Oy	71%

Pihlajalinna acquired Paraisten Lääkärikeskus Oy on 4 December 2017.

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

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

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

Insta Care Oy, a former joint venture, became a wholly-owned subsidiary of Pihlajalinna as of 1 June 2017. At the same time, the company's name was changed to Pihlajalinna Solutions Oy. Pihlajalinna consolidates the company as an acquisition achieved in stages. The pre-existing interest in acquiree was remeasured to fair value and the gains were recognised through profit and loss.

On 2 January 2017, Pihlajalinna acquired the entire share capital of Itä-Suomen Lääkäritalo Oy, which operates in the

Kuopio region. Itä-Suomen Lääkäritalo has, under the name Lääkärikeskus ITE, worked in close cooperation with Itä-Suomen Lääkärikeskus Oy, which Pihlajalinna acquired on 1 February 2016.

A summary of the acquisitions made during the financial year is presented in the notes to the consolidated financial statements under Note 26: Business combinations.

Gross investments, including acquisitions, in the financial year totalled EUR 30.4 (27.3) million. The Group's gross investments in property, plant and equipment and intangible assets, which consisted of development investments, additional investments and replacement investments required for growth, amounted to EUR 8.3 (5.5) million during the financial year. Capital expenditure relating to the opening of new units totalled EUR 5.1 (0.1) million. Gross investments associated with M&A transactions totalled EUR 17.0 (21.6) million.

The Group's investment commitments related to development, additional and replacement investments and the opening of new units amount to approximately EUR 10.4 million. The investment commitment to build a welfare centre in Hattula became void in summer 2017 when the Market Court annulled the procurement decision on health and social services made by Hattula on 14 December 2016. Following a new round of tendering, Hattula selected Pihlajalinna as its primary care and occupational healthcare service provider. The agreement does not include any investment commitments.

The expansion of Pihlajalinna will continue in spite of the postponement of the health and social services reform until 2020. During the financial year, Pihlajalinna announced it plans to open 10 new locations by 2020. In addition, the company may expedite the pace of expansion with acquisitions. New greenfield locations will operate as separate limited liability companies so that the local staff and doctors can be offered the possibility to become shareholders. The Oulu and Turku clinics opened at the beginning of 2018 and the Seinäjoki clinic will open in spring 2018. The company estimates that the greenfield investments required for the new clinics will remain under EUR 40 million.

## RESEARCH AND DEVELOPMENT

Pihlajalinna's research and development activities during the financial year were focused on the digitalisation of healthcare services, business intelligence and the continued development of insurance company reporting and referral coordination. Digital healthcare services expand Pihlajalinna's service channels, improve the customer experience and increase the efficiency of the service process. The Pihlajalinna mobile application was introduced during the financial year to insurance and occupational healthcare customers. The mobile application makes it possible to provide a quick and easy AI-assisted remote doctor service via chat and video. Online services support the brand revamp and enable booking and access to personal health information for private customers, insurance customers and occupational healthcare customers.

Development costs that fulfilled the criteria for capitalisation amounted to EUR 1.2 million during the financial year. There were no capitalised development costs in financial year 2016.

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

## CHANGES IN GROUP STRUCTURE

As part of Pihlajalinna's brand revamp, the company names of the following Group companies were changed during the financial year: Dextra Oy became Pihlajalinna Lääkärikeskukset Oy, Tampereen Lääkärikeskus Oy became Pihlajalinna Tampere Oy, Hoivakoti Johanna Oy became Ikipihlaja Johanna Oy, Kuusama-Koti Oy became Ikipihlaja Kuusama Oy, Hoitokoti Matinkartano Oy became Ikipihlaja Matinkartano Oy, Hoitokoti Setälänpiha became Ikipihlaja Setälänpiha Oy and Raison Oiva Oy became Ikipihlaja Oiva Oy.

The following subsidiary mergers were implemented during the financial year: Sataman Röntgen Oy and Joen Magneetti Oy merged with Pihlajalinna Lääkärikeskukset Oy at the end of the year; Suomen Keinojuuriklinikka Oy merged with Pihlajalinna Lääkärikeskukset Oy on 1 November 2017; Jämsän Lääkärikeskus Oy merged with Pihlajalinna Lääkärikeskukset Oy on 1 September 2017; Itä-Suomen Lääkäritalo merged with Pihlajalinna Lääkärikeskukset Oy on 1 June 2017; Dextra Medical Spa, Plastiikkakirurginen sairaala Oy and Itä-Suomen Lääkärikeskus Oy merged with Pihlajalinna Lääkärikeskukset Oy on 1 May 2017; Laser Tiikka Oy merged with Pihlajalinna Lääkärikeskukset Oy on 1 March 2017; and Oikare Oy merged with Ikipihlaja Setälänpiha Oy on 1 March 2017.

During the financial year, Pihlajalinna established the companies Pihlajalinna Oulu Oy, Pihlajalinna Seinäjoki Oy, Pihlajalinna Turku Oy and Pihlajalinna Erityisasumispalvelut Oy. The business operations of these companies will begin in financial year 2018.

The business operations of Gyne-Praxis Oy were transferred to Pihlajalinna Lääkärikeskukset Oy in an asset deal on 31 May 2017. The company was dissolved on 31 October 2017.

Koskisairaala Oy was dissolved on 1 January 2017.

## PERSONNEL

At the end of the financial year, the number of personnel was 4,753 (4,407), an increase of 346 persons or 8 per cent. The Group's personnel averaged 3,879 (3,526) persons as full-time equivalents, an increase of 353 persons or 10 per cent. During the financial year, the Group's employee benefit expenses totalled EUR 175.4 (167.2) million, an increase of EUR 8.2 million or 5 per cent.

At the end of the financial year, the number of contractual practitioners stood at 992 (942), an increase of 50 persons or 5 per cent.

## MANAGEMENT CHANGES

Pihlajalinna appointed General Counsel Pauliina Rannikko as the acting Head of HR in December 2017. Head of HR and General Counsel Pauliina Rannikko is a member of the Management Team.

The Board of Directors of Pihlajalinna and CEO Aarne Aktan agreed on Aktan leaving his position as CEO effective from 11 December 2017. The Board of Directors appointed Joni Aaltonen, SVP, P&S segment, as the new CEO. The appointment became effective immediately.

Ville Lehtonen was appointed Chief Financial Officer of Pihlajalinna. He started in his role and joined the Group Management Team on 1 December 2017.

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

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

Pauli Waroma was appointed Head of Marketing of Pihlajalinn. He started in his role and joined the Extended Management Team on 1 March 2017.

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

## MANAGEMENT TEAM

The Group Management Team consisted of the following four (4) members at the end of the financial year: Joni Aaltonen, CEO; Juha Rautio, Deputy CEO and Head of Group Projects; Ville Lehtonen, CFO; and Pauliina Rannikko, Head of HR and General Counsel.

In addition to the Management Team members, the Extended Management Team included the following four (4) members at the end of the financial year: Siri Markula, Head of Communications and IR; Perttu Monthan, CDO; Pauli Waroma, CMO; and Kimmo Saarinen, Medical Director.

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

## BOARD OF DIRECTORS

The Annual General Meeting held on 4 April 2017 decided that the Board of Directors will be composed of six (6) members at a time. Mr Jari Eklund, Mr Timo Everi, Ms Leena Niemistö, Mr Jari Sundström, Ms Seija Turunen and Mr Mikko Wirén were re-elected to the Board of Directors for a term concluding at the end of the next Annual General Meeting.

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

## SHAREHOLDERS' NOMINATION BOARD

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

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

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

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

## COMMITTEES NOMINATED BY THE BOARD

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

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

## REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS

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

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

## SHARES AND SHAREHOLDERS

At the end of the financial year, Pihlajalinn 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 financial year, the company had 12,489 (9,172) 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.pihlajalinn.fi](http://investors.pihlajalinn.fi).

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

## SHARE-RELATED INFORMATION

	10-12/2017	10-12/2016	1-12/2017	1-12/2016
No. of shares outstanding at the end of the period	<b>20,613,146</b>	20,613,146	<b>20,613,146</b>	20,613,146
Average no. of shares outstanding during the period	<b>20,613,146</b>	20,613,146	<b>20,613,146</b>	20,613,146
Highest price, EUR	<b>16.40</b>	18.85	<b>18.42</b>	18.87
Lowest price, EUR	<b>12.60</b>	14.60	<b>12.60</b>	12.90
Average price, EUR*	<b>14.45</b>	16.30	<b>16.30</b>	16.38
Closing price, EUR	<b>13.34</b>	18.42	<b>13.34</b>	18.42
Share turnover, 1,000 shares	<b>1,617</b>	1,357	<b>5,189</b>	8,196
Share turnover, %	<b>7.9</b>	6.6	<b>25.2</b>	39.8
Market capitalisation at the end of the period, EUR million			<b>274.0</b>	379.7

\* average share price weighted by trading volume

## AUDITING

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

## AMENDMENTS TO THE ARTICLES OF ASSOCIATION

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

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

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

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

## AUTHORISATION FOR THE ACQUISITION OF THE COMPANY'S OWN SHARES

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

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

## AUTHORISATION TO DECIDE ON A SHARE ISSUE

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

The number of shares issued pursuant to the authorisation may not exceed 4,122,629 shares, which corresponds to

approximately 20 per cent of all the existing shares in the company. The authorisation concerns both the issuance of new shares as well as the transfer of the company's own shares.

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

## RISKS AND UNCERTAINTIES IN BUSINESS OPERATIONS

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

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

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

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

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

In addition, the most essential risks and uncertainties affecting the Group's operations are connected to the success of opening new locations, acquisitions, product development and information system projects, tax-related risks and the commitment and recruitment of competent management.

A tax audit of the Group's main companies began in spring 2017, and is still underway.

The Group's trade receivables include EUR 2.5 (1.2) million in substantially delayed payments from a significant customer. The matter concerns a contractual dispute under civil law with the municipality in question. According to the assessment of Pihlajalinna's management, the municipality has no grounds for withholding payment. Pihlajalinna's management further expects that the customer will pay the receivables in full.

More information on Pihlajalinna's risks and risk management will be provided in the Corporate Governance Statement and the Statement of Non-financial Information. More information on financial risks and their management is provided in the consolidated financial statements under Note 25: Financial risk management.

## RISK MANAGEMENT

In its risk management, Pihlajalinna's aim is to operate as systematically as possible and incorporate risk management in normal business processes. Furthermore, the Group invests in quality management systems and the management of occupational safety and health risks. Pihlajalinna's Risk Management Policy defines and categorises the Group's risks and describes the goals of risk management. In addition, it defines risk management principles, operating methods and responsibilities.

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

During the financial year, an Enterprise Risk Management process was implemented in Pihlajalinna's risk management. Risks are categorised into strategic, operational, financial and damage risks.

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

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

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

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

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

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

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

## FLAGGING NOTIFICATIONS

Pihlajalinna did not receive any flagging notifications during the financial year.

## CURRENT INCENTIVE SCHEMES

On the balance sheet date, the company did not have any share-based incentive schemes for the CEO, the other members of the Management Team or the Board of Directors.

## THE BOARD OF DIRECTORS' PROPOSAL FOR PROFIT DISTRIBUTION

The Board of Directors proposes that a dividend of EUR 0.16 per share be paid for the financial year that ended on 31 December 2017.

Calculation of the parent company's distributable funds:

EUR	31 Dec. 2017
Retained earnings	5,535,096.36
Profit for the financial year	22,210,058.70
Reserve for invested unrestricted equity	153,085,483.50
Capitalised development costs	-1,102,962.26
<b>TOTAL</b>	<b>179,727,676.30</b>

On the balance sheet date, the number of shares entitling their holder to dividend was 20,613,146, and consequently, the total dividend amount would be EUR 3,298,103.36. No material changes have taken place in the company's financial position after the end of the financial year. The company's liquidity position is good and, in the view of the Board of Directors, the proposed distribution does not jeopardise the company's ability to fulfil its obligations.

Earnings per share for the financial year was EUR 0.46. The proposed dividend of EUR 0.16 is 34.7 per cent of earnings per share.

Pihlajalinna Plc's Annual General Meeting is scheduled for 5 April 2018 in Tampere, Finland. The Board of Directors will decide on the notice of the General Meeting and included proposals at a later date.

## PIHLAJALINNA'S OUTLOOK FOR 2018

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

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

## CORPORATE GOVERNANCE STATEMENT

Pihlajalinna publishes its Corporate Governance Statement separately on the company's investor website at investors.pihlajalinna.fi at the same time as the Report by the Board of Directors during week 11. Up-to-date information about compliance with and deviations from the Corporate Governance Code is maintained on the investor site at investors.pihlajalinna.fi.

## STATEMENT OF NON-FINANCIAL INFORMATION

Pihlajalinna publishes its statement of non-financial information separately on the company's investor website at investors.pihlajalinna.fi at the same time as the Report by the Board of Directors during week 11.

## EVENTS AFTER THE BALANCE SHEET DATE

The municipal council of Nokia decided on 12 February 2018 to initiate an assessment of having the city of Nokia join the Mänttä-Vilppula social and healthcare partnership area. If the municipalities reach an agreement on Nokia joining the partnership area, the partnership area can demand the Pihlajalinna alliance to produce social and healthcare services for the city of Nokia under the previously signed service production agreement with Mänttä-Vilppula. Nokia joining the partnership area is subject to approval by the municipal councils of Nokia, Mänttä-Vilppula and Juupajoki.

The acquisition of the Forever fitness centre chain, published after the financial year, expands Pihlajalinna's service offering to wellbeing services. The fitness centre operations will complete the preventive occupational healthcare services and rehabilitation services carried out after specialised care procedures.

On 1 February 2018, Pihlajalinna Plc's Shareholders' Nomination Board submitted its proposals to the company's Board of Directors, to be presented to the Annual General Meeting of 2018. The Nomination Board proposes to the Annual General Meeting of Pihlajalinna Plc, scheduled to be held on 5 April 2018, that the number of the members of the Board be confirmed to be seven.

The Nomination Board proposes that Timo Everi, Leena Niemistö, Jari Sundström, Seija Turunen and Mikko Wirén, currently members of the Board of Directors, be re-elected as members of the Board of Directors.

Jari Eklund has indicated his unavailability for re-election. The Nomination Board proposes that Matti Bergendahl and Kati Sulin be elected as new members of the Board. The Nomination Board further proposes that the Annual General Meeting elect Mikko Wirén as the Chairman of the Board and Matti Bergendahl as Vice-Chairman.

The Shareholders' Nomination Board proposes that the remuneration of the Board of Directors be kept unchanged, and that the following annual remuneration be paid to the members of the Board of Directors to be elected at the Annual General Meeting for the term of office ending at the close of the Annual General Meeting 2019: to the full-time Chairman of the Board of Directors EUR 250,000 per year; to the Vice-Chairman EUR 48,000 per year, and to members EUR 24,000 per year.

In addition, the Nomination Board proposes that each Member of the Board be paid EUR 500 per meeting of the Board and Board Committee. In addition, reasonable travelling expenses would be paid according to the Company travel rules.

On 30 January 2018, Pihlajalinna acquired the entire share capital of Kymijoen Työterveys Oy from the City of Kotka. Kymijoen Työterveys has clinics in Kouvola, Kotka, Karhula and Hamina. Furthermore, the company has an occupational health care clinic in the Miehekkälä and Vironlahti health centres.

On 2 February 2018, Pihlajalinna acquired the Hämeenlinna-based Linnan Klinikka Oy. Linnan Klinikka's private clinic and hospital support Pihlajalinna's current operations in the region. Pihlajalinna expands the healthcare service production in the municipality of Hattula during the spring 2018.

On 19 January 2018, Pihlajalinna announced it will commence codetermination negotiations in relation to restructuring measures. The company is considering changing its operating model from a business-based structure to a geographical structure. The change is aimed at improving the company's

operating conditions and competitive position. Pihlajalinna's current organisational structure is based on two business segments: Private Clinics and Specialised Care, and Primary and Social Care. Both segments are divided into service areas. The view of the company is that the current operating structure does not fully meet the future needs of customers.

Pihlajalinna is considering changing to an organisational model based on four geographical areas (Southern Finland, Central Finland, Ostrobothnia and Other Areas). The area director would be responsible for the area's service production for both the private and public sectors. Pihlajalinna will announce its new operating structure in early 2018.

In relation to the planned changes to the Group's structure, Pihlajalinna started codetermination negotiations for production-related reasons and due to the restructuring of business operations. The negotiations will concern Pihlajalinna Plc's subsidiaries Pihlajalinna Lääkärikeskukset Oy, Pihlajalinna Terveys Oy and Pihlajalinna Tampere Oy and mainly the administrative, managerial and executive level positions in these companies. According to the negotiation proposal, the restructuring could lead to personnel reductions of up to 50 people. The codetermination negotiations concern about 240 employees. Pihlajalinna Group employs some 4,800 people in total.

The municipal council of Hattula selected Pihlajalinna as the municipality's primary care and occupational healthcare service partner on 15 January 2018. The service production begins on 1 April 2018. The subject matter of the procurement consists of the following services: outpatient healthcare (including mental wellbeing, school healthcare and maternity and child health clinics), dental care, inpatient healthcare, occupational healthcare, medical specialist services and support services. According to the tendering documentation, the annual value of the agreement is approximately EUR 3.5 million. The duration of the agreement is five years at the minimum and eight years at the maximum. The outsourcing involves approximately 20 per cent of the social and healthcare services that are the responsibility of the municipality or joint municipal authority, therefore, the value of the agreement does not exceed the 30 per cent limitation set by the legislation setting limits on outsourcing. The procurement decision has been appealed to the Market Court.

Currently, Pihlajalinna produces the outpatient and inpatient health care services for the municipality of Hattula. The current agreement will end on 31 March 2018.

On 9 January 2018, Pihlajalinna announced it had agreed to acquire the remaining half of the share capital of its joint venture company Röntgentutka Oy. Prior to the acquisition, Pihlajalinna held 50% of the shares in the company. Pihlajalinna now holds the entire share capital of Röntgentutka Oy. It is estimated that the transaction will be completed on 15 February 2018. Röntgentutka operates under the names Koskiröntgen and Koskimagneetti in the same premises as Pihlajalinna Koskiklinikka at Koskikeskus in Tampere. The operations will be integrated into those of Pihlajalinna Koskiklinikka.

On 2 January 2018, Pihlajalinna acquired the entire share capital of Salon Lääkintälaboratorio Oy, which operates under the name Lääkäriasema Sallab and its sister company Someron Lääkärikeskus Oy.

## KEY FINANCIAL FIGURES

SCOPE OF OPERATIONS	2017	2016	2015	2014	2013
Revenue, EUR million	424.0	399.1	213.3	148.9	104.4
Change, %	6.2	87.1	43.3	42.5	121.0
Organic revenue growth, EUR million	10.1	134.5	44.3	26.2	na
Change, %	2.5	63.0	29.7	25.1	na
Gross investments, EUR million	30.4	27.3	44.6	28.3	8.8
% of revenue*	7.2	6.9	20.9	19.0	8.4
Capitalised development costs, EUR million	1.2		1.3	0.1	1.2
% of revenue*	0.3		0.6	0.0	1.1
Employee benefit expenses, EUR million	175.4	167.2	97.4	62.2	48.8
Personnel at the end of the period (NOE)	4 753	4 407	3 047	1 714	1 270
Average number of personnel (FTE)	3 879	3 526	2 503	1 619	1 197
<b>PROFITABILITY</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Adjusted EBITDA, EUR million*	34.1	28.9	12.5	14.0	12.4
Adjusted EBITDA, %*	8.0	7.2	5.9	9.4	11.9
EBITDA, EUR million*	33.3	27.9	11.6	11.8	11.8
EBITDA, %*	7.9	7.0	5.4	7.9	11.3
Adjusted operating profit (EBIT), EUR million*	20.0	16.6	4.5	8.2	7.9
Adjusted operating profit, %*	4.7	4.2	2.1	5.5	7.6
Operating profit (EBIT), EUR million*	19.1	15.1	3.6	6.0	7.3
Operating profit, %*	4.5	3.8	1.7	4.0	7.0
Net financial expenses, EUR million	-1.7	-1.4	-2.3	-3.1	-1.9
% of revenue	-0.4	-0.4	-1.1	-2.1	-1.9
Profit before tax, EUR million*	17.4	13.7	1.3	2.9	5.3
% of revenue	4.1	3.4	0.6	1.9	5.1
Income tax, EUR million	-3.4	-3.0	-0.1	-1.0	-0.8
Profit for the financial year	14.1	10.8	1.2	1.9	4.5
Cash flow after investments, EUR million	16.4	6.8	-14.4	-8.1	20.2
Return on equity (ROE), %*	13.6	11.1	2.3	7.7	13.3
Return on capital employed (ROCE), %*	11.8	10.8	3.4	7.1	9.4
<b>FUNDING AND FINANCIAL POSITION</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Interest-bearing net financial debt, EUR million	34.2	22.1	23.5	71.1	29.5
% of revenue	8.1	5.5	11.0	47.8	28.3
Equity ratio, %*	41.8	46.5	50.5	8.0	36.5
Gearing, %*	32.3	21.9	25.2	686.3	77.1
Net debt/adjusted EBITDA*	1.0	0.8	1.9	5.1	2.3

## SHARE RELATED INFORMATION

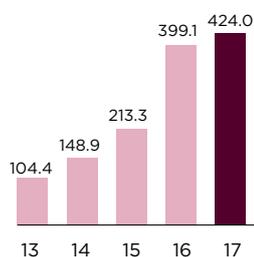
	2017	2016	2015	2014	2013
Earnings per share (EPS)	0.46	0.39	0.03	0.11	0.35
Equity per share, EUR*	4.87	4.74	4.47	0.70	2.89
Dividend per share, EUR (the Board of Directors' proposal)	0.16	0.15			
Dividend per share, % (the Board of Directors' proposal)*	34.7	38.4			
Effective dividend yield, % (the Board of Directors' proposal)*	1.2	0.8			
Number of shares at year-end	20,613,146	20,613,146	20,613,146		
Average number of shares	20,613,146	20,613,146	16,767,940		
Market capitalisation, EUR million	274.0	379.7	364.9		
Dividends paid, EUR million (the Board of Directors' proposal)	3.30	3.10			
P/E ratio*	28.9	47.2	640.0		
Highest quotation, EUR	18.42	18.87	19.85		
Lowest quotation, EUR	12.60	12.90	11.38		
Average quotation, EUR	16.30	16.38	12.72		
Closing price at year-end, EUR	13.34	18.42	17.70		
Trading volume of shares, 1,000 shares*	5,189	8,196	7,680		
Trading volume of shares, %*	25.2	39.8	45.8		

\* Alternative performance measure  
The per-share indicators for 2013 are adjusted like-for-like figures that reflect the terms and conditions of the directed share issue carried out in July 2014.

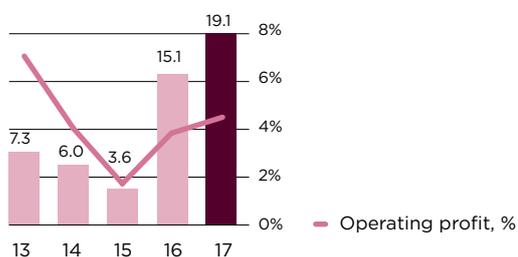
QUARTERLY INFORMATION  
EUR 1,000

	Q4/17	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16
<b>CONSOLIDATED STATEMENT OF INCOME</b>								
Revenue	107,924	99,387	106,696	109,976	103,735	93,932	101,371	100,055
Other operating income	1,177	532	281	261	334	447	402	327
Materials and services	-43,424	-40,724	-44,182	-47,207	-43,579	-38,937	-43,342	-42,130
Employee benefit expenses	-44,941	-41,211	-45,203	-44,056	-42,789	-39,080	-43,196	-42,105
Other operating expenses	-12,597	-8,844	-10,456	-10,075	-10,626	-9,535	-8,258	-9,118
EBITDA	8,139	9,140	7,136	8,898	7,075	6,826	6,976	7,029
Adjusted EBITDA	8,503	9,040	7,383	9,135	7,075	7,838	6,976	7,029
Adjusted EBITDA, %	7.9	9.1	6.9	8.3	6.8	8.3	6.9	7.0
Depreciation, amortisation and impairment	-3,580	-3,669	-3,427	-3,506	-3,201	-3,238	-3,460	-2,860
Operating profit (EBIT)	4,559	5,471	3,708	5,392	3,874	3,589	3,516	4,169
Adjusted operating profit (EBIT)	4,923	5,371	3,987	5,701	3,874	4,673	3,912	4,169
Adjusted operating profit (EBIT), %	4.6	5.4	3.7	5.2	3.7	5.0	3.9	4.2
Financial income	43	38	67	34	11	61	24	21
Financial expenses	-469	-506	-442	-445	-345	-384	-410	-395
Profit before taxes	4,132	5,003	3,333	4,981	3,539	3,266	3,129	3,794
Income taxes	-625	-1,032	-656	-1,067	-519	-860	-526	-1,049
<b>Profit for the period</b>	<b>3,507</b>	<b>3,971</b>	<b>2,677</b>	<b>3,914</b>	<b>3,020</b>	<b>2,406</b>	<b>2,604</b>	<b>2,745</b>
Share of the result for the financial year attributable to owners of the parent company	2,442	1,882	2,013	3,178	2,385	1,720	1,983	1,961
Share of the result for the financial year attributable to non-controlling interests	1,064	2,088	664	736	635	686	621	783
EPS	0.12	0.09	0.10	0.15	0.12	0.08	0.10	0.10
Personnel at the end of the period (NOE)	4,753	4,767	4,898	4,519	4,407	4,470	4,589	4,228
Change in personnel during the quarter	-14	-131	380	112	-63	-119	361	1,181
	<b>Q4/17</b>	<b>Q3/17</b>	<b>Q2/17</b>	<b>Q1/17</b>	Q4/16	Q3/16	Q2/16	Q1/16
<b>C&amp;S segment</b>								
Revenue	60,567	51,769	59,017	62,701	56,812	48,555	56,091	54,148
EBITDA	3,018	2,169	3,299	5,177	4,224	2,473	4,604	5,118
Adjusted EBITDA	3,413	2,169	3,413	5,195	4,224	3,353	4,604	5,118
Operating profit (EBIT)	481	-386	865	2,667	1,705	-198	1,727	2,936
Adjusted operating profit (EBIT)	<b>877</b>	<b>-386</b>	<b>1,010</b>	<b>2,755</b>	<b>1,705</b>	<b>755</b>	<b>2,123</b>	<b>2,936</b>
<b>P&amp;S segment</b>								
Revenue	49,406	49,065	49,628	49,493	49,115	46,857	46,986	46,819
EBITDA	5,348	7,368	4,396	4,447	3,062	4,950	2,628	2,269
Adjusted EBITDA	5,348	7,368	4,396	4,447	3,062	5,081	2,628	2,269
Operating profit (EBIT)	4,459	6,399	3,498	3,534	2,515	4,440	2,130	1,783
Adjusted operating profit (EBIT)	<b>4,459</b>	<b>6,399</b>	<b>3,498</b>	<b>3,534</b>	<b>2,515</b>	<b>4,572</b>	<b>2,130</b>	<b>1,783</b>
<b>Unallocated</b>								
Revenue	123	75	54	9	227	19	58	121
EBITDA	-227	-396	-560	-727	-212	-597	-255	-358
Adjusted EBITDA	-259	-497	-426	-506	-212	-597	-255	-358
Operating profit (EBIT)	-381	-541	-655	-808	-347	-654	-341	-549
Adjusted operating profit (EBIT)	-413	-641	-521	-588	-347	-654	-341	-549

**REVENUE**  
EUR million



**OPERATING PROFIT (EBIT)**  
EUR million/%



## CALCULATION OF KEY FINANCIAL FIGURES AND ALTERNATIVE PERFORMANCE MEASURES

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

\* Significant valuation items that are not part of the normal course of business, are infrequently occurring or do not affect cash flow are treated as adjustment items affecting comparability between reporting periods. According to Pihlajalinna's definition, such items include, for example, restructuring measures and Group refinancing, impairment of assets and the remeasurement of previous assets held by subsidiaries, the costs of closing down businesses and business locations, gains and losses on the sale of businesses, costs arising from operational restructuring and the integration of acquired businesses, costs related to the termination of employment relationships, as well as fines and corresponding compensation payments.

## RECONCILIATIONS OF ALTERNATIVE PERFORMANCE MEASURES

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

in IFRS standards. The table below presents the reconciliation calculations for the alternative performance measures and the justifications for their presentation.

**Symbols used:**

/ divide by the next number/numbers  
- deduct the next number/numbers  
+ add the next number/numbers

EUR 1,000, unless otherwise specified	10-12/2017 3 months	10-12/2016 3 months	2017 12 months	2016 12 months
<b>Return on equity (ROE), %</b>				
Result for the period (rolling 12 mths) /			14,068	10,775
Equity at the start of the period			101,010	93,451
Equity at the end of the period			105,856	101,010
Equity (average) x 100			103,433	97,230
<b>Return on equity (ROE), %</b>			<b>13.6</b>	<b>11.1</b>

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

**Return on capital employed (ROCE), %**

Profit before taxes (rolling 12 mths) +			17,449	13,729
Financial expenses (rolling 12 mths)			1,862	1,534
/			19,311	15,263
Total statement of financial position at the start of the period - non-interest-bearing liabilities at the start of the period			217,742	185,103
			67,071	52,789
			150,672	132,314
Total statement of financial position at the end of the period - Non-interest-bearing liabilities at the end of the period			253,581	217,742
			76,486	67,071
			177,095	150,672
Average x 100			163,883	141,493
<b>Return on capital employed (ROCE), %</b>			<b>11.8</b>	<b>10.8</b>

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

**Equity ratio, %**

Equity /			105,856	101,010
Total statement of financial position - Advances received x 100			253,581	217,742
			366	342
<b>Equity ratio, %</b>			<b>41.8</b>	<b>46.5</b>

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

**Gearing, %**

Interest-bearing financial liabilities - Cash and cash equivalents /			71,239	49,662
			37,074	27,537
Equity x 100			105,856	101,010
<b>Gearing, %</b>			<b>32.3</b>	<b>21.9</b>

Gearing illustrates the company's **indebtedness**. The figure reveals the ratio between the equity invested in the company by shareholders and the interest-bearing debt borrowed from lenders.

**Net debt / adjusted EBITDA, rolling 12 mths**

Interest-bearing financial liabilities - Cash and cash equivalents			71,239	49,662
			37,074	27,537
Net debt /			34,164	22,125
Adjusted EBITDA (rolling 12 mths)			34,061	28,918
<b>Net debt / adjusted EBITDA, rolling 12 mths</b>			<b>1.0</b>	<b>0.8</b>

This figure indicates how quickly the company could pay back its debt at the current level of profits, if it were to use its entire EBITDA to pay back debt and no investments would be made and no dividends paid, for example. The financial covenant linked to the Group's revolving credit facility is based on the ratio of the Group's net debt to pro forma EBITDA. The maximum value of the covenant linked to the revolving credit facility is 3.75. The closer the value of the covenant is to the maximum value, the higher the loan margin. The Group's management and Board of Directors monitor the fulfilment of the covenant on a monthly basis and the covenant is reported to the lenders on a quarterly basis. The covenant calculations are also updated with forecasts whenever the Group is about to carry out a significant acquisition.

EUR 1,000, unless otherwise specified	10-12/2017 3 months	10-12/2016 3 months	2017 12 months	2016 12 months
<b>EBITDA and Adjusted EBITDA</b>				
Result for the period	3,507	3,020	14,068	10,775
Income taxes	-625	-519	-3,381	-2,954
Financial expenses	-469	-345	-1,862	-1,534
Financial income	43	11	181	116
Depreciation, amortisation and impairment	-3,580	-3,201	-14,182	-12,759
<b>EBITDA</b>	<b>8,139</b>	<b>7,075</b>	<b>33,312</b>	<b>27,906</b>
Total EBITDA adjustments	364	0	749	1,011
<b>Adjusted EBITDA</b>	<b>8,503</b>	<b>7,075</b>	<b>34,061</b>	<b>28,918</b>

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

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

<b>EBITDA, %</b>				
EBITDA / Revenue x 100	8,139 107,924	7,075 103,735	33,312 423,984	27,906 399,092
<b>EBITDA, %</b>	<b>7.5</b>	<b>6.8</b>	<b>7.9</b>	<b>7.0</b>
<b>Adjusted EBITDA, %</b>				
Adjusted EBITDA / Revenue x 100	8,503 107,924	7,075 103,735	34,061 423,984	28,918 399,092
<b>Adjusted EBITDA, %</b>	<b>7.9</b>	<b>6.8</b>	<b>8.0</b>	<b>7.2</b>
<b>Operating profit (EBIT) and Adjusted operating profit (EBIT)</b>				
Result for the period	3,507	3,020	14,068	10,775
Income taxes	-625	-519	-3,381	-2,954
Financial expenses	-469	-345	-1,862	-1,534
Financial income	43	11	181	116
<b>Operating profit</b>	<b>4,559</b>	<b>3,874</b>	<b>19,130</b>	<b>15,147</b>
Total adjustments of depreciation, amortisation and impairment	0	0	102	469
Total EBITDA adjustments	364	0	749	1,011
Total adjustments of operating profit	364	0	852	1,480
<b>Adjusted operating profit (EBIT)</b>	<b>4,923</b>	<b>3,874</b>	<b>19,981</b>	<b>16,627</b>

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

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

<b>Operating profit (EBIT), %</b>				
Operating profit / Revenue x 100	4,559 107,924	3,874 103,735	19,130 423,984	15,147 399,092
<b>Operating profit (EBIT), %</b>	<b>4.2</b>	<b>3.7</b>	<b>4.5</b>	<b>3.8</b>
<b>Adjusted operating profit (EBIT), %</b>				
Adjusted operating profit / Revenue x 100	4,923 107,924	3,874 103,735	19,981 423,984	16,627 399,092
<b>Adjusted operating profit (EBIT), %</b>	<b>4.6</b>	<b>3.7</b>	<b>4.7</b>	<b>4.2</b>
<b>Cash flow after investments</b>				
Net cash flow from operating activities	16,471	13,178	34,941	32,289
Net cash flow from investing activities	-3,776	-6,036	-18,549	-25,492
<b>Cash flow after investments</b>	<b>12,694</b>	<b>7,143</b>	<b>16,392</b>	<b>6,797</b>

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

EUR 1,000, unless otherwise specified	10-12/2017 3 months	10-12/2016 3 months	2017 12 months	2016 12 months
<b>Profit before taxes</b>				
Result for the period	3,507	3,020	14,068	10,775
Income taxes	-625	-519	-3,381	-2,954
<b>Profit before taxes</b>	<b>4,132</b>	<b>3,539</b>	<b>17,449</b>	<b>13,729</b>
<b>Gross investments</b>				
Property, plant and equipment at the end of the period	61,917	45,498	61,917	45,498
Other intangible assets at the end of the period	16,604	16,319	16,604	16,319
Goodwill at the end of the period	103,893	92,270	103,893	92,270
Add depreciation, amortisation and impairment	3,580	3,201	14,182	12,759
-				
Property, plant and equipment at the start of the period	57,693	46,148	45,498	48,608
Other intangible assets at the start of the period	16,740	16,164	16,319	15,127
Goodwill at the beginning of the period	101,906	89,620	92,270	76,056
Change in financial leases during the period			12,473	
Proceeds from the sale of property, plant and equipment during the period	-178	-57	-325	-283
<b>Gross investments</b>	<b>9,832</b>	<b>5,412</b>	<b>30,361</b>	<b>27,338</b>

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

**Organic revenue growth, %**

Revenue for the period -	107,924	103,735	423,984	399,092
Revenue from M&A transactions during the period	3,648	15,037	14,759	51,283
Revenue for the previous period	103,735	62,633	399,092	213,327
Organic revenue growth /	<b>541</b>	<b>26,065</b>	<b>10,133</b>	<b>134,482</b>
Revenue for the previous period x 100	103,735	62,633	399,092	213,327
<b>Organic revenue growth, %</b>	<b>0.5</b>	<b>41.6</b>	<b>2.5</b>	<b>63.0</b>

Organic revenue growth is the growth of existing business, not achieved through M&A transactions. Organic growth can be achieved through increasing the service offering, new customer acquisition, growth in the number of visits by existing customers, price increases and digitalisation. Social and healthcare outsourcing contracts won through public competitive bidding and new business locations established by the Group itself are included in organic growth.

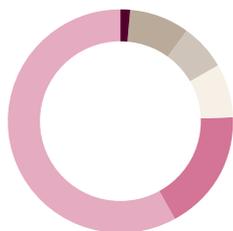
## SHARES AND SHAREHOLDERS

MAJOR SHAREHOLDERS, 31 DEC. 2017

		Number of shares	Percentage of shares
1	Localtapiola General Mutual Insurance Company	3,208,891	15.6%
2	Mww Yhtiö Oy	2,227,060	10.8%
3	Tapiola Mutual Life Insurance Company	1,620,479	7.9%
4	Elo Mutual Pension Insurance Company	1,267,161	6.1%
5	Niemistö Leena Katriina	703,475	3.4%
6	Fondita Nordic Micro Cap mutual fund	554,000	2.7%
7	Varma Mutual Pension Insurance Company	545,500	2.6%
8	Fennia Mutual Insurance Company	530,000	2.6%
9	Ilmarinen Mutual Pension Insurance Company	490,000	2.4%
10	Nordea Pro Suomi mutual fund	462,798	2.2%
	10 largest, total	11,609,364	56.3%
	Other shareholders	9,003,782	43.7%
	<b>Total</b>	<b>20,613,146</b>	<b>100.0%</b>

### DISTRIBUTION OF SHAREHOLDING

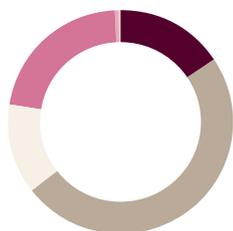
31.12.2017



■ 1-100 shares per shareholder	1.6%
■ 101-1,000	8.4%
■ 1,001-10,000	6.7%
■ 10,001-100,000	7.8%
■ 100,001-500,000	17.5%
■ 500,001-	57.9%

### DISTRIBUTION OF SHAREHOLDING BY SECTOR

31.12.2017



■ Private companies	15.7%
■ Financial and insurance institutions	49.0%
■ Public entities	13.0%
■ Households	21.7%
■ Non-profit organisations	0.5%
■ Foreign shareholders	0.2%

### DISTRIBUTION OF SHAREHOLDING BY SIZE RANGE, 31 DEC. 2017

Shares per shareholder	Number of shareholders	% of shareholders	Number of shares	Percentage of shares, %
1-100	6,654	53.3%	337,790	1.6%
101-1,000	5,219	41.8%	1,739,996	8.4%
1,001-10,000	532	4.3%	1,384,619	6.7%
10,001-100,000	62	0.5%	1,614,620	7.8%
100,001-500,000	13	0.1%	3,600,082	17.5%
500,001-	9	0.1%	11,936,039	57.9%
	12,489	100.0%	20,613,146	100.0%
of which nominee-registered shares	10		2,207,657	10.7%
<b>Total</b>			<b>20,613,146</b>	<b>100.0%</b>

### DISTRIBUTION OF SHAREHOLDING BY SECTOR, 31 DEC. 2017

	Number of shareholders	% of shareholders	Number of shares	Percentage of shares, %
Private companies	496	4.0%	3,226,146	15.7%
Financial and insurance institutions	31	0.2%	10,096,957	49.0%
Public entities	9	0.1%	2,670,819	13.0%
Households	11,880	95.1%	4,463,263	21.7%
Non-profit organisations	49	0.4%	111,001	0.5%
Foreign shareholders	24	0.2%	44,960	0.2%
	12,489	100.0%	20,613,146	100.0%
of which nominee-registered shares	10		2,207,657	10.7%
<b>Outstanding shares</b>			<b>20,613,146</b>	<b>100.0%</b>

### SHAREHOLDING BY THE MANAGEMENT

Board of Directors	Direct holding		Indirect holdings	
	Number of shares	Percentage of shares and votes	Number of shares	Percentage of shares and votes
Jari Eklund				
Jari Sundström				
Leena Niemistö	703,475	3.41%		
Mikko Wirén	46,950	0.23%	2,227,060	10.80%
Seija Turunen				
Timo Everi				
<b>Management Team</b>				
Joni Aaltonen	66,920	0.32%		
Pauliina Rannikko				
Juha Rautio	57,850	0.28%		
Ville Lehtonen				

# Financial statements

## 1 Jan – 31 Dec 2017

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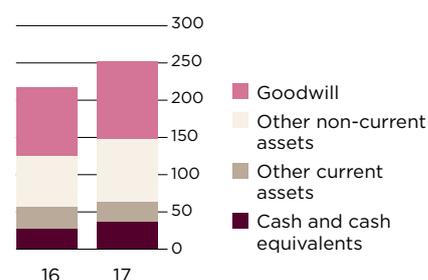
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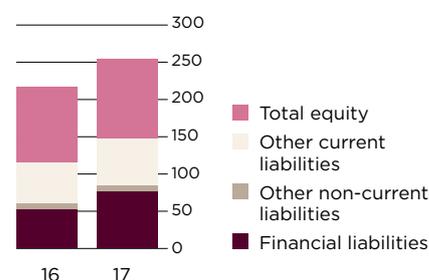
## CONSOLIDATED STATEMENT OF FINANCIAL POSITION, IFRS

EUR 1,000	Note	31.12.2017	31.12.2016
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	12	61,917	45,498
Goodwill	13	103,893	92,270
Other intangible assets	13	16,604	16,319
Interests in associates	28	3,012	2,796
Available-for-sale financial assets		101	46
Other receivables	14	1,568	2,805
Deferred tax assets	19	2,224	1,589
		<b>189,320</b>	<b>161,323</b>
<b>CURRENT ASSETS</b>			
Inventories		2,169	1,959
Trade and other receivables	15	23,959	26,143
Current tax assets		1,059	780
Cash and cash equivalents	16	37,074	27,537
		<b>64,261</b>	<b>56,419</b>
<b>TOTAL ASSETS</b>		<b>253,581</b>	<b>217,742</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT</b>			
Equity attributable to owners of the parent	21		
Share capital		80	80
Reserve for invested unrestricted equity		87,945	87,945
Retained earnings		12,268	9,744
		<b>100,293</b>	<b>97,770</b>
Non-controlling interests		5,563	3,240
<b>Total equity</b>		<b>105,856</b>	<b>101,010</b>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities	19	5,457	5,548
Provisions	17	829	847
Financial liabilities		66,336	48,335
Other non-current liabilities		1,655	1,929
		<b>74,277</b>	<b>56,658</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	18	61,822	55,033
Current tax liabilities		1,304	1,333
Financial liabilities		10,321	3,707
		<b>73,448</b>	<b>60,074</b>
<b>TOTAL LIABILITIES</b>		<b>147,725</b>	<b>116,732</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>253,581</b>	<b>217,742</b>

### ASSETS EUR 1,000



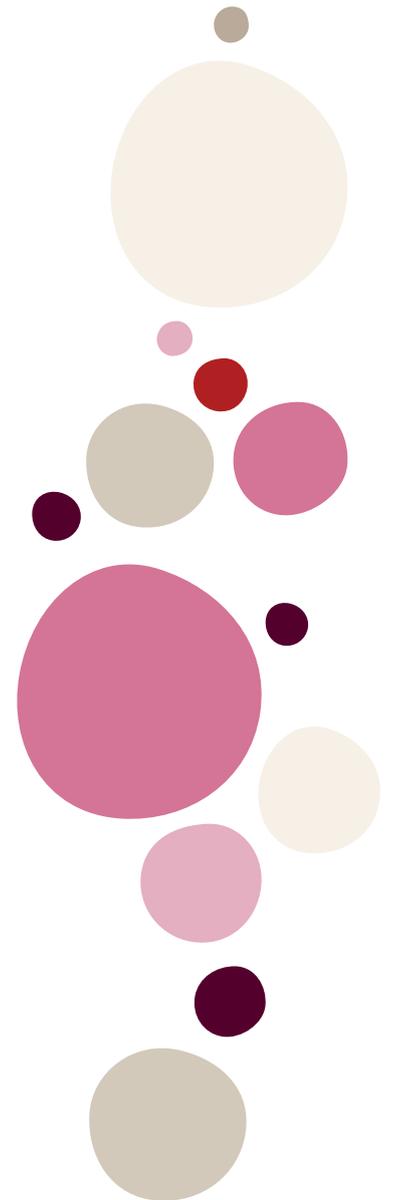
### EQUITY AND LIABILITIES EUR 1,000



**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, IFRS**

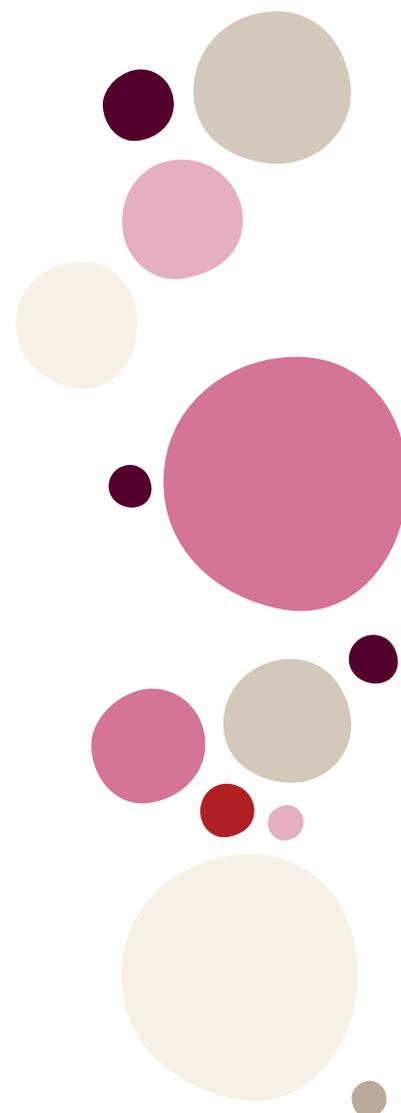
EUR 1,000	Note	1.1.-31.12.2017	1.1.-31.12.2016
<b>REVENUE</b>	1	<b>423 984</b>	<b>399 092</b>
Other operating income	2	2,251	1,511
Materials and services	3	-175,538	-167,988
Employee benefit expenses	4	-175,412	-167,171
Other operating expenses	6	-42,288	-37,743
Share of profit in associated companies and joint ventures	28	316	206
<b>EBITDA</b>		<b>33,312</b>	<b>27,906</b>
EBITDA adjustment items	7	749	1,011
<b>ADJUSTED EBITDA</b>	7	<b>34,061</b>	<b>28,917</b>
Depreciation, amortisation and impairment	5	-14,182	-12,759
<b>OPERATING PROFIT</b>		<b>19,130</b>	<b>15,147</b>
Operating profit adjustment items total	7	851	1,407
<b>ADJUSTED OPERATING PROFIT</b>	7	<b>19,981</b>	<b>16,554</b>
Financial income	8	181	116
Financial expenses	9	-1,862	-1,534
Financial income and expenses		-1,681	-1,418
<b>PROFIT BEFORE TAXES</b>		<b>17,449</b>	<b>13,729</b>
Income taxes	10	-3,381	-2,954
<b>PROFIT FOR THE PERIOD</b>		<b>14,068</b>	<b>10,775</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>14,068</b>	<b>10,775</b>
Total comprehensive income for the financial year attributable to			
Owners of the parent		9,515	8,049
Non-controlling interests		4,553	2,726
Earnings per share for profit attributable to owners of the parent company, EUR			
Basic	11	0.46	0.39
Diluted		0.46	0.39

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



**CONSOLIDATED STATEMENT OF CASH FLOWS, IFRS**

EUR 1,000	Note	1.1.-31.12.2017	1.1.-31.12.2016
<b>Cash flow from operating activities</b>			
Cash receipts from sales		423,755	400,474
Cash receipts from other operating income		1,535	1,404
Operating expenses paid		-386,026	-367,289
Operating cash flow before financial items and taxes		39,265	34,589
Interest received		227	110
Taxes paid		-4,551	-2,410
<b>Net cash flow from operating activities</b>		<b>34,941</b>	<b>32,288</b>
<b>Cash flow from investing activities:</b>			
Investments in property, plant and equipment and intangible assets		-10,140	-4,932
Proceeds from disposal of property, plant and equipment and intangible assets		223	274
Changes in other investments		-55	0
Changes in loan receivables		250	-40
Dividends received		103	264
Acquisition of subsidiaries less cash and cash equivalents at date of acquisition	27	-8,929	-21,059
<b>Net cash flow from investing activities</b>		<b>-18,549</b>	<b>-25,492</b>
<b>Cash flow from financing activities:</b>			
Proceeds from issuing shares			-29
Acquisitions of non-controlling interests		-4,044	-1,057
Proceeds from short-term borrowings	23	722	
Proceeds from long-term borrowings	23	14,500	14,880
Repayment of borrowings	23	-7,157	-3,630
Repayment of financial lease liabilities	23	-3,189	-2,435
Interest and other operational financial expenses		-1,801	-1,363
Dividends paid and other profit distribution		-5,886	-956
<b>Net cash flow from financing activities</b>		<b>-6,855</b>	<b>5,410</b>
<b>Changes in cash and cash equivalents</b>			
		<b>9,537</b>	<b>12,206</b>
Cash at the beginning of the financial year		27,537	15,330
Cash at the end of the financial year		37,074	27,537



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

EUR 1,000

	Equity attributable to owners of the parent company				Total equity
	Share capital	Reserve for invested unrestricted equity	Retained earnings	Non-controlling interests	
<b>Total equity, 1 Jan. 2016</b>	<b>80</b>	<b>87,945</b>	<b>4,102</b>	<b>1,324</b>	<b>93,451</b>
Profit for the period			8,049	2,726	10,775
<b>Total comprehensive income for the period</b>			<b>8,049</b>	<b>2,726</b>	<b>10,775</b>
Dividends paid				-2,160	-2,160
<b>Transactions with owners, total</b>				<b>-2,160</b>	<b>-2,160</b>
Changes in NCI without a change in control			-1 056		-1 056
Investment (without consideration) in reserve for invested unrestricted equity to the benefit of non-controlling interests			-1,351	1,350	
<b>Total changes in ownership interests</b>			<b>-2,407</b>	<b>1,350</b>	<b>-1,056</b>
<b>Total equity, 31 Dec. 2016</b>	<b>80</b>	<b>87 945</b>	<b>9,744</b>	<b>3,240</b>	<b>101,010</b>

EUR 1,000

	Equity attributable to owners of the parent company				Total equity
	Share capital	Reserve for invested unrestricted equity	Retained earnings	Non-controlling interests	
<b>Total equity, 1 Jan. 2017</b>	<b>80</b>	<b>87,945</b>	<b>9,744</b>	<b>3,240</b>	<b>101,010</b>
Profit for the period			9,515	4,553	14,068
<b>Total comprehensive income for the period</b>			<b>9,515</b>	<b>4,553</b>	<b>14,068</b>
Dividends paid			-3,162	-1,660	-4,822
<b>Transactions with owners, total</b>			<b>-3,162</b>	<b>-1,660</b>	<b>-4,822</b>
Changes in NCI without a change in control			-3,830	-214	-4,044
Changes in NCI with a change in control				-355	-355
<b>Total changes in ownership interests</b>			<b>-3,830</b>	<b>-570</b>	<b>-4,399</b>
<b>Total equity, 31 Dec. 2017</b>	<b>80</b>	<b>87,945</b>	<b>12,268</b>	<b>5,563</b>	<b>105,856</b>

# Accounting policies

## COMPANY PROFILE

Pihlajalinna Group is one of the leading private social and healthcare service providers in Finland. The company's customers include private individuals, businesses, insurance companies and public sector entities, such as municipalities and joint municipal authorities. Pihlajalinna's extensive range of services for private and public sector customers covers general medicine and specialised care, diagnostic services, hospital services, dental care and social and healthcare outsourcing, in which Pihlajalinna's long-term agreements support the promotion of good health and the creation of effective operating models. Pihlajalinna has more than 120 business locations.

The Group's parent company, Pihlajalinna Plc, is a Finnish public limited company established under the laws of Finland, whose Business ID is 2617455-1. The company is domiciled in Tampere, and its registered address is Kehräsaari B, FI-33200 Tampere, Finland. Pihlajalinna Plc's shares are listed on the NASDAQ OMX Helsinki main market.

A copy of the consolidated financial statements is available on the internet at [investors.pihlajalinna.fi](http://investors.pihlajalinna.fi) or can be obtained at the head office of the Group's parent company, address Kehräsaari B, 33200 Tampere, Finland.

The Board of Directors of Pihlajalinna Plc approved these financial statements in its meeting on 12 February 2018. In accordance with the Finnish Limited Liability Companies Act, the shareholders may adopt or reject the financial statements at the Annual General Meeting held after their publication. The Annual General Meeting can also decide on modifications to be made to the financial statements.

## BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), and their preparation complies with the IAS and IFRS as well as SIC and IFRIC interpretations effective on 31 December 2017. International Financial Reporting Standards, as intended in the Finnish Accounting Act and the regulations issued pursuant to the Act, refer to the standards that have been approved for

application within the EU in accordance with Regulation (EC) No. 1606/2002 and interpretations thereof. The notes to the consolidated financial statements also comply with the Finnish accounting and company legislation that complements the IFRS regulations.

The consolidated financial statements have been prepared under the historical cost convention, unless otherwise provided in the accounting policies below. In accordance with the IFRS, the Group management is required to make certain estimates and decisions based on judgement. Information on judgements that the management has relied on in applying the accounting policies followed by the Group and that have the most significant effect on the figures presented in the financial statements as well as information on assumptions concerning the future and on key assumptions related to the estimates has been presented in the accounting policies under Note 2: Accounting policies requiring management judgement and major sources of estimation uncertainty.

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

## NEW AND AMENDED STANDARDS AND INTERPRETATIONS APPLIED IN FINANCIAL YEAR ENDED

Amendments to *IAS 7 Statement of Cash Flows - Disclosure Initiative* (effective for annual periods beginning on or after 1 January 2017), which entered into force during the 2017 financial year, have had an impact on Pihlajalinna's financial statements. The amendments are aimed at enabling users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. Following the amendment of the standard, the Group has supplemented the notes to its financial statements by adding *Note 22 Non-cash changes in financial liabilities under the Capital category*.

Other new or amended standards and interpretations that entered into force during the 2017 financial year have not had an impact on Pihlajalinna's financial statements.

**ACCOUNTING POLICIES AND RELATED CATEGORIES AND NOTES:**

No.	Accounting policy	Note category	No.	Name of the note
1	Accounting policies relating to the consolidated financial statements			
1.1	Consolidation principles			
1.1.1	Subsidiaries	Group structure	27	Subsidiaries and material non-controlling interests
		Other	31	Related party transactions
1.1.2	Associates and joint arrangements	Group structure	28	Interests in associates and joint arrangements
1.2	Foreign currency translation			
1.3	Government grants	Income statement	2	Other operating income
1.4	Property, plant and equipment	Statement of financial position	12	Property, plant and equipment
1.5	Intangible assets	Statement of financial position	13	Intangible assets
1.5.1	Goodwill			
1.5.2	Research and development costs			
1.5.3	Trademarks and other intangible assets			
1.6	Inventories	Statement of financial position		
1.7	Leases			
1.7.1	Group as lessee	Statement of financial position	12	Property, plant and equipment
		Capital	20	Financial assets and liabilities by measurement category
		Capital	22	Interest-bearing financial liabilities
		Other	29	Operating leases
1.7.2	Group as lessor	Income statement	2	Other operating income
1.7.3	Sale and leaseback	Income statement	2	Other operating income
		Statement of financial position	18	Trade and other payables
1.8	Impairment of tangible and intangible assets	Statement of financial position	13	Intangible assets
1.9	Employee benefits	Income statement	4	Employee benefit expenses
1.10	Dividend based on work contributions	Capital	20	Financial assets and liabilities by measurement category
		Statement of financial position	3	Materials and services
			18	Trade and other payables
1.11	Provisions and contingent liabilities	Statement of financial position	17	Provisions
		Other	30	Contingent assets and liabilities and commitments
1.12	Current taxes and deferred taxes	Income statement, taxes	10	Income tax
		Statement of financial position, taxes	19	Deferred tax assets and liabilities
1.13	Revenue and recognition principles			
1.14	Financial assets and liabilities			
1.14.1	Financial assets	Capital	20	Financial assets and liabilities by measurement category
1.14.2	Cash and cash equivalents	Statement of financial position	16	Cash and cash equivalents
1.14.3	Impairment of financial assets	Statement of financial position	15	Trade and other receivables
1.14.4	Financial liabilities	Income statement	9	Rahoituskulut
		Capital	20	Rahoitusvarat ja -velat arvostusryhmittäin
		Capital	22	Korolliset rahoitusvelat
1.15	Equity	Capital	21	Omaa pääomaa koskevat liitetiedot
1.16	EBITDA	Income statement	7	Adjusted EBITDA and adjusted operating profit
1.17	Operating profit (EBIT)	Income statement	7	Adjusted EBITDA and adjusted operating profit
1.18	Earnings per share	EPS	11	Earnings per share
1.19	Dividend	Capital	21	Notes on equity
1.20	EBITDA, operating profit and items influencing comparability between periods	Income statement	7	Adjusted EBITDA and adjusted operating profit
2	Accounting policies requiring management judgement and major sources of estimation uncertainty			
2.1	Measuring the fair value of assets acquired in the context of business combinations and the fair value of contingent consideration	Group structure	26	Business combinations
		Other	32	Events after the balance sheet date
2.2	Impairment testing	Statement of financial position	13	Intangible assets
2.3	Impairment of financial assets	Statement of financial position	15	Trade and other receivables

# 1 ACCOUNTING POLICIES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1.1 CONSOLIDATION PRINCIPLES

### 1.1.1 Subsidiaries

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

Intragroup shareholdings are eliminated using the acquisition method. The consideration transferred and the acquired entity's identifiable assets and assumed liabilities are measured at fair value at the date of acquisition. Acquisition-related costs are expensed. Any contingent consideration is measured at fair value at the date of acquisition and classified as a liability. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group retrospectively adjusts the provisional amounts recognised at the acquisition date to reflect any new information. The measurement period may not exceed one year from the acquisition date. A contingent consideration classified as a liability is measured at fair value at the end of each reporting period, and any resulting gain or loss is recognised in profit or loss after the end of the measurement period.

Non-controlling interests in the acquiree are recognised either at fair value or an amount that corresponds to their pro rata share of the acquiree's net assets. The amount by which the consideration transferred, non-controlling interests in the acquiree and previously owned holding combined exceed the fair value of the acquired net assets is recognised as goodwill in the consolidated statement of financial position. If the combined value of the consideration, non-controlling interests and previously owned holding is lower than the fair value of the acquiree's net assets, the difference is recognised in the statement of comprehensive income. The treatment of goodwill generated through the acquisition of a subsidiary is explained in Note 1.5.1 Goodwill.

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

of financial position. Such changes in the parent company's ownership interest in a subsidiary that do not lead to loss of control are treated as equity transactions.

In connection with step-by-step acquisitions, the former ownership interest is measured at fair value, and the resulting gain or loss is recognised in profit or loss. When the Group loses control of a subsidiary, any remaining interest is measured at fair value at the date of loss of control, and the resulting difference is recognised in profit or loss.

### 1.1.2 Associates and joint arrangements

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

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control involves contractually agreed sharing of control of an arrangement, which exists only when decisions about relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture. A joint venture is an arrangement whereby the Group has rights to the net assets of the arrangement, whereas in a joint operation the Group has rights to the assets, and obligations for the liabilities, relating to the arrangement.

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

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

## 1.2 FOREIGN CURRENCY TRANSLATION

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

## 1.3 GOVERNMENT GRANTS

Government grants received as compensation for expenses already incurred are recognised in profit or loss for the period

in which they become receivable. These grants are presented under other operating income.

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

## 1.4 PROPERTY, PLANT AND EQUIPMENT

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

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

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

Buildings and structures	10–25 years
Machinery and equipment	3–10 years
Other tangible assets	3–5 years

The residual value, the useful life of an asset and the depreciation method applied are reviewed at least at the end of each financial year and adjusted as necessary to reflect the changes in the expectations concerning the economic benefits attached to the asset.

Capital gains generated from decommissioning and disposing of property, plant and equipment are included under other operating income, and capital losses are included under other operating expenses.

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

## 1.5 INTANGIBLE ASSETS

### 1.5.1 Goodwill

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

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

### 1.5.2 Research and development costs

Research expenditure is recognised as an expense. Development costs incurred from the planning of new or

significantly improved products are capitalised as intangible assets from the time when

- the costs of the development stage can be reliably determined
- completion of the products, services or processes is technically viable
- the Group is able to use or sell the product, service or process
- the Group can demonstrate how the product, service or process will generate probable economic benefits in the future
- the Group has both the intention and the resources to complete the development work and use or sell the product, service or process

Capitalised development costs include those costs of work, subcontracting and testing that are directly incurred from completing the asset for its intended purpose. Development costs previously expensed shall not be capitalised later.

Assets are amortised from the time when they are ready for use. Assets that are not yet available for use are tested annually for impairment. Subsequent to their initial recognition, capitalised development costs are measured at cost less accumulated amortisation and impairment. The amortisation period for development costs is 3 to 10 years, during which capitalised development costs are amortised using the straight-line method.

The Group's capitalised development costs that have not been amortised are associated with the following four projects: The Pihljalinna mobile application and website development aimed at making AI-assisted digital services available to all customers, takeover of social and healthcare operations in Mänttä-Vilppula and development of operating models in 2013, specialised care referral forwarding and coordination operating model developed for the Parkano social and healthcare partnership area in 2015 and the three-year SYKKI project funded with Tekes subsidies aiming to create an effective and cost-efficient model for public social and healthcare services, started in 2012.

### 1.5.3 Trademarks and other intangible assets

An intangible asset is initially recognised at cost, provided that the cost can be reliably determined and that it is probable that the expected economic benefits generated by the asset will flow to the Group.

Those intangible assets with finite economic useful lives are amortised using the straight-line method during their known or estimated useful lives.

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

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

Economic useful lives are reviewed at the end of each financial year, and where they differ significantly from previous estimates, the amortisation periods are changed accordingly.

## 1.6 INVENTORIES

Inventories are measured at the lower of cost and probable net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated sales price in the ordinary course of business, less the estimated product completion costs and the necessary sales costs.

The Group's inventories are mainly comprised of materials and supplies used in service production, particularly in the hospital units.

## 1.7 LEASES

Leases are classified as either finance leases or operating leases. Leasing agreements by which the risks and benefits associated with the ownership of an asset are substantially transferred to the lessee represent finance leases.

### 1.7.1 Group as lessee

An asset leased with finance leases is recognised in the consolidated statement of financial position from the commencement of the lease term at the fair value of the leased asset at the inception of the lease or at the present value of minimum lease payments, whichever is lower. An asset acquired with finance leases is depreciated during the asset's economic useful life or lease term, whichever is shorter. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. Lease obligations are included in financial liabilities.

Lease payments based on operating leases are expensed in profit or loss on a straight-line basis during the lease term. The Group's other leases are mainly related to business premises.

### 1.7.2 Group as lessor

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

### 1.7.3 Sale and leaseback

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

The most significant of the Group's finance leasing agreements are due to sale and leaseback transactions of premises.

## 1.8 AMORTISATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS, AND INVESTMENTS

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

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

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

An impairment loss is recognised when the carrying amount of an asset is larger than its recoverable amount. An impairment loss is recognised immediately in profit or loss. If the impairment loss is attributable to a CGU, it is first allocated to decrease the goodwill allocated to the said CGU and then to decrease the carrying amount of the unit's other assets on a pro rata basis. When an impairment loss is recognised, the useful life of the asset to which the depreciation or amortisation is allocated is re-estimated. An impairment loss recognised on an asset other than goodwill is reversed in case a change has occurred in the estimates used for determining the asset's recoverable amount. However, an impairment loss shall not be reversed to an extent larger than what the carrying amount of the asset would be excluding the recognition of the impairment loss. An impairment loss recognised on goodwill is not reversed in any situation.

The impairment testing of goodwill is presented in Note 13 *Intangible assets*.

## 1.9 EMPLOYEE BENEFITS

Pension plans are generally classified as defined benefit plans and defined contribution plans. The Group only has defined contribution plans. In defined contribution plans, the Group makes fixed payments to a separate unit. The Group has no legal or constructive obligation to make additional payments if the recipient of the payments is incapable of paying out said retirement benefits. Payments made into the defined contribution plans are recognised in profit or loss for the financial year for which they are charged.

The company does not have any currently effective share-based incentive schemes for the CEO, other members of the Management Team or the Board of Directors.

## 1.10 DIVIDEND BASED ON WORK CONTRIBUTIONS

Pihlajalinna Terveys Oy, a Group subsidiary, has issued a second series of shares (Series B) and established contingency funds associated with them. Funds accumulate in the contingency funds based on the work contributions of the holders of Series B shares. This work contribution is included in profit or loss under the item External services. The liability indicated by the

contingency fund is included in current liabilities under the item Other liabilities, presented in Note 18 *Trade and other payables* and Note 20 *Financial assets and liabilities by measurement category*. Work contribution-based dividends paid by the company are an income tax deductible item.

## 1.11 PROVISIONS AND CONTINGENT LIABILITIES

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

A restructuring provision is recognised when the Group has in place a detailed plan for such restructuring and its implementation has commenced or the interested parties have been informed of the main points of such a plan. The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable expenses of meeting the obligations under the contract. A restoration provision is recognised when the Group has a contractual obligation or decision to restore business premises to a certain condition as required by an agreement or decision at the termination of a lease or when business requirements change.

The Group has recognised restoration provisions relating to its premises and provisions for onerous contracts related to vacant business premises. The provisions are presented in Note 17 *Provisions*.

Contingent liabilities are possible obligations arising from previous events, the existence of which is only confirmed once an uncertain event beyond the scope of the Group's control is realised. Also, an existing obligation that will not probably require fulfilling a payment obligation or the amount of which cannot be reliably determined is considered to be a contingent liability. Contingent liabilities are presented in Note 30 *Contingent assets and liabilities and commitments*.

## 1.12 CURRENT TAXES AND DEFERRED TAXES

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

Deferred taxes are calculated on temporary differences between the carrying amount and the tax base. However, a deferred tax liability shall not be recognised on the initial recognition of goodwill, or on the initial recognition of an asset or liability in a transaction which is a business combination and,

at the time of transaction, affects neither accounting profit nor taxable profit.

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

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

A deferred tax asset is only recognised to the extent that it is probable that taxable profit will be available against which the temporary difference can be utilised. However, a deferred tax asset is not recognised if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit. Whether or not deferred tax assets can be recognised in this respect is always estimated at the end of each reporting period.

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

## 1.13 REVENUE AND RECOGNITION PRINCIPLES

The Group's revenue consists of payments related to the sale of healthcare and social services measured at fair value, adjusted by any discounts and other adjustment items. The healthcare services provided by the Group consist of occupational health services, services provided at private clinics and hospitals, diagnostics services, rehabilitation services and dental care services. The social services provided by the Group consist of services for the elderly and the disabled, mental health and substance abuse group services, and asylum seeker reception centre operations. A significant part of the consolidated revenue consists of social and health service outsourcing, which also includes the provider's liability for the costs of specialised care.

Social and healthcare outsourcings are mainly based on fixed annual prices, recognised as revenue over time. The recognition of revenue from the Group's complete social and healthcare services outsourcing agreements may become more accurate with a delay. The Group may not always be aware of the actual costs of the agreements, which may also affect revenue recognition.

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

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

## 1.14 FINANCIAL ASSETS AND LIABILITIES

### 1.14.1 Financial assets

The Group's financial assets are classified into the following categories: *loans and receivables* and *available-for-sale financial assets*. The classification is based on the purpose for which the financial assets are acquired and takes place upon the initial recognition.

Financial assets are derecognised when the Group has lost its contractual right for the financial assets in question or has transferred substantially all risks and rewards outside the Group.

*Loans and receivables* are non-derivative assets with fixed or determinable payments and that are not quoted on the active market, and which the Group does not hold for trading or does not specifically classify as available for sale upon initial recognition. In the Group, this item includes trade receivables and loan receivables. Loan receivables are measured at amortised cost, less any impairment losses, and included in the consolidated statement of financial position as current or non-current assets depending on their maturity.

*Available-for-sale financial assets* consist of quoted and unquoted shares. They are measured at fair value, or when fair value cannot be reliably determined, at cost less impairment.

### 1.14.2 Cash and cash equivalents

Cash and cash equivalents consist of cash at hand, demand deposits and other highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The items classified under cash and cash equivalents have a maturity of no more than three months from the date of acquisition. The account with credit limit in use is included in current financial liabilities.

### 1.14.3 Impairment of financial assets

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

### 1.14.4 Financial liabilities

The Group classifies loans from financial institutions, accounts with credit limits, financial lease liabilities, trade payables and other liabilities as *other financial liabilities*. Other financial liabilities are measured at amortised cost using the effective interest method. Transaction costs are included in the initial carrying amount. Arrangement fees for loan commitments are treated as transaction costs.

The Group classifies contingent considerations arising from M&A transactions as *financial liabilities measured at fair value* through profit or loss. No interest is paid on liabilities arising from contingent considerations. Any contingent consideration is measured at fair value at the date of acquisition and classified as a liability. A contingent consideration classified as a liability is measured at fair value at the end of each reporting

period, and any resulting gain or loss is recognised in profit or loss after the end of the measurement period.

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

More information on financial assets and liabilities is presented in Note 20 *Financial assets and liabilities by measurement category*.

## 1.15 EQUITY

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

## 1.16 EBITDA

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

## 1.17 OPERATING PROFIT (EBIT)

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

## 1.18 EARNINGS PER SHARE

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

## 1.19 DIVIDEND

The Board's dividend proposal to the AGM has not been recognised in the financial statements. Instead, dividends will be recognised on the basis of the decision of the AGM.

## 1.20 EBITDA, OPERATING PROFIT (EBIT) AND ITEMS INFLUENCING COMPARABILITY BETWEEN PERIODS

Significant transactions that are not part of the normal course of business or are infrequently occurring, and valuation items that do not affect cash flow, are treated as items affecting

comparability between reporting periods. According to Pihlajalinna's definitions, such items include, for example:

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

More information on the items affecting comparability between periods, including reconciliation calculations, is provided in Note 7 *Adjusted EBITDA and adjusted operating profit*.

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

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

## 2 ACCOUNTING POLICIES REQUIRING MANAGEMENT JUDGEMENT AND MAJOR SOURCES OF ESTIMATION UNCERTAINTY

In the course of preparing the financial statements, it is necessary to make estimates and assumptions about the future. However, such estimates and assumptions may later prove inaccurate compared with actual outcomes. The Group regularly monitors the realisation of the estimates and assumptions and changes in the underlying factors together with the business units by using several, both internal and external, sources of information. Any changes in estimates and assumptions are recognised in the financial year during which the estimate or assumption is corrected and in all subsequent financial years. Additionally, it is necessary to exercise judgement in the application of the accounting policies. The following estimates and assumptions are the most significant ones:

### 2.1 MEASURING THE FAIR VALUE OF ASSETS ACQUIRED IN THE CONTEXT OF BUSINESS COMBINATIONS AND THE FAIR VALUE OF CONTINGENT CONSIDERATION

With respect to significant business combinations, the Group has relied on an external advisor on the estimates of the fair value of property, plant and equipment and intangible assets. With property, plant and equipment, comparisons are made with the market prices of corresponding assets, and it is estimated how much the value of the acquired assets has decreased due to age, wear and tear and other such factors. With intangible assets, fair value measurement is based on estimated cash flows related to the assets. Further information on the measurement of intangible assets acquired in business combinations is provided in Note 26 *Business combinations*.

The fair value of the contingent consideration on the acquisition date is recognised as part of the consideration

transferred for the acquiree. The contingent consideration is classified as a financial liability and measured at fair value on each financial statements date. Following the end of the measurement period, which may not exceed one year from the date of acquisition, changes in the fair value of the contingent consideration are recognised in profit or loss.

The key variables in the fair value measurement of the contingent consideration are the estimate of future EBITDA and the discount rate used. In the financial statements dated 31 December 2017, the contingent considerations totalled 5,418 (2,381) thousand euros.

### 2.2 IMPAIRMENT TESTING OF GOODWILL

The Group annually tests goodwill for impairment and estimates any indications of impairment in accordance with the accounting policies stated hereinabove. The recoverable amounts of the cash-generating units are determined using calculations based on their value in use. The preparation of these calculations requires the use of estimates. Further information on the sensitivity of the recoverable amount to changes in the assumptions used is provided in Note 13 Intangible assets.

### 2.3 IMPAIRMENT OF FINANCIAL ASSETS

In the Group, objective evidence of impairment of other receivables includes significant financial distress of the debtor and payments being delinquent or substantially delayed. The Group's trade receivables include EUR 2.5 (1.2) million in substantially delayed payments from a significant customer. The matter concerns a contractual dispute under civil law, with a preliminary ruling having been sought from the Supreme Administrative Court. According to the assessment of Pihlajalinna's management, the municipality in question has no grounds for withholding payment. Pihlajalinna's management further expects that the customer will pay the receivables in full.

# Adoption of IFRS standards applicable in future

The Group has not yet applied the following new, revised or amended standards and interpretations already published by the IASB. The Group will adopt them as from the effective date of each standard and interpretation, or if the effective date is some date other than the first day of the financial year, as from the beginning of the financial year that first follows the effective date.

- **IFRS 15 Revenue from Contracts with Customers** (effective for financial years beginning on or after 1 January 2018). The new standard replaces the current IAS 18 and IAS 11 standards and related interpretations. IFRS 15 includes a five-step model for recognising revenue from contracts with customers: when to recognise revenue, and at what amount. Revenue can be recognised over time or at a point in time, and the passing of control is a key criterion. The standard also increases the amount of notes to be disclosed.

Pihlajalinnla launched a detailed contract-specific IFRS 15 adoption project concerning revenue recognition in autumn 2016, surveying the services sold and provided by segment. During the adoption project, Pihlajalinnla surveyed the Group's significant customer agreements, covering approximately 65% of the Group's revenue. According to Pihlajalinnla's assessment, approximately 66% of the Group's revenue for financial year 2017 was recognised over time and 34% of the revenue was recognised at a point of time.

Pihlajalinnla has identified the following major performance obligations by segment:

## Primary and Social Care (P&S)

### Social and healthcare outsourcing

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

### Residential services (including asylum seeker reception centres)

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

## Private Clinics and Specialised Care (C&S)

### Private Clinics and Dental Care

- individual customer visits to healthcare services

### Surgical operations and public specialised care

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

### Occupational healthcare

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

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

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

Pihlajalinnla will adopt IFRS 15 starting from the financial year beginning on 1 January 2018. The adoption of the standard will have no impact on the Group's equity or the revenue recognition principles applied by Pihlajalinnla in financial year 2017. The standard increases the amount of notes to be disclosed. Pihlajalinnla will present a breakdown of the Group's revenue by customer group and will consider presenting a breakdown of revenue by geographical area, in accordance with the upcoming changes in the Group's structure.

The Group's corporate customer group consists of Pihlajalinna's occupational healthcare customers, insurance company customers and other corporate contract customers with the exception of public sector occupational healthcare customers (municipalities, joint municipal authorities, churches, public administration and hospital districts).

The Group's private customers are private individuals and privately insured customers.

The Group's public sector customer group consists of public sector organisations in Finland, such as municipalities, joint municipal authorities, hospital district and the public administration when purchasing social and healthcare outsourcing services, residential services, occupational healthcare services and staffing services.

**Breakdown of the Group's revenue by customer group in financial year 2017:**

EUR million	2017	
Corporate customers	63.0	14.9%
Private customers	68.0	16.0%
Public sector customers	293.1	69.1%
<b>Total revenue</b>	<b>424.0</b>	

- **IFRS 9 Financial Instruments** and amendments to it (effective for financial years beginning on or after 1 January 2018). In accordance with the standard, financial assets are measured at fair value, unless certain conditions are met, in which case they are measured at amortised cost. The measurement methods have also been simplified. The new standard will result in changes in hedge accounting and provide a new model for the assessment of impairment, in accordance with which expected credit losses are measured already at the beginning of a contract. The Group does not apply hedge accounting, and the changes in the classification of financial instruments and impairment model are not estimated to have a material effect on Pihlajalinna's financial statements.
- **IFRS 16 Leases** (effective for financial years beginning on or after 1 January 2019). The new standard replaces IAS 17 and related interpretations. All of a lessee's leases will be recognised as right-of-use assets on the balance sheet unless the lease term is 12 months or less or the underlying asset has a low value (USD 5,000 at maximum). At the end of the reporting period, the Group's operating leases totalled

EUR 50.1 million. In accordance with the standard, the rent liabilities concerning operating premises presented in the Group's operating leases have to be recognised as a right-of-use asset and lease liability in the statement of financial position. However, the concepts of agreements recognised as liabilities and leases pursuant to IFRS 16 differ, and therefore the amount of agreements recognised on the balance sheet may differ from the amount of other liabilities. The amendment will have significant impacts on Pihlajalinna's financial statements. The amendment will also have effects on balance sheet-based indicators, such as gearing. IAS 17 does not require any significant changes in the accounting practices applied by lessors.

Other new or amended standards and interpretations effective in upcoming financial periods are not expected to have no impact on Pihlajalinna's financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, IFRS

## 1. OPERATING SEGMENTS

Pihlajalinna Group has two operating segments that are strategic business units of the Group. The strategic business units provide various services and are managed separately. The segment information presented by the Group is based on the internal management reporting, which is prepared in accordance with IFRS.

The Group's segments are Private Clinics and Specialised Care (C&S), and Primary and Social Care (P&S).

The Private Clinics and Specialised Care (C&S) segment provides general and specialist medical consultation services, diagnostic services, occupational healthcare services, oral healthcare services, surgical services and rehabilitation services.

The Primary and Social Care (P&S) segment provides care services, full primary healthcare and social care outsourcings, health centre outsourcings and staffing services.

In the Group, assessment of the segments' profitability and decisions concerning resources allocated to the segments are based on the segments' operating profit as, according to the management's view, it is the most appropriate indicator for assessing the segments' profitability. The chief operating decision maker identified in the Group that is responsible for the aforementioned assessments and decisions on resources is the Management Team.

Each segment's assets and liabilities are items used by the segment in its business operations and can reasonably be allocated to the segment. Unallocated items include the parent company's expenses, financial income and expenses and income taxes. Capital expenditure consists of increases in property, plant and equipment and intangible assets, used during more than one financial year. Inter-segment pricing is determined on an arm's length basis.

## OPERATING SEGMENTS

EUR 1,000	31.12.2017		
	C&S	P&S	Total
<b>Result</b>			
Total external revenue	231,326	192,592	423,918
Inter-segment revenue	2,727	5,000	7,728
<b>Operating segment's revenue</b>	<b>234,054</b>	<b>197,593</b>	<b>431,646</b>
Depreciation and amortisation	-10,037	-3,670	-13,706
Operating segment's EBITDA	13,663	21,559	35,222
Operating segment's EBITDA, %	5.8	10.9	8.2
Operating segment's operating profit	3,626	17,889	21,515
Operating segment's operating profit, %	1.6	9.1	5.0
<b>Assets</b>			
Operating segment's assets	152,382	61,343	213,725
Gross investments	23,618	3,642	27,260
<b>Liabilities</b>			
Operating segment's liabilities	32,507	29,387	61,894

EUR 1,000	31.12.2016		
	C&S	P&S	Total
<b>Result</b>			
Total external revenue	213,339	185,499	398,838
Inter-segment revenue	2,267	4,278	6,544
<b>Operating segment's revenue</b>	<b>215,606</b>	<b>189,776</b>	<b>405,382</b>
Depreciation and amortisation	-10,249	-2,041	-12,289
Operating segment's EBITDA	16,419	12,909	29,328
Operating segment's EBITDA, %	7.6	6.8	7.2
Operating segment's operating profit	6,170	10,868	17,038
Operating segment's operating profit, %	2.9	5.7	4.2
<b>Assets</b>			
Operating segment's assets	138,199	49,539	187,738
Gross investments	22,030	5,023	27,053
<b>Liabilities</b>			
Operating segment's liabilities	28,471	27,141	55,612

## RECONCILIATIONS

EUR 1,000	2017	2016
<b>Revenues</b>		
Operating segments' revenue	431,646	405,382
Items unallocated to the segments	65	426
Elimination of inter-segment revenue	-7,728	-6,716
<b>Total consolidated revenue</b>	<b>423,984</b>	<b>399,092</b>
<b>Operating profit</b>		
Operating segments' operating profit	21,515	17,038
Items unallocated to the segments	-2,385	-1,891
<b>Consolidated operating profit</b>	<b>19,130</b>	<b>15,147</b>
<b>Assets</b>		
Operating segments' assets	213,725	187,738
Inter-segment elimination	-6,199	-5,855
Items unallocated to the segments	46,054	35,859
<b>Total consolidated assets</b>	<b>253,581</b>	<b>217,742</b>

The segments' assets exclude non-current receivables, deferred tax assets, current tax assets as well as cash and cash equivalents.

**Liabilities**

Operating segments' liabilities	61,894	55,612
Inter-segment elimination	-6,200	-5,855
Items unallocated to the segments	92,030	66,975
<b>Total consolidated liabilities</b>	<b>147,725</b>	<b>116,732</b>

The segments' liabilities exclude financial liabilities, deferred tax liabilities and current tax liabilities.

EUR 1,000	2017		
	Operating segments, total	Unallocated	Group, total
Financial income and expenses	0	-1,681	-1,681
Gross investments	27,260	3,102	30,362
Depreciation and amortisation	-13,706	-476	-14,182

EUR 1,000			2016
	Operating segments, total	Unallocated	Group, total
Financial income and expenses	0	-1,418	-1,418
Gross investments	27,053	307	27,360
Depreciation and amortisation	-12,289	-470	-12,759

Gross investments include increases in tangible and intangible assets. Finance leases are not included in gross investments.

### Information on key customers

The Group's revenues from three largest municipal customers totalled approximately EUR 209.4 million (EUR 180.2 million), representing 49% (45%) of the consolidated revenue.

### DEVELOPMENT OF SEGMENTS DURING THE FINANCIAL YEAR

#### Private Clinics and Specialised Care (C&S)

The C&S segment's revenue for the financial year amounted to EUR 234.1 (215.6) million, an increase of EUR 18.4 million, or 8.6 per cent. Growth in revenue due to M&A transactions was EUR 12.7 million, or 5.9 per cent. Organic growth in revenue amounted to EUR 5.7 million, or 2.7 per cent. Revenue was increased by Occupational Healthcare, Private Clinics and Public Specialised Care.

The C&S segment's depreciation, amortisation and impairment for the financial year totalled EUR 10.0 (10.2) million. Purchase price allocation amortisation of intangible assets totalled EUR 3.3 (3.3) million. Other depreciation, amortisation and impairment totalled EUR 6.8 (7.0) million.

The C&S segment's operating profit for the financial year amounted to EUR 3.6 (6.2) million. The segment's profitability was weighed down by investments in digitalisation, the brand revamp and marketing, the start-up costs of new business locations and unit closure costs in Dental Care and Surgical Operations. The profitability of the Private Clinics service area declined year-on-year.

#### Primary and Social Care (P & S)

The P & S segment's revenue during the financial year amounted to EUR 197.6 (189.8) million, an increase of EUR 7.8 million, or 4.1 per cent. Organic growth in revenue amounted to EUR 5.8 million, or 3.1 per cent, mainly as a result of the start of service production in Soini on 1 January 2017. Growth in revenue due to M&A transactions was EUR 2.0 million, or 1.0 per cent.

The P&S segment's depreciation, amortisation and impairment for the financial year totalled EUR 3.7 (2.0) million. Purchase price allocation amortisation of intangible assets totalled EUR 0.5 (0.2) million. Other depreciation, amortisation and impairment totalled EUR 3.1 (1.8) million.

The P&S segment's operating profit for the financial year was EUR 17.9 (10.9) million. Profitability improved due to Social and Healthcare Outsourcings as well as staffing services.

## 2. OTHER OPERATING INCOME

EUR 1,000	2017	2016
Capital gains on property, plant and equipment	295	239
Rental income	223	463
Government grants	805	686
Insurance indemnities	291	52
Fair value measurement of pre-existing interest in acquiree	296	
Other income items	340	70
<b>Total</b>	<b>2,251</b>	<b>1,511</b>

Accounting policies: 1.3 Government grants, 1.7.2 Group as lessor

## 3. MATERIALS AND SERVICES

EUR 1,000	2017	2016
Materials	-13,798	-14,061
Change in inventories	14	-208
External services, practitioners	-59,300	-54,250
External services, other	-102,454	-99,469
<b>Total</b>	<b>-175,538</b>	<b>-167,988</b>

Accounting policies: 1.10 Dividend based on work contributions

## 4. EMPLOYEE BENEFIT EXPENSES

EUR 1,000	2017	2016
Wages and salaries	-143,304	-134,474
Pension costs - defined contribution plans	-25,665	-24,591
Other social security expenses	-6,443	-8,106
<b>Total</b>	<b>-175,412</b>	<b>-167,171</b>
<b>Personnel on average (FTE)</b>	3,879	3,526
<b>Personnel at the end of the period (NOE)</b>	4,753	4,407

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

Accounting policies: 1.9 Employee benefits

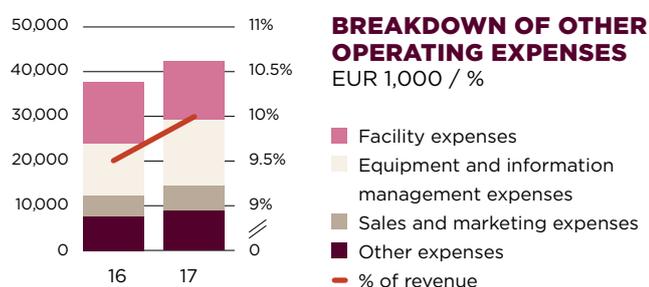
## 5. DEPRECIATION, AMORTISATION AND IMPAIRMENT

EUR 1,000	2017	2016
Amortisation by asset type		
Intangible assets		
Trademarks	-776	-771
Capitalised development costs	-314	-263
Other intangible assets	-4,131	-3,514
	-5,221	-4,548
Property, plant and equipment		
Buildings	-4,479	-3,992
Machinery and equipment	-4,479	-4,218
Other tangible assets	-4	-1
	-8,962	-8,211
<b>Total depreciation, amortisation and impairment</b>	<b>-14,182</b>	<b>-12,759</b>

Accounting policies: 1.4 Property, plant and equipment, 1.5.2 Research and development costs, 1.5.3 Trademarks and other intangible assets

## 6. OTHER OPERATING EXPENSES

EUR 1,000	2017	2016
Facility expenses	-12,960	-13,803
Equipment and information management expenses	-14,718	-11,528
Sales and marketing expenses	-5,624	-4,831
Other expenses	-8,986	-7,580
<b>Total</b>	<b>-42,288</b>	<b>-37,743</b>
<b>Auditor's fees</b>		
Audit, BDO and PWC	-68	-127
Audit, KPMG Oy Ab	-193	-142
Tax counselling		
Other services, KPMG Oy Ab	-19	-26
<b>Total</b>	<b>-279</b>	<b>-294</b>



## 7. ADJUSTED EBITDA AND ADJUSTED OPERATING PROFIT

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

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

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

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

EUR 1,000	2017	2016
<b>EBITDA</b>	<b>33 312</b>	<b>27 906</b>
Adjustments to EBITDA		
Closing down of dental clinics	309	
Closing down of Surgical Operations clinic	138	
Remeasurement to fair value of pre-existing interest in acquiree	-296	
Conciliation agreement concerning the Group's facility expenses	220	
Costs arising from the integration of Care Services		127
Dismissal-related expenses	377	
Compensation related to a production agreement of the Surgical Operations service area that expired in the previous financial year		885
<b>Adjustments to EBITDA in total</b>	<b>749</b>	<b>1,011</b>
<b>Adjusted EBITDA</b>	<b>34,061</b>	<b>28,917</b>
Depreciation, amortisation and impairment	-14,182	-12,759
<b>Adjustments to depreciation, amortisation and impairment</b>		
Closing down of dental clinics	102	396
Closing down of Surgical Operations clinic, Tampere		73
<b>Adjustments to depreciation, amortisation and impairment in total</b>	<b>102</b>	<b>469</b>
<b>Adjustments to operating profit in total</b>	<b>852</b>	<b>1,480</b>
<b>Adjusted operating profit (EBIT)</b>	<b>19,981</b>	<b>16,627</b>
Operating profit (EBIT)	19,130	15,147
Financial income	181	116
Financial expenses	-1,862	-1,534
Income taxes	-3,381	-2,954
<b>Profit for the period</b>	<b>14,068</b>	<b>10,775</b>
<b>The adjustment items are presented in the income statement items as follows:</b>		
Revenue		885
Other operating income	-296	
Employee benefit expenses	377	127
Other operating expenses, rent for business premises	668	
<b>EBITDA adjustment items total</b>	<b>749</b>	<b>1,011</b>
Depreciation, amortisation and impairment	102	469
<b>Operating profit adjustment items total</b>	<b>852</b>	<b>1,480</b>

Accounting policies: 1.16 EBITDA, 1.17 Operating profit (EBIT), 1.20 EBITDA, operating profit and items influencing comparability between periods

## 8. FINANCIAL INCOME

EUR 1,000	2017	2016
Dividend income from available-for-sale financial assets	3	14
Interest income from loans and receivables	47	94
Other financial income	131	8
<b>Total</b>	<b>181</b>	<b>116</b>

## 9. FINANCIAL EXPENSES

EUR 1,000	2017	2016
Interest expenses from financial liabilities carried at amortised cost	-1,452	-1,061
Other financial expenses	-410	-473
<b>Total</b>	<b>-1,862</b>	<b>-1,534</b>

Accounting policies: 1.14.4 Financial liabilities

## 10. INCOME TAXES

EUR 1,000	2017	2016
Current taxes	-4,188	-2,465
Taxes for the previous financial years	-50	-19
Deferred taxes:		
Origination and reversal of temporary differences	857	-471
<b>Total</b>	<b>-3,381</b>	<b>-2,954</b>

Reconciliation of tax expenses in the income statement and taxes calculated on the basis of the Group's tax rate of 20%:

EUR 1,000	2017	2016
Profit before taxes	17,449	13,729
Taxes calculated on the basis of the Finnish tax rate	-3,490	-2,746
Income not subject to tax	1	3
Non-deductible expenses	-88	-379
Unrecorded deferred tax assets from tax losses	-1	-51
Utilised prior losses with unrecognised tax benefits	29	106
Share of associates' profit	63	41
Other items	155	91
Taxes for prior financial years	-50	-19
<b>Taxes in the income statement</b>	<b>-3,381</b>	<b>-2,954</b>

Accounting policies: 1.12 Current taxes and deferred taxes

## 11. EARNINGS PER SHARE

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

	2017	2016
Profit for the financial year attributable to owners of the parent, EUR	9,515,009.52	8,048,302.15
Number of shares outstanding, weighted average	20,613,146	20,613,146
Earnings per share (EPS), EUR/share	0.46	0.39

Accounting policies: 1.18 Earnings per share

## 12. PROPERTY, PLANT AND EQUIPMENT

EUR 1,000	Land areas	Buildings	Machinery and equipment	Other tangible assets	Construction in progress	Total
Cost at 1 January 2017	88	43,039	26,260	146	61	69,595
Additions		12,982	3,803	13	6,039	22,837
Business combinations		1,632	1,222	3		2,857
Transfers between items		262	275		-273	264
Disposals		-249	-2,180			-2,430
Cost at 31 December 2017	88	57,666	29,380	161	5,827	93,124
Accumulated depreciation at 1 January 2017		-10,076	-14,020	-1	0	-24,098
Depreciation and amortisation		-4,479	-4,479	-4		-8,962
Transfers between items		-189	-75			-264
Disposals		167	1,950			2,117
Accumulated depreciation at 31 December 2017		-14,577	-16,624	-5	0	-31,206
Carrying amount at 1 January 2017	88	32,963	12,241	145	61	45,498
<b>Carrying amount at 31 December 2017</b>	<b>88</b>	<b>43,089</b>	<b>12,757</b>	<b>156</b>	<b>5,827</b>	<b>61,917</b>

EUR 1,000						
	Land areas	Buildings	Machinery and equipment	Other tangible assets	Construction in progress	Total
Cost at 1 January 2016	88	41,032	21,080	143	315	62,657
Additions		927	3,359		72	4,357
Business combinations		321	1,005	3		1,329
Transfers between items		946	1,477		-325	2,098
Disposals		-186	-661			-847
Cost at 31 December 2016	88	43,039	26,260	146	61	69,595
Accumulated depreciation at 1 January 2016		-5,329	-8,719	0		-14,049
Depreciation and amortisation		-3,992	-4,218	-1		-8,211
Business combinations		-940	-1,433			-2,373
Disposals		186	350			536
Accumulated depreciation at 31 December 2016		-10,076	-14,020	-1	0	-24,098
Carrying amount at 1 January 2016	88	35,702	12,361	143	315	35,333
<b>Carrying amount at 31 December 2016</b>	<b>88</b>	<b>32,963</b>	<b>12,241</b>	<b>145</b>	<b>61</b>	<b>45,496</b>

## FINANCE LEASES

Property, plant and equipment include the following assets acquired under finance leases:

EUR 1,000			
	Buildings	Machinery and equipment	Total
31.12.2017			
Cost	39,309	1,393,	40,702
Accumulated depreciation	-7,923	-1,151,	-9,074
<b>Carrying amount</b>	<b>31,386</b>	<b>242</b>	<b>31,629</b>
31.12.2016			
Cost	26,836	1,452,	28,288
Accumulated depreciation	-4,786	-729,	-5,515
<b>Carrying amount</b>	<b>22,050</b>	<b>723</b>	<b>22,773</b>

The Group concluded a 15-year sale and leaseback agreement concerning Pihlajalinna Lääkärikeskukset Oy's hospital property in 2013, which met the criteria for a finance lease. The Group sold five of its care properties in 2015 and leased them back for 15 years. Similarly, the Koskiklinikka lease has been interpreted as a 12-year sale and leaseback agreement and it meets the criteria for a finance lease. The additions in 2017 consisted of leases for three care homes, which were interpreted as financial leases.

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 financial year is increased by the replacement of said leases by new 15-year leases, which are interpreted as finance leases.

Additions to the costs of property, plant and equipment include assets leased with finance leases totalling EUR 12,473 thousand (EUR 393 thousand in 2016).

*Accounting policies: 1.14 Property, plant and equipment, 1.71 Group as lessee*

## 13. INTANGIBLE ASSETS

EUR 1,000

	Goodwill	Trademarks	Development costs	Other intangible assets	Prepayments	Total
Cost at 1 January 2017	92,270	7,762	2,659	17,859	122	120,673
Additions			1,154	745	1,080	2,979
Business combinations	11,622			2,527		14,149
Transfers between items				1,083	-1,083	0
Disposals						0
Cost at 31 December 2017	103,893	7,762	3,813	22,214	119	137,802
Accumulated depreciation at 1 January 2017		-2,374	-503	-9,208	0	-12,085
Depreciation and amortisation		-776	-314	-4,131		-5,221
Accumulated depreciation at 31 December 2017		-3,150	-817	-13,339	0	-17,305
Carrying amount at 1 January 2017	92,270	5,389	2,156	8,650	122	108,588
<b>Carrying amount at 31 December 2017</b>	<b>103,893</b>	<b>4,613</b>	<b>2,997</b>	<b>8,876</b>	<b>119</b>	<b>120,496</b>

EUR 1,000

	Goodwill	Trademarks	Development costs	Other intangible assets	Prepayments	Total
Cost at 1 January 2016	76,056	7,153	1,613	12,391	1,506	98,719
Additions				936	342	1,278
Business combinations	16,214	610		3,579		20,403
Transfers between items			1,046	953	-1,726	273
Disposals						
Cost at 31 December 2016	92,270	7,762	2,659	17,859	122	120,673
Accumulated depreciation at 1 January 2016		-1,603	-240	-5,694	0	-7,536
Depreciation and amortisation		-771	-263	-3,514		-4,548
Accumulated depreciation at 31 December 2016		-2,374	-503	-9,208		-12,085
Carrying amount at 1 January 2016	76,056	5,550	1,373	6,696	1,506	91,182
<b>Carrying amount at 31 December 2016</b>	<b>92,270</b>	<b>5,389</b>	<b>2,156</b>	<b>8,651</b>	<b>122</b>	<b>108,589</b>

Other intangible assets include licences and computer software; customer agreements and related customer relationships acquired in connection with business combinations; and non-competition agreements and certificates.

The Group's capitalised development costs that have not been amortised are associated with the following four projects: The Pihljalinna mobile application and website development aimed at making AI-assisted digital services available to all customers, takeover of social and healthcare operations in Mänttä-Vilppula and development of operating models in 2013, specialised care referral forwarding and coordination operating model developed for the Parkano social and healthcare partnership area in 2015 and the three-year SYKKI project funded with Tekes subsidies aiming to create an effective and cost-efficient model for public social and healthcare services, started in 2012.

Accounting policies: 1.5 Intangible assets

### ALLOCATION OF GOODWILL

For the purpose of impairment testing, goodwill has been allocated to the operating segments, Private Clinics and Specialised Care (C&S) and Primary and Social Care (P&S). The Group has determined the operating segments as the cash-generating units (CGUs).

The carrying amounts of goodwill are allocated to the operating segments as follows:

1 000 €	2017	2016
Private Clinics and Specialised Care (C&S)	83,357	73,993
Primary and Social Care (P&S)	18,960	18,278
<b>Tested goodwill 30 November 2017</b>	<b>102,317</b>	<b>92,270</b>
Re-estimation of initial acquisition cost during the measurement period	995	
Achievement of control in Dextra Lapsettomuslinikka Oy	581	
<b>Goodwill as per the statement of financial position at the end of the financial year</b>	<b>103,893</b>	

## IMPAIRMENT TESTING

During the financial year, goodwill testing was carried out at the end of November. In the previous financial year, testing was carried out based on the situation prevailing at the end of the financial year 2016 due to the schedules of the Board of Directors.

The recoverable amounts from the CGUs are determined based on value-in-use calculations. Cash flow forecasts are based on the budget for 2018 approved by the Board of Directors, and the cash flow estimates for 2019–2022 are based on the estimates of the segments' management on the growth and profitability of the business. Cash flows arising beyond the forecast period approved by the management are capitalised using a stable 2% growth rate.

### Key assumptions used in the value-in-use calculations:

Budgeted and forecast operating profit are based on actual average operating profit and the view of each segment's management on the development of volumes. The possibility of intensified competition in the sector has been accounted for when preparing estimates on the volumes and profitability of the business. The testing was carried out following the principle of continuity of business in the financial year.

The discount rate is determined using the weighted average cost of capital (WACC), which describes the total cost of equity and liabilities, taking into account the asset-specific risks. The pre-tax discount rate used for the Private Clinics and Specialised Care segment was 8.63% (8.37%) and for the Primary and Social Care segment, 8.63% (8.39%).

The growth rate of 2% used in the calculation of the terminal value is in line with the sector's actual long-term growth.

The terminal period's share of the amount of expected cash flows:

	2017	2016
Private Clinics and Specialised Care (C&S)	81%	78%
Primary and Social Care (P&S)	76%	76%

## SENSITIVITY ANALYSES IN IMPAIRMENT TESTING

Based on the impairment tests, there is no need for impairment. The recoverable amount exceeded the carrying amounts in both segments (CGUs).

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

	2017	2016
<b>Private Clinics and Specialised Care (C&amp;S)</b>		
- decline in volume	15.3%	26.5%
- decrease in the operating profit percentage	1.3 percentage points	2.3 percentage points
- rise in the discount rate	2.5 percentage points	4.4 percentage points
<b>Primary and Social Care (P&amp;S)</b>		
- decline in volume	61.8%	69.5%
- decrease in the operating profit percentage	5.4 percentage points	4.8 percentage points
- rise in the discount rate	30.5 percentage points	45.0 percentage points

Accounting policies: 2.2 Impairment testing

## 14. OTHER NON-CURRENT RECEIVABLES

EUR 1,000	2017	2016
Loan receivables from associates		1,495
Lease deposits paid	1,568	1,247
Prepayments and accrued income		63
<b>Total</b>	<b>1,568</b>	<b>2,805</b>

## 15. TRADE AND OTHER RECEIVABLES

EUR 1,000	2017	2016
Trade receivables	17,509	15,968
Trade receivables from associates		11
Prepayments and accrued income	5,291	6,945
Receivables from associates		
Interest receivables from associates		51
Other receivables	1,158	3,168
<b>Total</b>	<b>23,959</b>	<b>26,143</b>

The carrying amount of trade receivables and other receivables corresponds to the maximum credit risk involved at the end of the reporting period.

The Group recognised EUR 148 (337) thousand in impairment losses on trade receivables during the financial year.

The Group's trade receivables include EUR 2.5 (1.2) million in substantially delayed payments from a significant customer. According to the assessment of Pihljalinna's management, the municipality in question has no grounds for withholding payment. Pihljalinna's management further expects that the customer will pay the receivables in full.

**AGEING ANALYSIS OF TRADE RECEIVABLES**

EUR 1,000	2017	Impairment losses	Net 2017	2016	Impairment losses	Net 2016
Past due	11,787		11,787	11,377		11,377
Less than 30 days	1,129		1,129	1,622		1,622
30-60 days	1,062		1,062	680		680
61-90 days	253		253	412		412
More than 90 days	3,525	-247	3,278	2,213	-325	1,888
<b>Total</b>	<b>17,757</b>	<b>-247</b>	<b>17,509</b>	<b>16,304</b>	<b>-325</b>	<b>15,979</b>

EUR 1,000	2017	2016
Credit loss provision at 1 January	325	187
Credit losses recorded	148	337
Credit loss provision, used	-226	-337
Credit loss provision, increase		138
<b>Credit loss provision at 31 December</b>	<b>247</b>	<b>325</b>

**MATERIAL ITEMS INCLUDED UNDER PREPAYMENTS AND ACCRUED INCOME:**

EUR 1,000	2017	2016
Sales and income accruals	742	1,161
Personnel expenses	1,241	3,542
Expenses paid in advance	2,698	1,922
Other	610	320
<b>Total</b>	<b>5,291</b>	<b>6,945</b>

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

Accounting policies: 1.14.3 Impairment of financial assets

**16. CASH AND CASH EQUIVALENTS**

EUR 1,000	2017	2016
Cash in hand and at bank	37,074	27,537
<b>Total</b>	<b>37,074</b>	<b>27,537</b>

Accounting policies: 1.14.2 Cash and cash equivalents

**17. PROVISIONS**

EUR 1,000	Premises restoration provision	Onerous contracts	Total
01/01/2016			
Increases in provisions	899		899
Provisions used	-52		-52
31/12/2016	847		847
Increases in provisions	330	396	726
Reversals of unused provisions	-744		-744
31/12/2017	433	396	829

The restoration provisions for business premises are based on the management's estimates of the restoration costs of premises.

It is expected that the provisions will be used in 2018.

Onerous contracts includes rents for vacant leased premises. The provisions will be realised by 2024.

Accounting policies: 1.11 Provisions and contingent liabilities

**18. TRADE AND OTHER PAYABLES**

EUR 1,000	2017	2016
Trade payables	12,573	8,020
Accrued liabilities	38,800	36,658
Pre-payments	366	342
Other liabilities	10,084	10,013
<b>Total</b>	<b>61,822</b>	<b>55,033</b>
Material items included under Accrued liabilities:		
Wages and salaries and social security payments	27,426	25,549
Doctor's fee liability	5,356	5,664
Allocation of sales	1,505	43
Allocation of purchase invoices	3,919	4,944
Financial items	8	71
Other accrued liabilities	587	387
<b>Total</b>	<b>38,800</b>	<b>36,658</b>

## 19. DEFERRED TAX ASSETS AND LIABILITIES

Changes in deferred taxes during 2017:

EUR 1,000				
<b>Deferred tax assets</b>	<b>1.1.2017</b>	<b>Recognised in profit and loss</b>	<b>Subsidiaries acquired</b>	<b>31.12.2017</b>
Tax losses carried forward confirmed by tax authorities	93	109	281	483
Liability to holders of Series B shares	1,031	184		1,215
Sales proceeds from sale and leaseback arrangements	373	-30		343
Other items	93	67	23	184
<b>Deferred tax assets on the statement of financial position</b>	<b>1,589</b>	<b>331</b>	<b>304</b>	<b>2,224</b>
<b>Deferred tax liabilities</b>				
Property, plant and equipment and intangible assets	877	347		1,224
Replacement reserve for business premises	917	-103		814
Recognition of property, plant and equipment and intangible assets at fair value in business combinations	3,704	-762	436	3,378
Other items	51	-8		43
<b>Deferred tax liabilities on the statement of financial position</b>	<b>5,548</b>	<b>-526</b>	<b>436</b>	<b>5,457</b>

Changes in deferred taxes during 2016:

EUR 1,000				
<b>Deferred tax assets</b>	<b>1.1.2016</b>	<b>Recognised in profit and loss</b>	<b>Subsidiaries acquired</b>	<b>31.12.2016</b>
Tax losses carried forward confirmed by tax authorities	984	-891		93
Liability to holders of Series B shares	875	156		1,031
Sales proceeds from sale and leaseback arrangements	403	-30		373
Other items	255	-162		93
<b>Deferred tax assets on the statement of financial position</b>	<b>2,519</b>	<b>-927</b>		<b>1,589</b>
<b>Deferred tax liabilities</b>				
Property, plant and equipment and intangible assets	614	262		877
Replacement reserve for business premises	938	-21		917
recognition at fair value in business combinations	3,576	-689	817	3,704
Other items	59	-8		51
<b>Deferred tax liabilities on the statement of financial position</b>	<b>5,185</b>	<b>-456</b>	<b>817</b>	<b>5,548</b>

The Group had confirmed losses of EUR 2,415 (437) thousand, for which deferred tax assets of EUR 483 (87) thousand were recognised. The recognition of deferred tax assets on the statement of financial position is justified, as the Group is likely to accrue taxable income against which the losses in question can be used before they expire.

The Group has incurred losses amounting to EUR 556 (254) thousand for which deferred tax assets have not been recognised. The losses will expire in 2025–2026.

The replacement reserve for business premises must be used during 2018. If the reserve is not used by 31 December 2018, it must be entered as income.

In this case, 40% of the amount of the reserve will be added to taxable income.

*Accounting policies: 1.12 Current taxes and deferred taxes*

## 20. FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY

EUR 1,000

31.12.2017	Note	Fair value hierarchy	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Available-for-sale financial assets	Financial liabilities measured at amortised cost	Total carrying amounts	Fair values total
<b>Non-current financial assets</b>								
Other shares and participations		2			101		101	101
Lease deposits	14	2	1,568				1,568	1,568
<b>Current financial assets</b>								
Trade receivables	15	2	17,509				17,509	17,509
Other receivables	15	2	1,158				1,158	1,158
Cash and cash equivalents	16	2	37,074				37,074	37,074
<b>Total</b>			<b>57,310</b>		<b>101</b>		<b>57,412</b>	<b>57,412</b>
<b>Non-current financial liabilities</b>								
Loans from financial institutions	22	2				34,555	34,555	34,555
Finance lease liabilities	22	2				29,551	29,551	29,551
Other liabilities	22	2				752	752	752
Contingent consideration	26	3		1,478			1,478	1,478
<b>Current financial liabilities</b>								
Loans from financial institutions	22	2				2,209	2,209	2,209
Cheque account with credit limit	22	2				1,178	1,178	1,178
Finance lease liabilities	22	2				2,993	2,993	2,993
Contingent consideration	26	3		3,940			3,940	3,940
Trade and other payables	18	2				18,648	18,648	18,648
<b>Total</b>				<b>5,418</b>		<b>89,887</b>	<b>95,305</b>	<b>95,305</b>

EUR 1,000

31.12.2016	Note	Fair value hierarchy	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Available-for-sale financial assets	Financial liabilities measured at amortised cost	Total carrying amounts	Fair values total
<b>Non-current financial assets</b>								
Other shares and participations		2			46		46	46
Lease deposits	14	2	1,247				1,247	1,247
Loan receivables from associates	14	2	1,495				1,495	1,495
<b>Current financial assets</b>								
Trade receivables	15	2	15,968				15,968	15,968
Trade receivables from associates	15	2	11				11	11
Other receivables	15	2	3,168				3,168	3,168
Cash and cash equivalents	16	2	27,537				27,537	27,537
<b>Total</b>			<b>49,426</b>		<b>46</b>		<b>49,472</b>	<b>49,472</b>
<b>Non-current financial liabilities</b>								
Loans from financial institutions	22	2				24,877	24,877	24,877
Finance lease liabilities	22	2				20,739	20,739	20,739
Other liabilities	22	2				833	833	833
Contingent consideration	26	3		1,887			1,887	1,887
<b>Current financial liabilities</b>								
Loans from financial institutions	22	2				350	350	350
Cheque account with credit limit	22	2				343	343	343
Finance lease liabilities	22	2				2,520	2,520	2,520
Contingent consideration	26	3		494			494	494
Trade and other payables	18	2				13,176	13,176	13,176
<b>Total</b>				<b>2,381</b>		<b>62,838</b>	<b>65,219</b>	<b>65,219</b>

## Fair value determination principles applied by the Group

Using its judgement, the company's management has estimated on the basis of forecasts received and recent performance that the original carrying amount of the loan receivables from associated companies corresponds to their fair value.

The carrying amount of the financial assets included in the item "loans and other receivables" essentially corresponds to their fair value, as the effect of discounting is not significant taking the maturity of the receivables into consideration.

More information on current receivables is presented in Note 15 Trade receivables and other receivables.

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

The carrying amount of other financial liabilities essentially corresponds to their fair value, as the effect of discounting

is not significant taking the maturity of the receivables into consideration. No interest is paid on liabilities arising from contingent considerations. More information on contingent considerations is presented in Note 26 Business combinations.

## Fair value hierarchy levels

**Level 1:** Fair values of financial instruments are based on quoted prices in active markets for identical assets and liabilities.

**Level 2:** Financial instruments are not subject to trading in active and liquid markets. The fair values of financial instruments can be determined based on quoted market prices and deduced valuation.

**Level 3:** Measurement of financial instruments is not based on verifiable market information, and information on other circumstances affecting the value of the instruments is not available or verifiable.

*Accounting policies: 1.71 Group as lessee, 1.14.1 Financial assets, 1.14.4 Financial liabilities*

## 21. NOTES ON EQUITY

Reconciliation of the number of shares

EUR 1,000				
	Number of shares	Share capital	Reserve for invested unrestricted equity	Total
31.12.2016	20,613,146	80	87,946	88,026
31.12.2017	20,613,146	80	87,946	88,026

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

The shares belong to the book-entry system.

### Reserve for invested unrestricted equity

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

### Distributable funds

The parent company's total distributable funds were EUR 179,727,679.30, of which profit for the financial year accounts for EUR 22,210,058.70.

### Dividends

After the balance sheet date, the Board of Directors has proposed that a dividend of EUR 0.16 per share be distributed.

*Accounting policies: 1.15 Equity*

## 22. INTEREST-BEARING FINANCIAL LIABILITIES

EUR 1,000	2017	2016
<b>Non-current interest-bearing liabilities</b>		
Bank loans	34,555	24,877
Other liabilities	752	833
Finance lease liabilities	29,551	20,739
<b>Total</b>	<b>64,858</b>	<b>46,449</b>

EUR 1,000	2017	2016
<b>Current interest-bearing liabilities</b>		
Bank loans	2,209	350
Cheque accounts with credit limit	1,178	343
Other liabilities	0	0
Finance lease liabilities	2,993	2,520
<b>Total</b>	<b>6,381</b>	<b>3,213</b>
<b>Interest-bearing financial liabilities total</b>	<b>71,239</b>	<b>49,662</b>

At the end of the financial year, the Group had EUR 34.8 (45.2) million of unused committed short-term credit limits. Drawdowns from the Group's revolving credit facility are actually long-term by nature, although their maturity is 1, 3 or 6 months.

## FINANCE LEASE LIABILITIES

Maturity periods of finance lease liabilities:

EUR 1,000	2017	2016
<b>Gross finance lease liabilities - amount of minimum lease payments by maturity period</b>		
Within one year	3,993	3,249
Between one and five years	14,552	11,275
Over five years	20,325	13,124
<b>Total</b>	<b>38,870</b>	<b>27,648</b>
Financial expenses accrued in the future	-6,326	-4,389
<b>Present value of finance lease liabilities</b>	<b>32,544</b>	<b>23,259</b>

The present value of finance lease liabilities will mature as follows:

EUR 1,000	2017	2016
Within one year	3,933	3,201
Between one and five years	13,306	10,276
Over five years	15,305	9,782
<b>Total</b>	<b>32,544</b>	<b>23,259</b>

Finance lease liabilities consist of lease agreements for machinery and equipment and real estate property leases. The property leases are primarily tied to the consumer price index.

## 23. CHANGES IN INTEREST-BEARING LIABILITIES WITH NO IMPACT ON CASH FLOW

EUR 1,000	2016	Cash flow	Business combinations	New instalments and financial leasing	Effective interest rate	2017
Non-current interest-bearing liabilities	25,710	7,343	1,635	578	42	35,308
Current interest-bearing liabilities	693	722	1,700	272		3,388
Finance lease liabilities	23,259	-3,189		12,473		32,544
<b>Total liabilities from financing</b>	<b>49,662</b>	<b>4,876</b>	<b>3,335</b>	<b>13,323</b>	<b>42</b>	<b>71,239</b>

## 24. CAPITAL MANAGEMENT

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

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

EUR 1,000	2017	2016
Total equity	105,856	101,010
Statement of financial position, total - prepayments received	253,215	217,401
<b>Equity ratio</b>	<b>41.8%</b>	<b>46.5%</b>
Interest-bearing financial liabilities	71,239	49,662
Cash and cash equivalents	-37,074	-27,537
<b>Interest-bearing net debt</b>	<b>34,165</b>	<b>22,125</b>
EBITDA	33,312	27,906
Adjustment items*	749	1,011
<b>Adjusted EBITDA</b>	<b>34,061</b>	<b>28,918</b>
<b>Net debt/adjusted EBITDA</b>	<b>1.0</b>	<b>0.8</b>

\* Significant transactions that are not part of the normal course of business, infrequently occurring events or valuation items that do not affect cash flow are treated as adjustment items affecting comparability between reporting periods. According to Pihlajalinna's definition, such items include, for example, restructuring measures and Group refinancing, impairment of assets and the remeasurement of previous assets held by subsidiaries, the costs of closing down businesses and business locations, gains and losses on the sale of businesses, costs arising from operational restructuring and the integration

of acquired businesses, costs related to the termination of employment relationships, as well as fines and corresponding compensation payments.

More information on adjusted EBITDA is provided in Note 7 Adjusted EBITDA and adjusted operating profit.

## 25. FINANCIAL RISK MANAGEMENT

The Group's main financial risks consist of interest rate and liquidity risks, credit risks and counterparty risks. The Group operates mainly in Finland and is not therefore exposed to material foreign exchange risks in its operations. The Group's general risk management policies are approved by the Board of Directors. The Group's Chief Financial Officer, together with the operative management, is responsible for identifying financial risks and for practical risk management. The goal of the Group's risk management is to ensure sufficient liquidity, minimise financing costs and regularly inform the management about the Group's financial position and risks.

Group's financial administration actively monitors compliance with the financial covenants and assesses financial leeway in relation to the covenant maximums as part of the Group's business planning.

### Interest rate risk

The Group's revenues and cash flows from operations are mostly independent of fluctuations in market interest rates. The Group is exposed to interest rate risks mainly through its external loan portfolio. In accordance with the principles of risk management, the Board of Directors decides on the extent of

interest rate hedging coverage for the Group's loan portfolio. At the end of the financial year, the Group had no interest rate hedging arrangements in place. On the date of the financial statements, 50% (50%) of the interest-bearing liabilities were subject to fixed interest rates. During the financial year, the average annual interest rate on the Group's interest-bearing liabilities was approximately 2.19% (2.10%). The duration, i.e. the fixed interest rate period, of the financing portfolio was 3.1 (3.0) years.

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

EUR 1,000	2017	2016
Fixed rate financial liabilities	35,509	25,088
Variable rate financial liabilities	35,845	24,731
<b>Total variable rate position</b>	<b>35,845</b>	<b>24,731</b>

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

	2017	2017	2016	2016
Change	0.5 percentage points higher	0.5 percentage points lower	0.5 percentage points higher	0.5 percentage points lower
Effect on profit before tax	-179	0	-124	0

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

### Liquidity risk

The Group monitors the amount of financing required by business operations by analysing forecasts for cash flow from sales

in order to make sure the Group has a sufficient amount of liquid assets for financing operations and repaying maturing loans.

The Group's credit limits include a five-year, EUR 60 million revolving credit facility and EUR 10 million account limit agreements. The revolving credit facility involves only one financial covenant: net debt/adjusted EBITDA.

The Group aims to ensure the availability and flexibility of financing with adequate credit limits, a balanced maturity profile and sufficiently long maturities for borrowings, as well as by obtaining financing through several financial instruments. At the end of the reporting period, the Group's financial assets stood at EUR 37.1 million (EUR 27.5 million), in addition to which the Group had EUR 34.8 million (EUR 45.2 million) in unused credit limits available.

The Group's equity ratio at the end of the financial year was 42.0 per cent (46.5). The Group has good financial standing and its business operations are profitable, and therefore the company has not identified any significant risks related to the availability of additional financing.

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

## FINANCIAL LIABILITIES REPAYMENT SCHEDULE

EUR 1,000	Carrying amount at 31 Dec. 2017	less than 1 year	1-2 years	2-3 years	3-4 years	over 4 years
Loans from financial institutions	36,764	-36,399	-410	-176	-40	-40
Finance lease liabilities	32,544	-3,993	-3,901	-3,807	-3,710	-23,459
Other interest-bearing liabilities	752	-20	-93	-57	-57	-916
Contingent consideration	5,418	-3,946	-1,122	-357		
Cheque account with credit limit	1,178	-1,209				
Trade payables	12,573	-12,573				
Other liabilities, series B	6,075	-6,075				
<b>Total</b>	<b>95,305</b>	<b>-64,216</b>	<b>-5,526</b>	<b>-4,396</b>	<b>-3,806</b>	<b>-24,416</b>

EUR 1,000	Carrying amount at 31 Dec. 2016	less than 1 year	1-2 years	2-3 years	3-4 years	over 4 years
Loans from financial institutions	25,227	-24,954	-281	-131	-27	-99
Finance lease liabilities	23,259	-3,249	-3,225	-3,154	-3,081	-14,939
Other interest-bearing liabilities	833	-20	-93	-57	-57	-1,041
Contingent consideration	2,381	-508	-1,035	-529	-453	
Cheque account with credit limit	343	-361				
Trade payables	8,020	-8,020				
Other liabilities, series B	5,156	-5,156				
<b>Total</b>	<b>65,219</b>	<b>-42,268</b>	<b>-4,634</b>	<b>-3,869</b>	<b>-3,618</b>	<b>-16,079</b>

## Loan covenants

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

The financial covenant linked to the Group's revolving credit facility is based on the ratio of the Group's net debt to pro forma EBITDA. The maximum value of the covenant term is 3.75. The closer the Group's covenant term is to said maximum value, the higher the loan margin. At the end of the reporting period, the Group met the terms of the covenant; the ratio was 1.02 (0.78).

At the end of the reporting period, 31 December 2017, the loan amount to which the covenants apply was EUR 34.0 million.

## Credit risk

The Group's credit risk mostly consists of credit risks involved in customer receivables related to business operations. The Group has no significant credit risk concentrations related to customer receivables, as the key customers in the public sector (municipalities and public entities) and the largest occupational healthcare customers have a good credit rating that has been checked.

The Group's trade receivables include EUR 2.5 (1.2) million in substantially delayed payments from a significant customer. The matter concerns a contractual dispute under civil law, with the municipality in question seeking a preliminary ruling from the Supreme Administrative Court. According to the assessment of Pihlajalinna's management, the municipality in question has no grounds for withholding payment. Pihlajalinna's management further expects that the customer will pay the receivables in full.

The payment information of corporate and personal customers is checked at every appointment. For the collection of payments, the Group mostly uses an external collections agency. The Group's private customers also have a special Joustotili (Flexible Account) available to them, which allows for flexible financing of services and includes a check of the private customer's creditworthiness.

The ageing analysis of trade receivables is presented in Note 15 Trade receivables and other receivables. The amount of credit losses recorded in profit or loss during the financial year was not significant. The maximum amount of the Group's credit risk equals to the carrying amount of financial assets at the end of the financial year (see Note 20 Financial assets and liabilities by measurement category).

## Currency risk

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

# 26 BUSINESS COMBINATIONS

## ACQUISITIONS DURING THE FINANCIAL YEAR 2017

On 2 January 2017, Pihlajalinna acquired the entire share capital of Itä-Suomen Lääkäritalo Oy, which operates in the Kuopio region. Itä-Suomen Lääkäritalo has, under the name

Lääkärikeskus ITE, worked in close cooperation with Itä-Suomen Lääkärikeskus Oy, which Pihlajalinna acquired on 1 February 2016.

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

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

Pihlajalinna acquired Paraisten Lääkärikeskus Oy on 4 December 2017.

## Acquisitions achieved in stages

Insta Care Oy, a former joint venture, became a wholly-owned subsidiary of Pihlajalinna as of 1 June 2017. At the same time, the company's name was changed to Pihlajalinna Solutions Oy. Pihlajalinna consolidates the company in the consolidated financial statements as a subsidiary and as an acquisition achieved in stages. The gains of the remeasurement to fair value of pre-existing interest in acquiree were recognised through profit and loss.

On 31 December 2017, Pihlajalinna exercised its right to convert a proportion of a convertible bond issued by Dextra Lapsettomuuskeskus Oy into new shares in the company in accordance with the terms of the bond. Pihlajalinna consolidates Dextra Lapsettomuuskeskus Oy in the consolidated financial statements as a subsidiary and as an acquisition achieved in stages. The previous holding was measured at fair value and the gains were recognised through profit and loss. Following the conversion of the bond, Pihlajalinna's ownership in the company is approximately 51%.

Of the fair value measurement of pre-existing interest in the acquiree, EUR 296 thousand is recognised in other operating income and EUR 16 thousand in the reserve for invested unrestricted equity.

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

EUR 1,000	2017
Consideration transferred	
Cash, basic transaction price	10,052
Contingent consideration	3,435
Total cost of the combination	13,487

At the date of acquisition, the preliminary values of assets acquired and liabilities assumed were as follows:

EUR 1,000	Note	2017
Property, plant and equipment	12	2,857
Intangible assets	13	2,527
Deferred tax asset		304
Inventories		196
Available-for-sale financial assets		1
Trade and other receivables		1,424
Cash and cash equivalents		1,622
Total assets		8,932
Deferred tax liability		-436
Interest-bearing financial liabilities		-3,335
Other liabilities	23	-3,336
Total liabilities		-7,107
Preliminary net assets		1,826

EUR 1,000	Note	2017
<b>Goodwill generated in the acquisition</b>		
Consideration transferred		13,487
Previous holding measured at fair value		312
Share of the acquisition allocated to non-controlling interests		-355
Net identifiable assets of acquirees		-1,826
Preliminary goodwill	13	11,617
Transaction price paid in cash		10,052
Cash and cash equivalents of acquiree		-1,622
Preliminary effect on cash flow*		8,429

Customer contracts, non-compete agreements and patient databases were recorded in the acquisition as intangible assets separate from goodwill. The fair value of intangible assets has been determined on the basis of the standardised price level in business combinations and the discounted values of future cash flows. The remaining goodwill consists of expectations about returns, the skilled workforce of the acquired companies and synergy benefits.

The acquisition-related expenses, a total of EUR 350 thousand, have been recorded under other operating expenses.

The revenue and results for the acquired business operations beginning from the date of acquisition (total revenue EUR 8,786 thousand and total operating profit EUR 438 thousand) are included in the consolidated statement of comprehensive income. Had the business operations acquired in the financial year been consolidated as of the beginning of 2017, consolidated revenue would have amounted to EUR 433,656 thousand and operating profit for the financial year would have been EUR 19,700 thousand.

### Acquisition of non-controlling interests

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

In December, Pihlajalinna increased its ownership in Kolmostien Terveys Oy by acquiring 10 per cent of the company's share capital from the City of Parkano in accordance with Pihlajalinna's commitment. After the transaction, the Group owns 71 per cent of the company.

## ACQUISITIONS DURING THE FINANCIAL YEAR 2016

The Group expanded in the 2016 financial year through several business combinations.

On 8 February 2016, Pihlajalinna completed 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 and net cash at the time of the transaction, EUR 0.4 million. The contingent consideration was based on the company's profit development as shown in its adopted financial statements 2015, which turned out better than anticipated.

Pihlajalinna further strengthened its private clinic operations in Lappeenranta by purchasing the majority of shares in Lääkäriasema DokTori Oy on 9 February 2016.

On 7 March 2016, Pihlajalinna strengthened its presence in Seinäjoki and elsewhere in South 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.

The non-controlling interests in Etelä-Pohjanmaan Sydäntutkimuspalvelu Oy, Kompassi Hammaslääkärikeskus Oy and Kompassi Lääkärikeskus Oy were purchased in a transaction completed on 30 December 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.

On 1 November 2016, Pihlajalinna acquired the share capital of Jämsän Lääkärikeskus Oy to strengthen its position and services in Central Finland. In addition, Pihlajalinna acquired the entire share capital of MediApu Oy on 30 November 2016. MediApu is an Oulu-based medical recruitment service that provides municipal work opportunities for physicians.

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

EUR 1,000	2016
Consideration transferred	
Cash, basic transaction price	22,213
Cash, contingent consideration	1,895
Contingent consideration	2,360
Total cost of the combination	26,469

At the date of acquisition, the values of assets acquired and liabilities assumed were as follows:

EUR 1,000	Note	2016
Property, plant and equipment	12	1,329
Intangible assets	13	4,189
Inventories		413
Available-for-sale financial assets		2
Trade and other receivables		3,358
Cash and cash equivalents		5,420
Total assets		14,712
Deferred tax liabilities		-817
Financial liabilities		-1,355
Other payables		-2,286
Total liabilities		-4,457
Net assets		10,255
Goodwill generated in the acquisition		
Consideration transferred		26,469
Net identifiable assets of acquiree		-10,255
Goodwill	13	16,214
Transaction price paid in cash		24,108
Cash and cash equivalents of acquiree		-5,420
Effect on cash flow*		18,688

Customer contracts, non-compete agreements and patient databases were recorded in the acquisition as intangible assets separate from goodwill. The fair value of intangible assets has been determined on the basis of the standardised price level

in business combinations and the discounted values of future cash flows. The remaining goodwill consists of expectations about returns, the skilled workforce of the acquired companies and synergy benefits.

The acquisition-related expenses, a total of EUR 465 million, have been recorded under other operating expenses.

The revenue and results for the acquired business operations beginning from the date of acquisition (total revenue EUR 15,522 thousand and total operating profit EUR 1,781 thousand) are included in the consolidated statement of comprehensive income. Had the business operations acquired in the financial year been consolidated as of the beginning of 2016, consolidated revenue would have amounted to EUR 402,895 thousand and operating profit for the financial year would have been EUR 16,135 thousand.

## CONTINGENT CONSIDERATION

The Group is committed to paying EUR 2,300 thousand in contingent consideration for the acquisitions in the 2017 financial year. Payment of the consideration is contingent on various indicators measuring profit-making ability.

The fair value of contingent consideration is determined on the basis of the budget for the 2017 financial year approved by the Board of Directors and on estimates for 2018–2019 prepared by the management. The estimates are based on a discount rate of 3%.

Any changes in the fair value of contingent consideration are recorded under other operating expenses. The valuation difference resulting from the discount rate has been recognised in profit or loss under financial items.

EUR 1,000	2017	2016
Contingent consideration, 1 Jan.	2,381	2,982
Increase in contingent consideration from the acquisition of business operations	2,300	2,360
Increase in the fair value of contingent consideration during the measurement period	1,135	
Unrealised decrease in the fair value of contingent consideration		-661
Effect of the unwinding of discount	103	70
Contingent consideration paid during the financial year*	-500	-2,370
Contingent consideration, 31 Dec.	5,418	2,381

The treatment of the Mediapu Oy acquisition made in the 2016 financial year has been revised during the measurement period by supplementing the identifiable assets by a non-competition agreement of EUR 1,000 thousand and a deferred tax liability of EUR 200 thousand, and recognising an additional EUR 1,135 thousand in contingent considerations. As a result, goodwill increased by EUR 335 thousand.

\* The line item "Acquisition of subsidiaries less cash and cash equivalents on date of acquisition" in the consolidated statement of cash flows presents the following items as a net amount:

EUR 1,000	2017	2016
Acquisitions in the financial year, effect on cash flow	8,429	18,688
Contingent consideration paid during the financial year	500	2,370
<b>Total</b>	<b>8,929</b>	<b>21,059</b>

*Accounting policies: 2.1 Measuring the fair value of assets acquired in the context of business combinations and the fair value of contingent consideration*

## 27. SUBSIDIARIES AND MATERIAL NON-CONTROLLING INTERESTS

### THE GROUP'S STRUCTURE

The Group had 32 (31) subsidiaries in 2017. Of these subsidiaries, 24 (26) are wholly-owned and 7 (5) are partially owned.

A list of all of the Group's subsidiaries is presented in Note 31 Related party transactions.

In 2017, the Group had 1 (1) joint venture and 1 (1) joint operation. In 2016, the Group had 2 associated companies, in which the Group acquired control during the 2017 financial year.

### BREAKDOWN OF MATERIAL NON-CONTROLLING INTERESTS IN THE GROUP

EUR 1,000								
Subsidiary	Main business location	Non-controlling interests' share of the votes		Non-controlling interests' share of profit or loss		Non-controlling interests' share of equity		
		2017	2016	2017	2016	2017	2016	
Jokilaakson Terveys Oy	Jämsä	49 %	49 %	1,249	265	1,838	1,080	
Mäntänvuoren Terveys Oy	Mänttä-Vilppula	34 %	49 %	771	895	1,029	371	
Jämsän Terveys Oy	Jämsä	49 %	49 %	426	206	752	326	
Kuusiolinnat Terveys Oy	Alavus	49 %	49 %	1,977	1 044	2,043	1,046	
Kolmostien Terveys Oy	Parkano	29 %	39 %	168	316	288	417	
Pihlajalinna Erityisasumispalvelut Oy	Hämeenlinna	30 %		-38		-32		
Dextra Lapsettomuusklinikka Oy	Helsinki	49 %				-355		
				4,553	2 726	5,563	3,240	

**SUMMARY OF FINANCIAL INFORMATION ON SUBSIDIARIES WITH A MATERIAL NON-CONTROLLING INTEREST**

EUR 1,000	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2017
	Jokilaakson Terveys Oy	Mäntänvuoren Terveys Oy	Jämsän Terveys Oy		Kuusiollinna Terveys Oy		Kolmostien Terveys Oy		Pihlaja- linna Erityis- asumis- palvelut Oy		Dextra Lapset- tomuus- klinikka Oy	
Current assets	6,087	4,047	8,154	6,550	8,745	7,336	16,150	13,069	4,217	4,329	151	777
Non-current assets	1,132	1,344	1,248	1,336	421	345	722	400	1,138	1,093	149	1,622
Current liabilities	3,319	3,008	6,318	7,081	7,561	6,979	12,597	11,285	4,343	4,344	256	3,124
Non-current liabilities											150	
Revenue	26,180	24,302	42,375	40,931	73,587	72,807	91,259	81,014	34,255	33,504		
Operating profit	3,146	662	2,840	2,277	1,101	547	5,068	2,705	731	1,034	-157	
Profit/loss	2,548	540	2,267	1,827	870	421	4,034	2,131	578	810	-126	
Share of profit/loss attributable to owners of the parent	1,300	276	1,496	932	444	215	2,058	1,087	411	494	-88	
Non-controlling interests' share of profit/loss	1,249	265	771	895	426	206	1,977	1,044	168	316	-38	
Net cash flow from operating activities	3,088	2,565	3,948	-19	2,117	2,714	4,633	10,501	2,590	605	-234	
Net cash flow from investing activities	-143	-519	-78	-93	-203	-274	-299	-400	-221	-189	-117	
Net cash flow from financing activities	-1,000	-603	-1,901	647	-1	-2	-2,001	-57	-704	932	351	
of which dividends paid to non-controlling interests	-490	-294	-931	-49			-980		-343			

Accounting policies: 1.1.1 Subsidiaries

## 28. INTERESTS IN ASSOCIATES AND JOINT ARRANGEMENTS

EUR 1,000		2017	2016
Interests in associates			0
Interests in joint ventures	Röntgentutka Oy	3,011	2,795
Interests in joint operations		40	40
<b>Total carrying amount</b>		<b>3,051</b>	<b>2,835</b>

### INTERESTS IN ASSOCIATES AND JOINT VENTURES

Name	Main business location	Sector	2017	2016
Dextra Lapsettomuuskliniikka Oy	Helsinki	Private clinics, private doctors and similar specialist medical services		49%
Pihlajalinna Solutions Oy (formerly Insta Care Oy)	Tampere	Software design and production		50%
Röntgentutka Oy	Tampere	Imaging	50%	50%

EUR 1,000	2017		2016		2017		2016	
	Röntgentutka Oy		Insta Care Oy		Dextra Lapsettomuuskliniikka Oy			
Current assets	2,343	1,642			138		1,013	
Financial assets included in current assets	1,850	1,013			74		400	
Non-current assets	883	1,173			269		1,669	
Current liabilities	677	633			235		2,143	
Financial liabilities included in current liabilities	71	71			85		1,700	
Non-current liabilities	280	345			200		1,345	
Financial liabilities included in non-current liabilities	280	345			200		1,345	
Revenue	3,986	3,905			483		3,292	
Depreciation and amortisation	-290	-291			-90		-338	
Operating profit	791	518			-270		195	
Profit/loss	631	412			-275		97	
Interest income	1	0			0		0	
Interest expenses	-3	-4			-5		-99	
Income tax expenses or income	-157	-101						
Associate's net assets	2,269	1,837			-28		-806	
Group's holding	50%	50%			50%		49%	
Associate's carrying amount in the consolidated statement of financial position						0	0	
Joint venture's carrying amount in the consolidated statement of financial position	3,011	2,795						

The share of associates' profit is presented under other operating expenses up to the carrying amount of the Group's investment in their shares. During the financial year 2017, the Group acquired control in Pihlajalinna Solutions Oy (formerly Insta Care Oy) and Dextra Lapsettomuuskliniikka Oy.

### INTERESTS IN JOINT OPERATIONS

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

*Accounting policies: 1.1.2 Associates and joint arrangements*

## 29. OPERATING LEASES

### GROUP AS LESSEE

The Group has leased almost all of the premises it uses. The lease terms range from from a few years to fifteen years, and normally they include the option to extend the lease after the original expiry date. The leases generally include an index clause.

Minimum lease payments under non-cancellable operating leases:

EUR 1,000	2017	2016
Within one year*	8,278	6,853
More than one year and a maximum of five years later*	22,752	15,969
Over five years later	19,057	7,750
<b>Total</b>	<b>50,087</b>	<b>30,571</b>

The amount of lease liabilities has increased significantly due to acquisitions and the opening of new business locations. The Group opened business locations in Oulu and Turku at the beginning of 2018, with Seinäjoki to follow later in spring 2018.

*Accounting policies: 1.7 Leases*

### GROUP AS LESSOR

The Group leases out parts of its premises under operating leases. The amount of rental income is not material.

*Accounting policies: 1.7.1 Group as lessee*

## 30. CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

EUR 1,000	2017	2016
Collateral given on own behalf		
Pledged collateral notes	1,300	1,300
Sureties	3,099	320
Collateral given on behalf of associates		
Other contingent liabilities		3,443

### Other contingent liabilities

The Group's subsidiaries, Pihlajalinna Lääkärikeskukset Oy, Pihlajalinna Terveys Oy and Pihlajalinna Tampere Oy have provided a suretyship in the parent company's loan facility. The balance of the loan on the financial statements date was EUR 34 million.

If certain criteria are met, the Group has committed to redeeming an additional 10% of the shares in Kolmostien Terveys Oy and 15% of the shares in Mäntänvuoren Terveys Oy in 2018.

*Accounting policies: 1.11 Provisions and contingent liabilities*

### Lawsuits and official proceedings

At the time of the financial statements, the Group had no pending lawsuits or official proceedings.

## 31. RELATED PARTY TRANSACTIONS

The Group's related parties consist of the subsidiaries, associates and joint ventures. Key management personnel considered related parties consist of the members of the Board of Directors and the Management Team, including the CEO and the Deputy CEO.

### THE GROUP'S PARENT COMPANY AND SUBSIDIARY RELATIONSHIPS

The Group's parent company is Pihlajalinna Plc, which owns all of Pihlajalinna Terveys Oy's Series A shares. Pihlajalinna Terveys Oy owns the shares in the other subsidiaries.

COMPANY	Domicile	Holding	% of votes
Parent company Pihlajalinna Plc	Tampere		
Pihlajalinna Terveys Oy	Tampere	100%	100%
Ikipihlaja Johanna Oy	Jämsä	100%	100%
Jokilaakson Terveys Oy	Jämsä	51%	51%
Pihlajalinna Lääkärikeskukset Oy	Helsinki	100%	100%
Mäntänvuoren Terveys Oy	Mänttä-Vilppula	66%	66%
Hämeenlinnan Hoivapalvelu Ky	Hämeenlinna	100%	100%
Ikipihlaja Kuusama Oy	Kokemäki	100%	100%
Ikipihlaja Sofianhovi Oy	Mänttä-Vilppula	100%	100%
Wiisuri Oy	Jyväskylä	100%	100%
Hoivakoti Nestori Oy	Tampere	100%	100%
Ikipihlaja Matinkartano Oy	Lieto	100%	100%
Ikipihlaja Setälänpiha Oy	Lieto	100%	100%
Ikipihlaja Oiva Oy	Raisio	100%	100%
Kolmostien Terveys Oy	Parkano	71%	71%
Jämsän Terveys Oy	Jämsä	51%	51%
Kuusiolinnat Terveys Oy	Alavus	51%	51%
Pihlajalinna Tampere Oy	Tampere	100%	100%
Lääkäriasema DokTori Oy	Lappeenranta	100%	100%
Etelä-Pohjanmaan Sydäntutkimuspalvelu Oy	Seinäjoki	100%	100%
Kompassi Hammaslääkärikeskus Oy	Seinäjoki	100%	100%
Kompassi Lääkärikeskus Oy	Seinäjoki	100%	100%
Ala-Malmin Hammaslääkärit Oy	Helsinki	100%	100%
Mediapu Oy	Oulu	100%	100%
Pihlajalinna Oulu Oy	Oulu	100%	100%
Pihlajalinna Seinäjoki Oy	Seinäjoki	100%	100%
Pihlajalinna Turku Oy	Turku	100%	100%
Pihlajalinna Solutions Oy	Tampere	100%	100%
Pihlajalinna Erityisasumispalvelut Oy	Hämeenlinna	70%	70%
Pihlajalinna Madetojanpuisto Oy	Oulu	100%	100%
Paraisten Lääkärikeskus Oy	Parainen	100%	100%
Dextra Lapsettomuusklinikka Oy	Helsinki	51%	51%
Hattulan Hyvinvointi Oy	Hattula	100%	100%

Information on the associates is presented in Note 28 Interests in associates and joint arrangements.

### CHANGES IN GROUP STRUCTURE

As part of Pihlajalinna's brand revamp, the company names of the following Group companies were changed during the financial year: Dextra Oy became Pihlajalinna Lääkärikeskukset Oy, Tampereen Lääkärikeskus Oy became Pihlajalinna Tampere Oy, Hoivakoti Johanna Oy became Ikipihlaja Johanna Oy, Kuusama-Koti Oy became Ikipihlaja Kuusama Oy, Hoitokoti Matinkartano Oy became Ikipihlaja Matinkartano Oy, Hoitokoti Setälänpiha Oy became Ikipihlaja Setälänpiha Oy and Raision Oiva Oy became Ikipihlaja Oiva Oy.

The following subsidiary mergers were implemented during the financial year: Sataman Röntgen Oy and Joen Magneetti Oy merged with Pihlajalinna Lääkärikeskukset Oy at the end of the year; Suomen Keinojuuriklinikka Oy merged with Pihlajalinna Lääkärikeskukset Oy on 1 November 2017; Jämsän Lääkärikeskus Oy merged with Pihlajalinna Lääkärikeskukset

Oy on 1 September 2017; Itä-Suomen Lääkäritalo merged with Pihlajalinna Lääkärikeskukset Oy on 1 June 2017; Dextra Medical Spa, Plastiikkakirurginen sairaala Oy and Itä-Suomen Lääkärikeskus Oy merged with Pihlajalinna Lääkärikeskukset Oy on 1 May 2017; Laser Tiikka Oy merged with Pihlajalinna Lääkärikeskukset Oy on 1 March 2017; and Oikare Oy merged with Ikipihlaja Setälänpiha Oy on 1 March 2017.

During the financial year, Pihlajalinna established the companies Pihlajalinna Oulu Oy, Pihlajalinna Seinäjoki Oy, Pihlajalinna Turku Oy and Pihlajalinna Erityisasumispalvelut Oy. The business operations of these companies will begin in financial year 2018.

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

consolidated financial statements as a subsidiary and as an acquisition achieved in stages. The pre-existing interest in acquiree was remeasured at fair value and the gains were recognised through profit and loss.

The business operations of Gyne-Praxis Oy were transferred to Pihlajalinna Lääkärikeskukset Oy in an asset deal on 31 May 2017. The company was dissolved on 31 October 2017.

On 31 December 2017, Pihlajalinna exercised its right to convert a proportion of a convertible bond issued by Dextra Lapsettomuuskliniikka Oy into new shares in the company in accordance with the terms of the bond. Pihlajalinna consolidates Dextra Lapsettomuuskliniikka Oy in the consolidated financial statements as a subsidiary and as an acquisition achieved in stages. The previous holding was measured at fair value and the gains were recognised through profit and loss. Following the conversion of the bond, Pihlajalinna's ownership in the company is approximately 51%.

Koskisaaraala Oy was dissolved on 1 January 2017.

*Accounting policies: 1.1.1. Subsidiaries*

## EMPLOYEE BENEFITS OF MANAGEMENT

EUR 1,000	2017	2016
Salaries and other short-term employee benefits, Management Team	853	1,092
Advisor fees, Mikko Wirén	87	116
Advisor fees, Leena Niemistö	16	124
Post-employment benefits, Management Team		51
<b>Total</b>	<b>955</b>	<b>1 383</b>

## Wages and salaries

EUR 1,000	2017	2016
CEO Joni Aaltonen (since 11 December 2017)	7	
CEO Aarne Aktan (8 August 2016–10 December 2017)	332	127
CEO Mikko Wirén (until 8 August 2016)		195
Deputy CEO Leena Niemistö (until 29 April 2016)		63
<b>Members of the Board of Directors</b>		
Leena Niemistö	54	53
Aarne Aktan (member of the Board until 8 August 2016)		30
Jari Sundström	35	43
Mikko Wirén (since 8 August 2016)	212	22
Seija Turunen (since 4 April 2016)	35	27
Jari Eklund (since 4 April 2016)	35	27
Timo Everi (since 4 April 2016)	34	26
Mika Uotila (member of the Board until 4 April 2016)		19
Marjatta Rytömaa (member of the Board until 4 April 2016)		20
Heikki Dunder (member of the Board until 4 April 2016)		18
Veli-Matti Qvintus (member of the Board until 4 April 2016)		18
Matti Ala-Härkönen (member of the Board 1 June 2015–4 April 2016)		20
<b>Total</b>	<b>743</b>	<b>705</b>

According to the CEO's contract, the notice period for dismissal is 3 months. The company is liable to pay the CEO one-time compensation for termination amounting to six months' total salary. The CEO's pension benefits are according to the statutory pension scheme. The CEO is not a member of the Board of Directors.

In addition to statutory pension insurance, the Chairman of the Board of Directors has a supplementary defined contribution pension plan.

## Related party transactions and related party receivables and liabilities:

EUR 1,000	2017	2016
Key management personnel		
Rents paid	1,057	822
Services procured	1,289	1,572
Trade payables	64	218
Other liabilities		235
Other related parties		
Services procured		
Associates		
Services sold	9	56
Services procured	1,022	1,311
Rents received	241	275
Interest received	88	39
Dividends received	100	250
Trade payables	83	97
Other liabilities		64
Trade receivables		11
Interest receivables		51
Loan receivables		1,495

The Group has leased several of its business premises from members of the key management personnel, including the premises in Nokia, Karkku, Tampere (Kehräsaari and Klingendahl) and Kangasala.

A Group company has an agreement with a member of the key management personnel, under which the Group buys healthcare professionals' services.

The Group's statutory accident insurance policy has been taken out from another related party.

## 32. EVENTS AFTER THE BALANCE SHEET DATE

The municipal council of Nokia decided on 12 February 2018 to initiate an assessment of having the city of Nokia join the Mänttä-Vilppula social and healthcare partnership area. If the municipalities reach an agreement on Nokia joining the partnership area, the partnership area can demand Pihlajalinna alliance to produce social and healthcare services for the city of Nokia under the previously signed service production agreement with Mänttä-Vilppula. Nokia joining the partnership area is subject to approval by the municipal councils of Nokia, Mänttä-Vilppula and Juupajoki.

The acquisition of the Forever fitness centre chain, published after the financial year, expands Pihlajalinna's service offering to the new strategic area of wellbeing services. The fitness centre operations will complete the preventive occupational healthcare services and rehabilitation services carried out after specialised care procedures.

On 1 February 2018, Pihlajalinna Plc's Shareholders' Nomination Board submitted its proposals to the company's Board of Directors, to be presented to the Annual General Meeting of 2018. The Nomination Board proposes to the Annual General Meeting of Pihlajalinna Plc, scheduled to be held on 5 April 2018, that the number of the members of the Board be confirmed to be seven.

The Nomination Board proposes that Timo Everi, Leena Niemistö, Jari Sundström, Seija Turunen ja Mikko Wirén, currently members of the Board of Directors, be re-elected as members of the Board of Directors.

Jari Eklund has indicated his unavailability for re-election. The Nomination Board proposes that Matti Bergendahl and Kati Sulin be elected as new members of the Board. The Nomination Board further proposes that the Annual General Meeting elect Mikko Wirén as the Chairman of the Board and Matti Bergendahl as Vice-Chairman.

The Shareholders' Nomination Board proposes that the remuneration of the Board of Directors be kept unchanged, and that the following annual remuneration be paid to the members of the Board of Directors to be elected at the Annual General Meeting for the term of office ending at the close of the Annual General Meeting 2019: to the full-time Chairman of the Board of Directors EUR 250,000 per year; to the Vice-Chairman EUR 48,000 per year, and to members EUR 24,000 per year.

Additionally, the Nomination Board proposes that each Member of the Board be paid EUR 500 per meeting of the Board and Board Committee. In addition, reasonable travelling expenses would be paid according to the Company travel rules.

On 30 January 2018, Pihlajalinna acquired the entire share capital of Kymijoen Työterveys Oy from the City of Kotka. Kymijoen Työterveys has clinics in Kouvola, Kotka, Karhula and Hamina. Furthermore, the company has an occupational health care clinic in the Miehekkälä and Vironlahti health centres.

On 2 February 2018, Pihlajalinna acquired the Hämeenlinna-based Linnan Klinikka Oy. Linnan Klinikka's private clinic and hospital support Pihlajalinna's current operations in the region. Pihlajalinna expands the healthcare service production in the municipality of Hattula during the spring 2018.

On 19 January 2018, Pihlajalinna announced it will commence codetermination negotiations in relation to restructuring measures. The company is considering changing its operating

model from a business-based structure to a geographical structure. The change is aimed at improving the company's operating conditions and competitive position. Pihlajalinna's current organisational structure is based on two business segments: Private Clinics and Specialised Care, and Primary and Social Care. Both segments are divided into service areas. The view of the company is that the current operating structure does not fully meet the future needs of customers.

Pihlajalinna is considering changing to an organisational model based on four geographical areas (Southern Finland, Central Finland, Ostrobothnia and Other Areas). The area director would be responsible for the area's service production for both the private and public sectors. Pihlajalinna will announce its new operating structure in early 2018.

In relation to the planned changes to the Group's structure, Pihlajalinna started codetermination negotiations for production-related reasons and due to the restructuring of business operations. The negotiations will concern Pihlajalinna Plc's subsidiaries Pihlajalinna Lääkärikeskukset Oy, Pihlajalinna Terveys Oy and Pihlajalinna Tampere Oy and mainly the administrative, managerial and executive level positions in these companies. According to the negotiation proposal, the restructuring could lead to personnel reductions of up to 50 people. The codetermination negotiations concern about 240 employees. Pihlajalinna Group employs some 4,800 people in total.

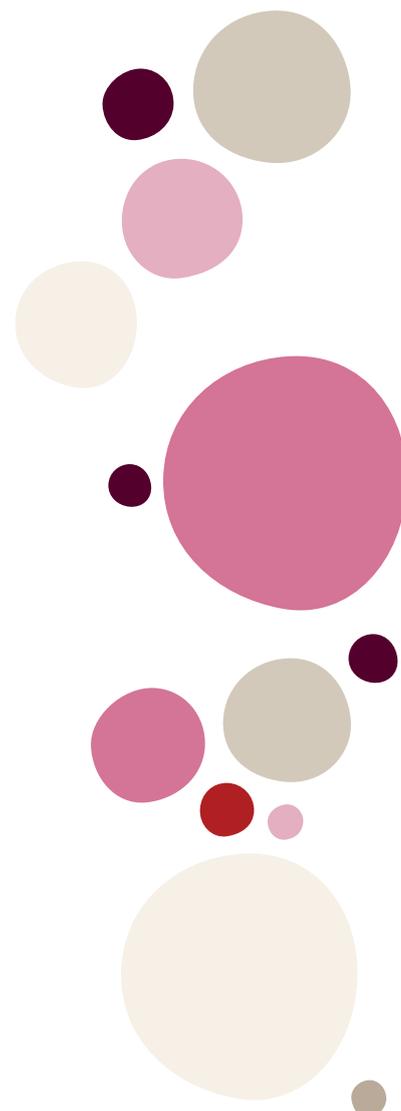
The municipal council of Hattula selected Pihlajalinna as the municipality's primary care and occupational healthcare service partner on 15 January 2018. The service production begins on 1 April 2018. The subject matter of the procurement consists of the following services: outpatient healthcare (including mental wellbeing, school healthcare and maternity and child health clinics), dental care, inpatient healthcare, occupational healthcare, medical specialist services and support services. According to the tendering documentation, the annual value of the agreement is approximately EUR 3.5 million. The duration of the agreement is five years at the minimum and eight years at the maximum. The outsourcing involves approximately 20 per cent of the social and healthcare services that are the responsibility of the municipality or joint municipal authority, therefore, the value of the agreement does not exceed the 30 per cent limitation set by the legislation setting limits on outsourcing. Currently, Pihlajalinna produces the outpatient and inpatient health care services for the municipality of Hattula. The current agreement will end on 31 March 2018.

On 9 January 2018, Pihlajalinna announced it had agreed to acquire the remaining half of the share capital of its joint venture company Röntgentutka Oy. Prior to the acquisition, Pihlajalinna held 50% of the shares in the company. Pihlajalinna now holds the entire share capital of Röntgentutka Oy. It is estimated that the transaction will be completed on 15 February 2018. Röntgentutka operates under the names Koskiröntgen and Koskimagneetti in the same premises as Pihlajalinna Koskiklinikka at Koskikeskus in Tampere. The operations will be integrated into those of Pihlajalinna Koskiklinikka.

On 2 January 2018, Pihlajalinna acquired the entire share capital of Salon Lääkintälaboratorio Oy, which operates under the name Lääkäriasema Sallab and its sister company Someron Lääkärikeskus Oy.

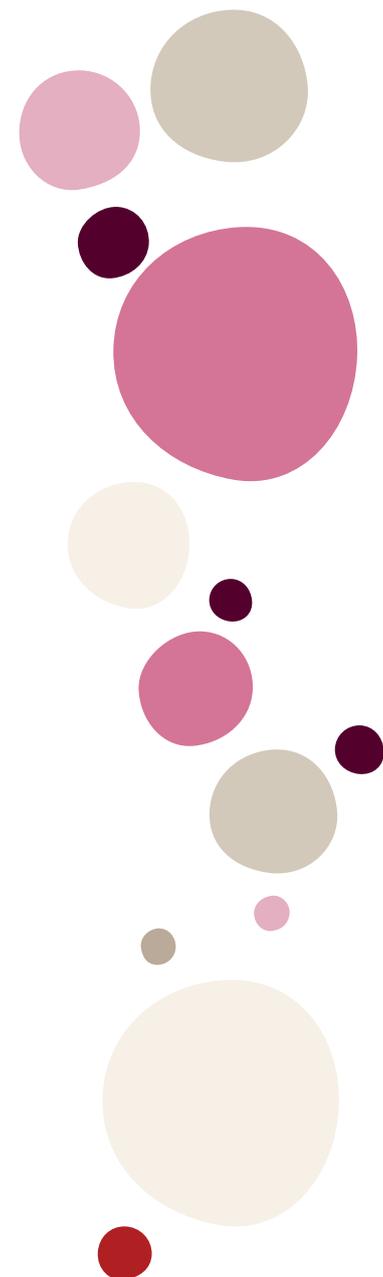
**PARENT COMPANY INCOME STATEMENT, FAS**

EUR 1,000	Note	1.1.-31.12.2017	1.1.-31.12.2016
<b>REVENUE</b>	1.1.	<b>1,556</b>	441
Personnel expenses	1.2.	-1,749	-1,158
Depreciation, amortisation and impairment	1.3.	-310	-97
Other operating expenses	1.4.	-2,000	-1,055
<b>OPERATING PROFIT (LOSS)</b>		<b>-2,503</b>	<b>-1,869</b>
Financial income and expenses	1.5.	20,476	9,695
<b>PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES</b>		<b>17,972</b>	<b>7,826</b>
Appropriations			
Change in depreciation difference	1.6.	-13	
Group contribution		4,795	5,176
Income tax	1.7.	-545	-740
<b>PROFIT (LOSS) FOR THE FINANCIAL YEAR</b>		<b>22,210</b>	<b>12,262</b>



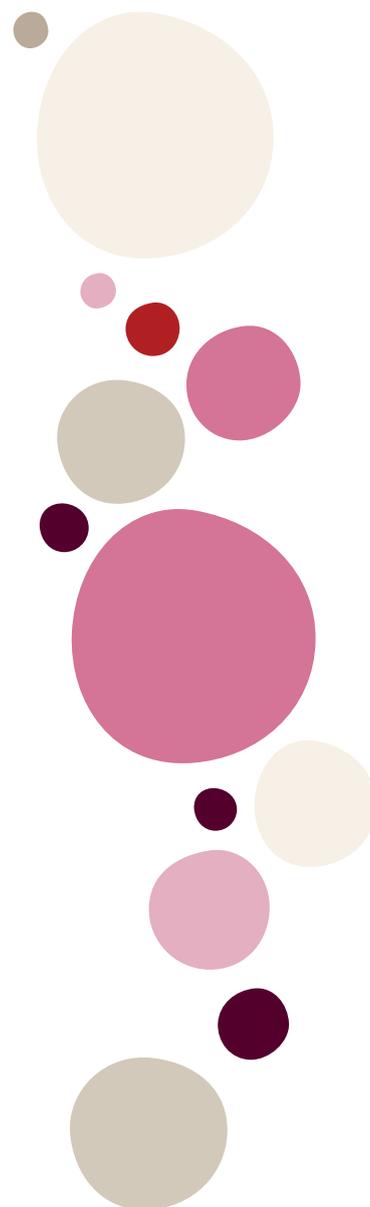
**PARENT COMPANY BALANCE SHEET, FAS**

EUR 1,000	Note	31.12.2017	31.12.2016
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Intangible assets	2.1.	2,712	1,067
Property, plant and equipment	2.2.	121	
Investments	2.3.	173,791	173,791
		176,624	174,858
<b>CURRENT ASSETS</b>			
Non-current receivables	2.4.	61	19
Current receivables	2.5.	48,926	37,227
Cash and cash equivalents		21	1
		49,008	37,247
<b>TOTAL ASSETS</b>		<b>225,633</b>	<b>212,105</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	2.5.	80	80
Reserve for invested unrestricted equity		153,085	153,085
Retained earnings		5,535	-3,635
Profit/loss for the financial year		22,210	12,262
		<b>180,911</b>	<b>161,793</b>
Accumulated appropriations	2.7	13	
<b>LIABILITIES</b>			
Non-current liabilities	2.8.	34,037	24,500
Current liabilities		10,672	25,813
		44,709	50,313
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>225,633</b>	<b>212,105</b>



**PARENT COMPANY CASH FLOW STATEMENT, FAS**

EUR 1,000	1.1.-31.12.2017	1.1.-31.12.2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from sales	877	452
Operating expenses paid	-3,988	-2,393
Operating cash flow before financial income and taxes	-3,111	-1,941
Interest received	1,251	1,408
Taxes paid	-841	
<b>Cash flows from operating activities</b>	<b>-2,701</b>	<b>-532</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investments in tangible and intangible assets	-1,453	-307
Dividends received	20,031	8,709
<b>Net cash used in investing activities</b>	<b>18,578</b>	<b>8,402</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of share capital		
Proceeds from short-term borrowings from group companies	-16,809	11,812
Loans granted to Group companies	-10,875	-32,197
Proceeds from short-term borrowings	835	343
Proceeds from long-term borrowings	14,500	14,500
Repayment of long-term borrowings	-5,034	-2,000
Group contributions received	5,176	400
Interest paid	-560	-784
Dividends paid	-3,092	
<b>Cash flows from financing activities</b>	<b>-15,858</b>	<b>-7,926</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		
	<b>19</b>	<b>-56</b>
Cash at the beginning of the financial year	1	58
Cash at the end of the financial year	21	1



## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2017

### ACCOUNTING POLICIES

Pihlajalinna Plc (2617455-1), domiciled in Tampere, is the parent company of Pihlajalinna Group.

The company was established on 15 April 2014.

### VALUATION PRINCIPLES

#### Valuation of non-current assets

Intangible assets have been recognised in the balance sheet at cost.

Depreciation and amortisation according to plan is calculated using the straight-line method over the economic useful lives of the assets.

#### The planned depreciation periods are as follows:

Machinery and equipment	3–5 years
Other intellectual property rights	
Development costs	5–7 years
Licence fees	7 years
Computer software	3–5 years
Other long-term expenditures	5–7 years

Acquisition costs of assets included in non-current assets with a probable economic useful life of less than 3 years, and small-scale acquisitions (value under EUR 850) have been expensed in the financial year during which they were acquired in full.

#### Recognition of deferred taxes

Deferred tax liabilities or assets have been calculated on the temporary differences between taxation and the financial statements by using the prevailing tax base at the balance sheet date. The balance sheet includes deferred tax liabilities in their entirety and deferred tax assets in the amount of the estimated probable receivables.

#### Revenue recognition

The sale of products and services is recognised in connection with their delivery.

#### Statement regarding unamortised capitalised development expenditure (Accounting Ordinance 2:4, 1, 3–4)

The company's capitalised product development expenditure are related to the development of Pihlajalinna Mobiili and the company website. The Pihlajalinna mobile application was introduced during the financial year in Pihlajalinna's occupational healthcare accounts and for insurance customers. The mobile application makes it possible to provide a quick and easy AI-assisted remote doctor service via chat and video. Online services support the brand revamp and enable the booking of appointments and access to personal health information for private customers, insurance customers and occupational healthcare customers.

#### Statement regarding the amortisation period of development expenditure (7 years)

The amortisation period for Pihlajalinna Mobiili is set at seven years to reflect its useful life. The capitalised costs of development projects totalled EUR 1,164 thousand in 2017. Uncapitalised development expenditure included in other intangible assets, which restricts profit distribution, amounted to EUR 1,103 thousand at the end of the financial year.

### Recognition of pension schemes

The personnel's statutory pension security is handled by an external pension insurance company. Pension costs are recognised as expenses during the year of their accrual.

### 1.1. REVENUE

EUR 1,000	2017	2016
Revenues by sector		
Sale of services	1,556	441
	1,556	441

### 1.2. PERSONNEL EXPENSES

1 000 €	2017	2016
Wages and salaries	-1,516	-1,000
Pension costs	-210	-132
Other social security expenses	-23	-25
	-1,749	-1,158

### 1.3. DEPRECIATION AND IMPAIRMENT

EUR 1,000	2017	2016
Depreciation according to plan		
Intangible assets	-286	-97
Property, plant and equipment	-23	
	-310	-97

### 1.4. OTHER OPERATING EXPENSES

EUR 1,000	2017	2016
Voluntary social security expenses	-83	-12
Facility expenses	-44	
Vehicle expenses	-47	
ICT expenses	-999	-368
Machinery and equipment expenses	-6	
Sales, marketing and travel expenses	-26	-21
Administrative expenses	-796	-655
Other operating expenses, total	-2,000	-1,055
Auditor's fees		
audit fees	-63	-64
auxiliary services	-2	
	-65	-64

### 1.5. FINANCIAL INCOME AND EXPENSES

EUR 1,000	2017	2016
Dividend income		
From Group companies	20,031	8 709
<b>Dividend income, total</b>	20,031	8 709
Interest income from non-current investments		
From Group companies	907	1 475
From others	27	8
<b>Interest income from noncurrent investments, total</b>	933	1 483
Interest expenses and other financial expenses		
To Group companies		
To others	-489	-497
<b>Interest expenses and other financial expenses, total</b>	-489	-497
<b>Financial income and expenses, total</b>	<b>20,476</b>	<b>9 695</b>

## 1.6. APPROPRIATIONS

EUR 1,000	2017	2016
Difference between depreciation according to plan and depreciation in taxation	-13	
Group contributions received	4,795	5,176
	4,782	5,176

## 1.7. INCOME TAXES

EUR 1,000	2017	2016
Changes in deferred tax assets	-19	295
Income taxes on actual operations	-526	-1,035
<b>Income taxes total</b>	<b>-545</b>	<b>-740</b>

## NOTES TO THE BALANCE SHEET

### 2.1. INTANGIBLE ASSETS

EUR 1,000	31.12.2017	31.12.2016
Other intellectual property rights		
Acquisition cost at the start of the financial year	1,183	432
Additions	1,446	67
Transfers between items		684
Acquisition cost at the end of the period	2,629	1,183
Accumulated amortisation according to plan during the financial year	-115	-18
Accumulated amortisation according to plan during the financial year	-266	-97
<b>Carrying amount at the end of the period</b>	<b>2,247</b>	<b>1,067</b>
Other long-term expenditures		
Additions	470	
Acquisition cost at the end of the period	470	
Accumulated amortisation according to plan during the financial year	-20	
Carrying amount at the end of the period	451	
Prepayments for intangible assets		
Acquisition cost at the beginning		443
Additions	15	241
Transfers between items		-684
	15	0
Intangible assets, total		
Acquisition cost at the start of the financial year	1,183	876
Additions	1,931	307
Acquisition cost at the end of the period	3,114	1,183
Accumulated amortisation according to plan during the financial year	-115	-18
Accumulated amortisation according to plan during the financial year	-286	-97
<b>Carrying amount at the end of the period</b>	<b>2,712</b>	<b>1,067</b>

### 2.2. PROPERTY, PLANT AND EQUIPMENT

EUR 1,000	31.12.2017	31.12.2016
Machinery and equipment		
Additions	144	
Acquisition cost at the end of the period	144	
Accumulated amortisation according to plan during the financial year		
Accumulated amortisation according to plan during the financial year	-23	
Carrying amount at the end of the period	121	
Property, plant and equipment, total		
Acquisition cost at the start of the financial year		
Additions	144	
Acquisition cost at the end of the period	144	
Accumulated amortisation according to plan during the financial year	-23	
<b>Carrying amount at the end of the period</b>	<b>121</b>	

### 2.3. INVESTMENTS

EUR 1,000	31.12.2017	31.12.2016
Shares in subsidiaries		
Acquisition cost at the start of the financial year	173,791	68,791
Additions		105,000
Acquisition cost at the end of the period	173,791	173,791
<b>Total investments</b>	<b>173,791</b>	<b>173,791</b>

A full list of the Group's subsidiaries is presented in the notes to the consolidated financial statements in Note 31 "Related party transactions".

### 2.4. NON-CURRENT RECEIVABLES

EUR 1,000	31.12.2017	31.12.2016
Receivables from others		
Lease deposits given	61	
Deferred tax assets		19
<b>Total non-current receivables</b>	<b>61</b>	<b>19</b>

## 2.5. CURRENT RECEIVABLES

EUR 1,000	31.12.2017	31.12.2016
Receivables from others		
Trade receivables		11
Other receivables	143	44
Prepayments and accrued income	985	277
	1,128	332
<b>Receivables from Group companies</b>		
Trade receivables from Group companies	691	2
Loan receivables	42,271	31,396
Prepayments and accrued income	4,836	5,497
	47,798	36,895
Material items included under Prepayments and accrued income		
Group contribution	4,795	5,176
Accrued direct taxes	315	
Accrued social security expenses	98	
Accrued interest income	11	329
Other	602	269
	5,821	5,774
<b>Total current receivables</b>	<b>48,926</b>	<b>37 227</b>

## 2.6. EQUITY

EUR 1,000	31.12.2017	31.12.2016
<b>Restricted equity</b>		
Share capital at the beginning	80	80
Share capital at the end	80	80
Total restricted equity	80	80
<b>Unrestricted equity</b>		
Reserve for invested unrestricted equity at the beginning	153,085	153,085
Reserve for invested unrestricted equity at the end	153,085	153,085
Retained earnings at the beginning	8,627	-3,635
Dividends paid	-3,092	
Retained earnings	5,535	-3,635
Profit for the financial year	22,210	12,262
<b>Total unrestricted equity</b>	<b>180,831</b>	<b>161,713</b>
<b>Total equity</b>	<b>180,911</b>	<b>161,793</b>
<b>Distributable unrestricted equity</b>		
Retained earnings	5,535	-3,635
Profit for the financial year	22,210	12,262
Reserve for invested unrestricted equity	153,085	153,085
Capitalised development costs	-1,103	
	179,728	161,713

## 2.7. ACCUMULATED APPROPRIATIONS

EUR 1,000	31.12.2017	31.12.2016
Accumulated depreciation difference	13	

## 2.8. LIABILITIES

EUR 1,000	31.12.2017	31.12.2016
<b>2.8.1 Non-current liabilities</b>		
<b>Liabilities to others</b>		
Loans from financial institutions	34,000	24 500
Other non-current liabilities	37	
	34,037	24 500
<b>Non-current liabilities, total</b>	<b>34,037</b>	<b>24 500</b>

EUR 1,000	31.12.2017	31.12.2016
<b>2.8.2 Current liabilities</b>		
<b>Liabilities to others</b>		
Loans from financial institutions	1,178	343
Trade payables	301	53
Other liabilities	99	128
Accrued liabilities	402	287
	1,980	811
<b>Liabilities to Group companies</b>		
Trade payables	500	0
Other liabilities	8,193	25 002
	8,692	25 002
Material items included under accrued liabilities		
Personnel expense allocations	166	125
Interest allocations		71
Other items	236	91
	401	287
<b>Current liabilities, total</b>	<b>10,672</b>	<b>25 813</b>

## OTHER NOTES

EUR 1,000	31.12.2017	31.12.2016
<b>Collaterals and contingent liabilities</b>		
Collaterals given on behalf of Group companies		
Other sureties	1,700	
Collateral given on behalf of associates		
Other sureties		1,700

The Group companies Pihlajalinna Terveys Oy (2303024-5), Pihlajalinna Lääkärikeskukset Oy (0107418-3) and Pihlajalinna Tampere Oy (0153655-2) have provided a suretyship in the parent company's loan facility (material group companies).

At the end of the reporting period, 31 December 2017, the loan amount to which the covenants apply was EUR 34.0 million.

The revolving credit facility involves only one financial covenant: net debt/adjusted EBITDA.

The financial covenant linked to the company's revolving credit facility is based on the ratio of net debt to pro forma EBITDA. The maximum value of the covenant term is 3.75. The closer the Group's covenant term is to said maximum value, the higher the loan margin. The Group met the terms and conditions of the covenant at the end of the financial year, with the ratio being 1.03 (1.55).

<b>Total amount of lease liabilities</b>		
Within one year	38	31
Between one and five years	54	76
<b>Total amount of lease commitments</b>		
Within one year	204	
Between one and five years	554	
Over five years later	611	

## **SIGNATURES TO THE REPORT BY THE BOARD OF DIRECTORS AND THE FINANCIAL STATEMENTS**

Turku, 12 February 2018

**Mikko Wirén**  
Chairman

**Leena Niemistö**

**Jari Eklund**

**Timo Everi**

**Seija Turunen**

**Jari Sundström**

**Joni Aaltonen**  
CEO

### **AUDITOR'S NOTE**

A report on the performed audit has been issued today.

Tampere, 12 February 2018

KPMG Oy Ab

**Lotta Nurminen**  
Authorised Public Accountant

## AUDITOR'S REPORT TO THE ANNUAL GENERAL MEETING OF PIHLAJALINNA PLC

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### OPINION

We have audited the financial statements of Pihlajalinna Plc (business identity code 2617455-1) for the year ended 31 December, 2017. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

#### BASIS FOR OPINION

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and

group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 6 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### MATERIALITY

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

#### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

#### THE KEY AUDIT MATTER

#### HOW THE MATTER WAS ADDRESSED IN THE AUDIT

##### Goodwill impairment assessment (refer to Accounting policies relating to the consolidated financial statements and note 13)

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>• In recent years the Group has expanded its activities through acquisition of companies. As a result, the consolidated statement of financial position includes a significant amount of goodwill.</li> <li>• Goodwill is not amortized but is tested at least annually for impairment. Determining the cash flow forecasts underlying the impairment tests requires the management make judgments over certain key inputs, for example revenue growth rate, discount rate, long-term growth rate and inflation rates.</li> <li>• Due to the high level of judgement related to the forecasts used, and the significant carrying amounts involved, goodwill impairment assessment is considered a key audit matter.</li> </ul> | <ul style="list-style-type: none"> <li>• Our audit procedures included, among others, assessing key inputs in the calculations such as revenue growth rate, profitability and discount rate, by reference to the parent company's Board approved budgets, data external to the Group and our own views. We assessed the historical accuracy of forecasts prepared by management by comparing actual results for the year with the original forecasts.</li> <li>• We involved KPMG valuation specialists that assessed the technical accuracy of the calculations and compared the assumptions used to market and industry information. Furthermore, we considered the appropriateness of the Group's disclosures in respect of goodwill and impairment testing.</li> </ul> |
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**THE KEY AUDIT MATTER****HOW THE MATTER WAS ADDRESSED IN THE AUDIT****Changes in Group structure and their accounting treatment (refer to Accounting policies relating to the consolidated financial statements and notes 26, 27, 28)**

<ul style="list-style-type: none"> <li>• The Group structure has several changes due to business combinations, business combinations achieved in stages as well as subsidiary mergers, dissolutions and establishments.</li> <li>• In business combinations, the assets and liabilities of the acquiree are measured at fair value at the date of the acquisition which requires the management to make estimates.</li> <li>• Arrangements may also include contingent consideration, determination of which requires the management to make estimates on future financial performance of the company, for example. The contingent consideration is measured at fair value at each reporting date.</li> <li>• The accounting treatment of changes in control might require the management to perform re-valuation on previous share of ownership.</li> <li>• Internal changes in the group structure require documentation in accordance with the statutes. However, it needs to be ensured that the changes do not affect the consolidated income statement or balance sheet.</li> <li>• Due to the high level of judgement related to the entries recorded resulting from the changes in the group structure, specific form required of the documentation and the number of changes, the entries and administrative documentation are considered a key audit matter.</li> </ul>	<ul style="list-style-type: none"> <li>• In business combinations we considered the purchase agreements, assessed the valuation principles of the assets and liabilities of the acquiree and the underlying assumptions used, as well as assessed the technical accuracy of the purchase price allocations. We also assessed the existence of intangible assets based on the transferred business and goodwill generated in the acquisition.</li> <li>• Audit procedures also included assessing fair values of any additional or contingent considerations for business combinations made in the current and previous financial years.</li> <li>• In business combinations achieved in stages we have assessed the change in control and appropriateness of the accounting treatment.</li> <li>• We involved KPMG valuation specialists that assessed the appropriateness of the valuation principles applied.</li> <li>• Regarding intra-group structure changes, we have assessed the appropriateness of the administrative documents and continuity in the accounting as well as ensured that the arrangements do not affect the consolidated income statement and balance sheet.</li> <li>• Furthermore, we considered the appropriateness of the Group's disclosures in respect of changes in group structure.</li> </ul>
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**Audit of revenue from municipality outsourcing contracts and judgmental items (refer to Accounting policies relating to the consolidated financial statements and notes 1 and 15)**

<ul style="list-style-type: none"> <li>• A notable proportion of the Group's revenue is based on long-term outsourcing contracts with municipalities. These include both complete outsourcing contracts for social and healthcare services as well as other outsourcing contracts.</li> <li>• The Group may not always be aware of the actual costs for some complete outsourcing contracts at the reporting date. These costs also affect the revenue to be recognized. Thus the revenue recognition based on these contracts requires the management to make estimates.</li> <li>• Due to the complexity of the contracts and the revenue being linked to the costs which are partly incurred outside the Group, as well as due to the length of the contract term, the revenue from municipality outsourcing contracts is considered a key audit matter.</li> </ul>	<ul style="list-style-type: none"> <li>• Our audit procedures included assessment of the principles applied by the Group to revenue recognition and recording of judgmental items. We observed the judgmental items recorded in the consolidated financial statements through discussions with management, analytically and by performing substantive testing where applicable.</li> <li>• The subsidiaries with material non-controlling interests administering the significant municipality outsourcing contracts are audited by another audit firm. We participated in that audit firm's risk assessment in order to also identify the risk of material misstatement of the consolidated financial statements. We instructed the other audit firm to report to us on their audit of these subsidiaries, discussed their significant findings with their lead partner and assessed the appropriateness of the audit firm's work from the perspective of the audit of the consolidated financial statements.</li> </ul>
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**RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR FOR THE FINANCIAL STATEMENTS**

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going

concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

**AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most

significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## OTHER REPORTING REQUIREMENTS

### Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting when Pihlajalinna Plc was established on 15 April 2014 and our appointment represents a total period of uninterrupted engagement of 4 years. In Pihlajalinna Terveys Oy we were first appointed as auditors for the financial year ended 31 December 2010. Pihlajalinna Plc became a public interest entity on 8 June 2015. We have been the company's auditors since it became a public interest entity.

### Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Tampere 12 February 2018  
KPMG OY AB

### Lotta Nurminen

Authorised Public Accountant, KHT

# Information for shareholders

## GENERAL MEETING

The Annual General Meeting of Pihlajalinna Plc will be held in Tampere-talo, Duetto 2 meeting room, located at Yliopistonkatu 55, 33100 Tampere, on Thursday, 5 April 2018 at 11:00 a.m. The reception of participants who have registered for the meeting will commence at 10:00 a.m.

## RIGHT TO PARTICIPATE

A shareholder entered in the list of the company's shareholders maintained by Euroclear Finland Ltd on the record date of the General Meeting, 22 March 2018, has the right to participate in the General Meeting.

## REGISTRATION

A shareholder who is registered in the shareholders' register of the Company and who wants to participate in the Annual General Meeting, shall register for the meeting no later than 29 March 2018 at 10:00 a.m. Registration for the meeting is possible

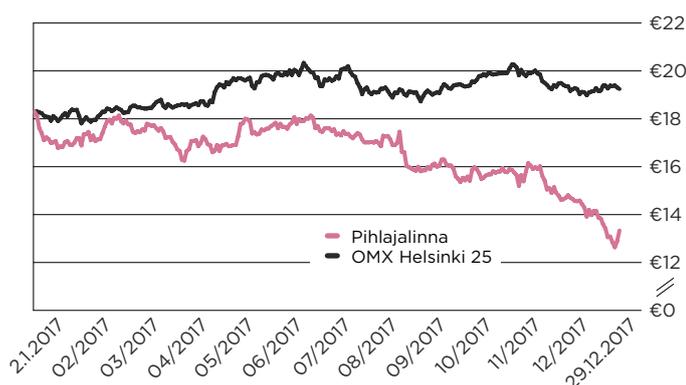
- via the registration link on the website at [investors.pihlajalinna.fi](http://investors.pihlajalinna.fi),
- by letter to Pihlajalinna Oyj, yhtiökokous2018, Kehräsaari B, 33200 Tampere,
- by e-mail to [yhtiokokous@pihlajalinna.fi](mailto:yhtiokokous@pihlajalinna.fi) or by telephone on +358 (0)20 770 6896 (9 a.m.–4 p.m.).

Any proxies are requested to be delivered as original copies before the end of the registration period to Pihlajalinna Oyj, Yhtiökokous 2018, Kehräsaari B, 33200 Tampere, Finland.

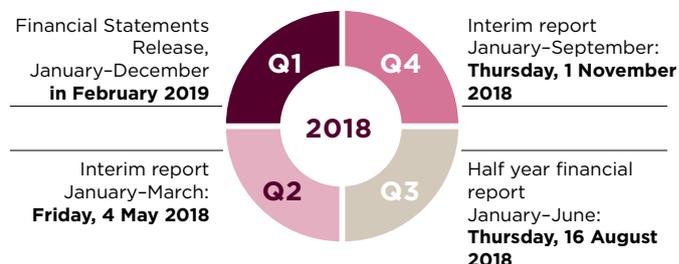
## PAYMENT OF DIVIDEND

The Board of Directors proposes that a dividend of EUR 0.16 per share be paid for the financial year that ended on 31 December 2017 based on the adopted statement of financial position. The dividend would be paid to a shareholder who on the dividend record date 9 April 2018 is registered as a shareholder in the Company's shareholders' register maintained by Euroclear Finland Ltd. The Board of Directors proposes that the dividend be paid on 16 April 2018.

## PIHLAJALINNA SHARE PRICE DEVELOPMENT 2017



## PIHLAJALINNA'S FINANCIAL REPORTING IN 2018



The interim reports will be published at approximately 8:00 a.m. in Finnish and English, and they are available on Pihlajalinna's website at [investors.pihlajalinna.fi](http://investors.pihlajalinna.fi).

Pihlajalinna's management organises information events for analysts and the media on a regular basis.

Pihlajalinna complies with a silent period of 30 days and a closed window before the publication of results.

## INVESTMENT SURVEY

As far as Pihlajalinna is aware, the following investment banks and stockbrokers monitor Pihlajalinna and publish reports on the company: Pihlajalinna is not liable for the estimates presented in the analyses.

- Danske Bank
- Carnegie
- Inderes
- OP
- SEB
- Evli

## CONTACT DETAILS:

Siri Markula, Head of Communications and IR,  
+358 40 743 2177, [siri.markula@pihlajalinna.fi](mailto:siri.markula@pihlajalinna.fi)

Additional information is available in the investor section at [investors.pihlajalinna.fi](http://investors.pihlajalinna.fi)





**Pihlajalinna**