



Pihlajalinna

INTERIM REPORT

1 January–30 September 2020



The demand for healthcare services recovered, earnings per share grew

The figures in this interim report are unaudited. The comparison figures in brackets refer to the corresponding period in the previous year.

A brief look at July–September:

- Revenue amounted to EUR 123.9 (122.7) million – an increase of 1.0%
- Adjusted EBITDA was EUR 17.2 (17.4) million – a decrease of 0.7%
- Adjusted EBIT was EUR 8.7 (9.3) million – a decrease of 6.5%
- IFRS 3 costs and amortisation related to M&A had a negative effect of EUR 0.8 (1.1) million on operating profit
- Earnings per share (EPS) was EUR 0.20 (-0.06)
- Although the demand for healthcare services recovered, the customer volumes of Pihlajalinna's private clinic locations were still more than 10 per cent lower than in the comparison period.
- COVID-19 testing volumes began to grow significantly in August.

A brief look at January–September:

- Revenue amounted to EUR 371.5 (384.8) million – a decrease of 3.5%
- Adjusted EBITDA was EUR 38.9 (40.7) million – a decrease of 4.4%
- Adjusted EBIT was EUR 13.5 (15.3) million – a decrease of 11.6%
- IFRS 3 costs and amortisation related to M&A had a negative effect of EUR 2.5 (3.7) million on operating profit
- Earnings per share (EPS) was EUR 0.24 (-0.01)
- The Finnish Competition and Consumer Authority proposed to the Market Court that the merger between Mehiläinen Yhtiöt Oy and Pihlajalinna Plc be prohibited.
- Pihlajalinna won a public bidding competition and is negotiating the purchase of the entire share capital of Työterveys Virta Oy.

	7–9/2020 3 months	7–9/2019 3 months	1–9/2020 9 months	1–9/2019 9 months	2019 12 months
INCOME STATEMENT					
Revenue, EUR million	123.9	122.7	371.5	384.8	518.6
EBITDA, EUR million	16.7	12.9	37.3	35.5	47.8
EBITDA, %	13.5	10.5	10.0	9.2	9.2
Adjusted EBITDA, EUR million*	17.2	17.4	38.9	40.7	55.1
Adjusted EBITDA, %*	13.9	14.2	10.5	10.6	10.6
Operating profit (EBIT), EUR million	8.0	1.4	11.4	6.5	10.2
Operating profit, %	6.4	1.1	3.1	1.7	2.0
Adjusted operating profit (EBIT), EUR million*	8.7	9.3	13.5	15.3	20.8
Adjusted operating profit, %*	7.0	7.5	3.6	4.0	4.0
Profit before tax (EBT), EUR million	7.0	0.4	8.0	3.6	6.3
SHARE-RELATED INFORMATION					
Earnings per share (EPS), EUR	0.20	-0.06	0.24	-0.01	0.15
Equity per share, EUR			4.70	5.19	4.47
OTHER KEY FIGURES					
Return on capital employed (ROCE), %			4.7	3.6	3.1
Return on equity (ROE), %			7.4	4.6	3.8
Equity ratio, %			26.1	30.4	24.3

Gearing, %			185.4	153.6	181.7
Interest-bearing net debt, EUR million			207.3	197.9	192.7
Net debt/adjusted EBITDA, 12 months*			3.9	3.6	3.5
Gross investments, EUR million**	3.5	8.6	20.7	31.0	44.1
Cash flow from operating activities, EUR million	-3.0	2.6	28.6	17.1	36.8
Cash flow after investments, EUR million	-4.6	-1.0	26.1	2.0	17.4
Average number of personnel (FTE)			4,303	4,713	4,515
Personnel at the end of the period (NOE)			5,882	5,936	5,815

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

EBITDA adjustments amounted to EUR 0.6 (4.4) million for the quarter and EUR 1.6 (5.1) million for the review period. Adjustments to operating profit amounted to EUR 0.7 (7.9) million for the quarter and EUR 2.1 (8.7) million for the review period.

** Assets acquired via leases are regarded as equal to assets acquired by the Group itself, meaning that right-of-use assets pursuant to IFRS 16 are included in gross investments.

Pihlajalinna's outlook for 2020

Due to the coronavirus epidemic, Pihlajalinna temporarily withdrew its outlook for 2020, which had been issued on 14 February 2020. It is still hard to assess and predict the financial impacts of the duration of the COVID-19 situation. National or regional restrictions connected to the second wave of COVID-19 will have a negative effect on consumer demand. At the same time, COVID-19 testing, working through the queues in the public sector and the release of other pent-up demand help compensate for the decline in consumer demand.

Long-term financial objectives remain the same

The trends and megatrends that accelerate the growth of Pihlajalinna's business operations have not changed because of the coronavirus epidemic. The use of digital services and the structural changes in the production of social services and healthcare may even increase because of the coronavirus epidemic. Pihlajalinna's long-term objectives — net debt less than 3 times EBITDA and operating profit over seven per cent of revenue — remain the same.

Joni Aaltonen, CEO of Pihlajalinna:

In the third quarter of the year, it was evident that the previous year's efficiency improvement programme has increased profitability across the board in Pihlajalinna's private clinic services, occupational healthcare services, surgical operations and dental care services. The demand for healthcare services recovered, but the customer volumes of Pihlajalinna's private clinic locations were still more than 10 per cent lower than in the comparison period in spite of the strong development of insurance company partnerships and the sale of occupational healthcare services. The COVID-19 restrictions resulted in the loss of just under 6,000 member customers for Pihlajalinna's fitness centres.

The volume of COVID-19 testing began to grow significantly in August, and the testing operations increased the quarterly revenue by EUR 3.4 million. In September, the number of COVID-19 tests performed by Pihlajalinna was even higher than in August. Testing operations are expected to continue and potentially grow further, as Pihlajalinna has been chosen to provide COVID-19 sampling services for HUS in the Helsinki Metropolitan Area, Central Uusimaa and Southeast Finland. New COVID-19 testing locations will be opened as

necessary. Pihlajalinna is also starting antigen testing using the Aidian rapid test method, which produces a result in as little as 15 minutes.

Revenue from remote services grew in the third quarter, particularly in chat and video appointments. Remote services have been expanded to complement private clinic and occupational healthcare services as well as the public services of the joint ventures between Pihlajalinna and municipalities. The user volumes of remote services grew significantly in the spring and early autumn.

At the end of September, the Finnish Competition and Consumer Authority announced that it proposes to the Market Court that the merger between Mehiläinen and Pihlajalinna be prohibited. We were surprised to find that the FCCA had come to evaluate the healthcare services market and the package of measures proposed by Mehiläinen in the manner it presented, proposing to the Market Court the merger to be prohibited. Before the signing of the combination agreement between Pihlajalinna and Mehiläinen, both parties had carefully examined it from the points of view of competition law and FCCA's earlier merger decisions. The Board of Directors of Pihlajalinna had also carefully considered these matters before issuing its recommendation to accept the tender offer. We remain committed to the tender offer in accordance with the combination agreement, but will prepare for all possible outcomes. Throughout the offer period, Pihlajalinna has continued to develop its business with a long-term view.

According to a report released by the National Audit Office of Finland on 27 October 2020, the proposed funding model for social and health services offers little incentives for service providers to control the growth of costs. However, the National Audit Office praised the many amendments made to the draft proposal by the government after it was widely circulated for comment. One such amendment concerned the position of private sector service providers. According to the draft proposal, all service procurement is allowed unless specifically prohibited by law.

Based on Pihlajalinna's experience, the adoption of new operating models and service innovations would help keep rising costs under control while improving the quality and availability of services.

Pihlajalinna has a wealth of experience in the provision of public services at fixed prices. For example, Pihlajalinna's joint venture model has made it possible to stop the unfavourable development of social and healthcare service costs in the partner municipalities and even reduce costs while improving service availability and customer satisfaction. If these proven operating models are not taken into consideration in the reform of healthcare and social services, there is a risk that the increase in costs will accelerate further and service availability will suffer. This would automatically lead to higher taxes.

We continue to pursue strong growth in occupational healthcare services. Pihlajalinna was selected as the best service provider in a public bidding competition organised for the sale of Työterveys Virta Oy's share capital and occupational healthcare services. The aim is to finalise the transaction and the acquisition of occupational healthcare services based on acquisition agreements by the end of January 2021. This transaction represents a strategically important success for us, as it provides growth potential in the Oulu region and the surrounding municipalities and substantially strengthens Pihlajalinna's business in the entire region of North Ostrobothnia. The acquisition will give Pihlajalinna a nearly 30 per cent share of the occupational healthcare market in the Oulu region, creating the opportunity to also significantly increase the provision of private clinic, diagnostics and hospital services compared to the current level.

Pihlajalinna is also continuing the strong expansion of its public services. Service production will begin on 1 January 2021 on the partial outsourcing of social and healthcare services in Kristiinankaupunki. The outsourcing arrangement includes, for example, primary care outpatient appointments, rehabilitation, dental care services and inpatient services. In Jyväskylä, the outsourcing agreement for the Huhtasuo health centre won by Pihlajalinna will take effect in December 2020.

In the coming months, Pihlajalinna will further enhance its digital services. Remote consultations with doctors and a centralised nurse service to assess the need for care are now in use across all of Pihlajalinna's municipal companies. Occupational healthcare services are also moving swiftly towards the digital assessment of the need for care. The COVID-19 situation has contributed to a permanent change in the habits of our customers. We want to be among the first to offer them effective digital social and healthcare services.

Revenue by business area

Pihlajalinna's geographical business areas are Southern Finland, Mid-Finland, Ostrobothnia and Northern Finland.

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

July–September 2020

EUR million	7–9/2020	%	7–9/2019	%	change	change %
Southern Finland	27.4	20	26.0	19	1.4	5.4
Mid-Finland	76.9	55	77.8	56	-0.9	-1.2
Ostrobothnia	29.0	21	28.6	21	0.4	1.4
Northern Finland	3.4	2	3.3	2	0.1	3.9
Other operations	2.4	2	2.4	2	0.0	0.7
Intra-Group sales	-15.3		-15.4		0.1	
Total consolidated revenue	123.9	100	122.7	100	1.2	1.0

Revenue for Southern Finland amounted to EUR 27.4 (26.0) million, an increase of EUR 1.4 million, or 5.4 per cent. COVID-19 testing increased the revenue for the business area by EUR 1.8 million. Revenue from occupational healthcare services was also increased by the higher number of customer companies and individual customers. Fitness centre services and opening hours only returned to normal on 1 August 2020. The lower customer volumes caused by the restrictions in place in the spring and the prevailing COVID-19 situation led to the revenue of fitness centres declining by EUR 0.8 million.

Revenue for Mid-Finland was EUR 76.9 (77.8) million, a decrease of EUR 0.9 million, or 1.2 per cent. COVID-19 testing increased the revenue for the business area by EUR 1.4 million, but this did not fully compensate for the lower other demand for private clinic services and occupational healthcare services. The expiration of the healthcare service agreement with Hattula as well as agreements concerning reception centre operations contributed to the decrease in revenue for the region.

Revenue for Ostrobothnia amounted to EUR 29.0 (28.6) million, an increase of EUR 0.4 million, or 1.4 per cent. A complete outsourcing agreement for social and healthcare services accounts for a significant proportion of the region's revenue. The region's revenue remained stable thanks to the steady recognition of revenue from the complete outsourcing agreement and annual price adjustments.

Revenue in Northern Finland amounted to EUR 3.4 (3.3) million, an increase of EUR 0.1 million, or 3.9 per cent. COVID-19 testing increased the revenue for the business area by EUR 0.2 million.

January–September 2020

EUR million	1–9/2020	%	1–9/2019	%	change	change %
Southern Finland	80.6	19	87.1	20	-6.5	-7.4
Mid-Finland	232.7	56	241.6	56	-8.8	-3.7
Ostrobothnia	87.4	21	85.7	20	1.7	2.0
Northern Finland	11.0	3	10.8	3	0.3	2.3
Other operations	6.9	2	5.8	1	1.2	19.9
Intra-Group sales	-47.2		-46.1		-1.2	
Total consolidated revenue	371.5	100	384.8	100	-13.3	-3.5

Revenue for Southern Finland was EUR 80.6 (87.1) million, a decrease of EUR 6.5 million, or 7.4 per cent. Pihlajalinna's Forever fitness centres were closed immediately in mid-March in accordance with the recommendations of the Finnish Government. Revenue from fitness centres declined by 43 per cent and was EUR 5.3 million lower than in the corresponding period in the previous year. Fitness centre services and opening hours only returned to normal on 1 August 2020. The revenue of dental care services decreased by 19 per cent due to the reduction in demand caused by the coronavirus epidemic. Revenue fell by 7 per cent in surgical operations and 4 per cent in private clinic services. Revenue from occupational healthcare services grew by 16 per cent thanks to the growth of the customer base, fixed-price agreements and COVID-19 testing. The demand for staffing services among industry operators was substantially reduced due to the epidemic and the agreements were terminated. The total revenue from COVID-19 testing in the area came to EUR 2.5 million.

Revenue for Mid-Finland was EUR 232.7 (241.6) million, a decrease of EUR 8.8 million, or 3.7 per cent. The coronavirus epidemic reduced revenue by 11 per cent in private clinic services, 6 per cent in occupational healthcare services and 30 per cent in dental care services. The expiration of the healthcare service agreement with Hattula as well as agreements concerning reception centre operations also contributed to the decrease in revenue for the region. The total revenue from COVID-19 testing in the area came to EUR 1.9 million. Pihlajalinna Special Housing Services opened a new Uniikki unit in Riihimäki early in the year.

Revenue for Ostrobothnia amounted to EUR 87.4 (85.7) million, an increase of EUR 1.7 million, or 2.0 per cent. A complete outsourcing agreement for social and healthcare services accounts for a significant proportion of the region's revenue. The region's revenue remained stable thanks to the steady recognition of revenue from the complete outsourcing agreement and annual price adjustments. Revenue fell by 9 per cent in private clinic services and 29 per cent in dental care services due to the decline in demand caused by the COVID-19 epidemic. Revenue from occupational healthcare services grew by 15 per cent thanks to the growth of the customer base. Revenue from surgical operations increased by 31 per cent due to an increase in surgeries in Seinäjoki.

Revenue for Northern Finland amounted to EUR 11.0 (10.8) million, an increase of EUR 0.3 million, or 2.3 per cent. Revenue from occupational healthcare services increased by 8 per cent thanks to the growth of the customer base and fixed-price services. The revenue of dental care services decreased by 28 per cent due to the reduction in demand caused by the COVID-19 epidemic. The total revenue from COVID-19 testing in the area came to EUR 0.3 million.

Revenue by customer group

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

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

July–September 2020

EUR million	7–9/2020	%	7–9/2019	%	change	change %
Corporate customers	30.7	22	28.1	20	2.6	9.4
of which insurance company customers	6.4	5	5.9	4	0.5	8.5
Private customers	19.5	14	21.0	15	-1.6	-7.5
Public sector	88.9	64	89.0	64	0.0	0.0
Intra-Group sales	-15.3		-15.4		0.1	
Total consolidated revenue	123.9	100	122.7	100	1.2	1.0

Revenue from corporate customers amounted to EUR 30.7 (28.1) million, an increase of EUR 2.6 million, or 9.4 per cent. Sales to insurance company customers increased by EUR 0.5 million, or 8.5 per cent. In the corporate customer group, revenue from COVID-19 testing came to EUR 2.0 million.

Revenue from private customers was EUR 19.5 (21.0) million, a decrease of EUR 1.6 million, or 7.5 per cent. Fitness centre services and opening hours only returned to normal on 1 August 2020. The decline in customer volumes caused by the COVID-19 restrictions in the spring still reduced the revenue of fitness centres by EUR 0.7 million, or 19 per cent. Among private customers, the demand for private clinic services decreased by 6 per cent and the demand for dental care services decreased by 8 per cent. In the private customer group, revenue from COVID-19 testing came to EUR 0.5 million.

Revenue from the public sector amounted to EUR 88.9 (89.0) million. Complete outsourcings of social and healthcare services represent the majority of the revenue. The expiration of the healthcare service agreement with Hattula as well as agreements concerning reception centre operations contributed to the decrease in revenue. The demand for public sector occupational healthcare services and responsible doctor services grew. In the public sector customer group, revenue from COVID-19 testing came to EUR 0.9 million. The epidemic-related costs of complete social and healthcare service outsourcing arrangements, such as COVID-19 testing, do not increase Pihlajalinna's revenue.

January–September 2020

EUR million	1–9/2020	%	1–9/2019	%	change	change %
Corporate customers	91.5	22	89.3	21	2.2	2.4
of which insurance company customers	21.3	5	19.7	5	1.6	8.1
Private customers	57.6	14	72.9	17	-15.3	-21.0
Public sector	269.6	64	268.7	62	0.9	0.4
Intra-Group sales	-47.2		-46.1		-1.2	
Total consolidated revenue	371.5	100	384.8	100	-13.3	-3.5

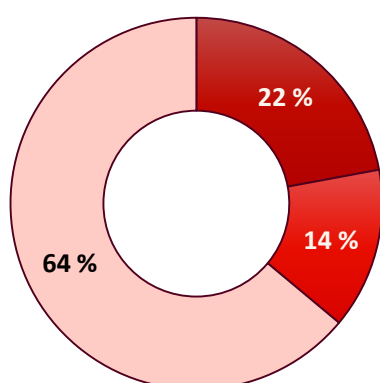
Revenue from corporate customers amounted to EUR 91.5 (89.3) million, an increase of EUR 2.2 million, or 2.4 per cent. Sales to insurance company customers increased by EUR 1.6 million, or 8.1 per cent. The demand for staffing services among industry operators was substantially reduced due to the epidemic and the agreements were terminated. The number of remote consultations grew. In the corporate customer group, revenue from COVID-19 testing came to EUR 2.3 million.

Revenue from private customers was EUR 57.6 (72.9) million, a decrease of EUR 15.3 million, or 21.0 per cent. The demand for private clinic services by self-paying private customers declined due to the coronavirus epidemic by EUR 5.7 million, or 16 per cent. Pihlajalinna's Forever fitness centres were closed immediately in mid-March in accordance with the recommendations of the Finnish Government. Fitness centre revenue declined by EUR 5.4 million, or 38 per cent. The demand for dental care services declined by EUR 3.3 million, or 24 per cent. The volume of surgical services for self-paying customers declined due to the coronavirus restrictions and the COVID-19 situation by EUR 0.9 million, or 19 per cent. In the private customer group, revenue from COVID-19 testing came to EUR 0.6 million.

Revenue from the public sector amounted to EUR 269.6 (268.7) million, an increase of EUR 0.9 million, or 0.4 per cent. Complete outsourcings of social and healthcare services represent the majority of the revenue. Revenue remained stable in spite of the coronavirus situation thanks to the steady recognition of revenue from complete outsourcing agreements and annual price adjustments. The expiration of the healthcare service agreement with Hattula as well as agreements concerning reception centre operations contributed to the decrease in revenue. The demand for public sector occupational healthcare services grew by 20 per cent. Demand grew by 8 per cent for responsible doctor services and by 5 per cent for public surgical operations. In the public sector customer group, revenue from COVID-19 testing came to EUR 1.1 million. The epidemic-related costs of complete social and healthcare service outsourcing arrangements, such as COVID-19 testing, do not increase Pihlajalinna's revenue.

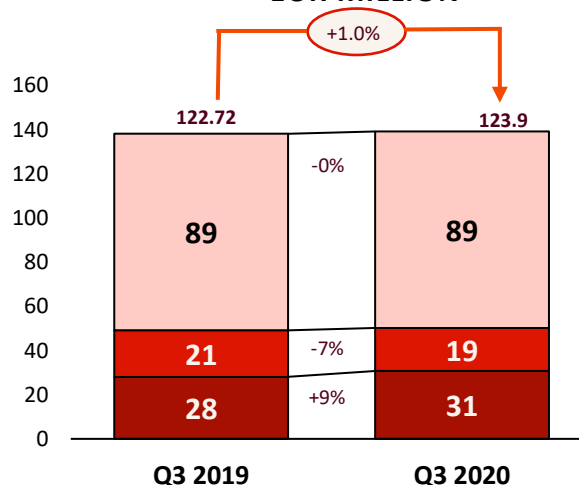
Revenue by customer group July–September 2020

REVENUE BY CUSTOMER GROUP
Q3 2020, %



■ Corporate customers ■ Private customers ■ Public sector

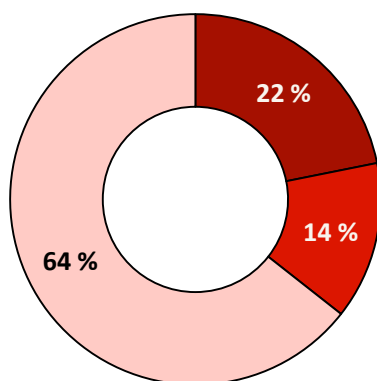
REVENUE BY CUSTOMER GROUP,
EUR MILLION



■ Corporate customers ■ Private customers ■ Public sector

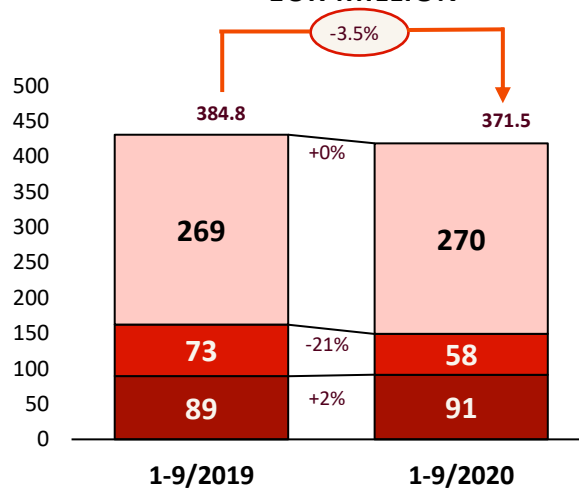
Revenue by customer group January–September 2020

REVENUE BY CUSTOMER GROUP
1-9/2020, %



■ Corporate customers ■ Private customers ■ Public sector

REVENUE BY CUSTOMER GROUP,
EUR MILLION



■ Corporate customers ■ Private customers ■ Public sector

Seasonal variation

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

Consolidated revenue and result

July–September 2020

Pihlajalinna's revenue totalled EUR 123.9 (122.7) million, an increase of EUR 1.2 million, or 1.0 per cent.

The volume of COVID-19 testing began to grow significantly in August, which increased revenue by EUR 3.4 million. Revenue from remote services grew particularly in chat and video appointments. Revenue was reduced by the expiration of agreements in staffing services, healthcare services in Hattula and reception centre operations. The customer volumes of fitness centres and the demand for private clinic services and dental care services by private customers have not fully recovered to the levels seen before the COVID-19 epidemic.

In June, the Finnish Government decided on support for business costs for companies that had suffered a significant decrease in revenue due to the coronavirus epidemic and that have had costs that are difficult to adjust. Pihlajalinna has recognised financial support intended primarily to cover the fixed costs of the Group's fitness centres in other operating income. The Group has allocated a total of EUR 0.3 million in support for business costs for the third quarter.

EBITDA was EUR 16.7 (12.9) million. Adjusted EBITDA was EUR 17.2 (17.4) million, a decrease of EUR 0.1 million, or 0.7 per cent. EBITDA adjustments amounted to EUR 0.6 (4.4) million.

Increased COVID-19 testing volumes improved profitability. The previous year's efficiency improvement programme has increased profitability across the board in private clinic services, occupational healthcare services, surgical operations and dental care services. The terminated staffing service agreements, the decline in the customer volumes of fitness centres and the capacity utilisation rates of services for the elderly decreased profitability.

Depreciation, amortisation and impairment amounted to EUR 8.7 (11.5) million. Adjustments to depreciation, amortisation and impairment, which mainly consisted of impairment arising from the closure of operating locations, amounted to EUR 0.1 (3.4) million. Depreciation of intangible assets amounted to EUR 1.6 (1.8) million, of which depreciation related to purchase price allocations amounted to EUR 0.8 (1.1) million. Depreciation, amortisation and impairment of property, plant and equipment amounted to EUR 2.1 (1.6) million, and depreciation and impairment of right-of-use assets totalled EUR 4.9 (8.1) million.

Pihlajalinna's EBIT was EUR 8.0 (1.4) million. The EBIT-to-revenue ratio (EBIT margin) was 6.4 (1.1) per cent. Adjusted EBIT amounted to EUR 8.7 (9.3) million. The adjusted EBIT margin was 7.0 (7.5) per cent. Adjustments to EBIT amounted to EUR 0.7 (7.9) million.

Pihlajalinna's revenue from public specialised care included in complete outsourcings of social and healthcare services was EUR 22.4 (21.9) million. The EBITDA of public specialised care amounted to EUR 1.1 (1.8) million and the operating result was EUR 1.0 (1.7) million. The cost accumulation of public specialised care involves random fluctuation. Individual cases falling within the scope of the hospital districts' pooling system for high-cost care, possible variable elements of compensation and operational economy surplus refunds may influence the costs of specialised care considerably during the financial year, and between financial periods, in Pihlajalinna's municipal companies.

The group's net financial expenses amounted to EUR -1.0 (-1.0) million. Profit before taxes came to EUR 7.0 (0.4) million. Taxes in the income statement amounted to EUR -1.5 (-0.3) million. The profit was EUR 5.4 (0.1) million. Earnings per share (EPS) was EUR 0.20 (-0.06).

January–September 2020

Pihlajalinna's revenue amounted to EUR 371.5 (384.8) million, a decrease of EUR 13.3 million, or 3.5 per cent. More than half of Pihlajalinna's business volume remained stable in spite of the coronavirus epidemic that began in mid-March. Pihlajalinna's complete outsourcings for social and healthcare services and other fixed-price invoicing involve a steady recognition of revenue over time. In periods of low demand, the volumes and profitability of these kinds of contracts usually remain stable.

Pihlajalinna's Forever fitness centres were temporarily closed due to the COVID-19 restrictions in the spring. Fitness centre services and opening hours only returned to normal on 1 August 2020. The COVID-19 epidemic and the related restrictions also significantly reduced the demand for private clinic services and dental care services. In addition, revenue was reduced by the expiration of agreements in staffing services, healthcare services in Hattula and reception centre operations. To minimise the negative financial impacts, the Group held cooperation negotiations that led to full-time and part-time lay-offs of the personnel. The number and duration of the temporary lay-offs were significantly affected by flexibility in employment relationships and the possibility of temporarily relocating to another task.

In June, the Finnish Government decided on support for business costs for companies that had suffered a significant decrease in revenue due to the coronavirus epidemic and that have had costs that are difficult to adjust. Pihlajalinna recognised financial support intended primarily to cover the fixed costs of the Group's

fitness centres in other operating income. Pihlajalinna received EUR 0.8 million in cost support, which is the Group-specific maximum amount.

EBITDA was EUR 37.3 (35.5) million. Adjusted EBITDA was EUR 38.9 (40.7) million, a decrease of EUR 1.8 million, or 4.4 per cent. EBITDA adjustments amounted to EUR 1.6 (5.1) million. Volumes recovered in surgical operations and the previous year's efficiency improvement programme and flexibility in employment relationships improved profitability. The profitability of occupational healthcare services improved thanks to COVID-19 testing, the efficiency improvement programme, the growth of customer volumes and an increase in the relative share of fixed-price agreements. The profitability of private clinic services improved due to COVID-19 testing and the efficiency improvement programme. Profitability was significantly weighed down by public sector specialised care cost accruals and the decline in the customer volumes of fitness centres due to the COVID-19 restrictions. The capacity utilisation rates of services for the elderly, staffing services and the expiration of agreements for reception centre operations also reduced profitability.

Depreciation, amortisation and impairment amounted to EUR 25.9 (29.0) million. Adjustments to depreciation, amortisation and impairment, which mainly consisted of the impairment of lease liabilities arising from the closure of operating locations, amounted to EUR 0.5 (3.6) million. Depreciation of intangible assets amounted to EUR 4.9 (5.5) million, of which depreciation related to purchase price allocations amounted to EUR 2.4 (3.4) million. Depreciation, amortisation and impairment of property, plant and equipment amounted to EUR 6.7 (5.6) million, and depreciation and impairment of right-of-use assets totalled EUR 14.3 (17.9) million.

Pihlajalinna's EBIT was EUR 11.4 (6.5) million. The EBIT-to-revenue ratio (EBIT margin) was 3.1 (1.7) per cent. Adjusted EBIT amounted to EUR 13.5 (15.3) million. The adjusted EBIT margin was 3.6 (4.0) per cent. Adjustments to EBIT amounted to EUR 2.1 (8.7) million.

Pihlajalinna's revenue from public specialised care included in complete outsourcings of social and healthcare services was EUR 67.2 (65.8) million. The EBITDA of public specialised care amounted to EUR 0.5 (3.1) million and the operating result amounted to EUR 0.4 (2.9) million. The cost accumulation of public specialised care involves random fluctuation. Individual cases falling within the scope of the hospital districts' pooling system for high-cost care, possible variable elements of compensation and operational economy surplus refunds may influence the costs of specialised care considerably during the financial year, and between financial periods, in Pihlajalinna's municipal companies.

The Group's net financial expenses amounted to EUR -3.4 (-2.9) million. Net financial expenses were increased by a waiver expense associated with a financing arrangement in the spring and higher interest rate margins. Profit before taxes came to EUR 8.0 (3.6) million. Taxes in the income statement amounted to EUR -2.1 (-1.2) million. The profit was EUR 6.0 (2.4) million. Earnings per share (EPS) was EUR 0.24 (-0.01).

The operating environment

The consultation round of health and social services reform began in June and ended on 25 September 2020. The Ministry of Social Affairs and Health received more than 800 comments when the draft legislation was circulated. The Ministry submitted the draft to the Finnish Council of Regulatory Impact Analysis on 14 October 2020.

The most significant proposals for changes received during the consultation round concerned the financing, steering and self-government of social and healthcare services, the responsibility for service provision, outsourced services and the nullification of agreements, the transfer of responsibilities between municipalities and the wellbeing services counties, the cooperation agreement between the wellbeing services counties and the schedule of implementation of the reforms.

The Ministry of Social Affairs and Health issued a press release on the amendments made to the draft proposal on 13 October. Under the proposal, the new self-governing areas foreseen in the health and social services reform would be renamed wellbeing services counties. The amendments also addressed the content of the responsibility to provide services, outsourced services and the extension of existing agreements.

The draft submitted to the Council of Regulatory Impact Analysis states that the requirements concerning private service providers would be clarified with due regard to the content and scope of the totality of services procured by the wellbeing services counties. The draft notes that it is estimated that the wellbeing services counties will continue to make use of outsourcing in their service provision in the future.

As the draft legislation states, there is strong evidence that service provision based on outsourcing has helped municipalities and joint municipal authorities improve the quality and availability of services and keep the growth of costs under control. In addition to these positives, the clients have been very satisfied with the quality of the services in many comprehensive outsourcing arrangements.

The Government will finalise the draft after receiving feedback from the Council of Regulatory Impact Analysis and the plan is to have the draft submitted to the Parliament in December 2020. A temporary preparatory body would start the operations of the proposed wellbeing services counties immediately if the new legislation enters into effect. Under the current plan, the responsibility for organising social and healthcare services would be transferred to the wellbeing services counties starting from 1 January 2023.

On 5 October 2020, Pihlajalinna Plc petitioned the Chancellor of Justice to investigate the drafting of the legislation on social and healthcare services. In the Group's view, the drafting of the legislation on social and healthcare services was not in line with the regulation relating to administrative law, which must be given due consideration in bill drafting, the legislation on bill drafting, lower-level guidelines and the general principles of good bill drafting. In connection with the bill drafting process, the municipalities that have outsourced their social and healthcare services, private providers of social and healthcare services and non-governmental organisations providing social and healthcare services have not been given the opportunity to be heard regarding the impact assessment or the content of the proposed legislation on social and healthcare services. The legislative proposal on the reform of social and healthcare services does not include much in the way of impact assessment. For example, the number of people over 75 years of age will nearly double during the next decade, which will lead to a significant increase in the demand for social and healthcare services as well as costs.

According to a report released by the National Audit Office of Finland on 27 October 2020, the proposed funding model for social and health services offers little incentives for service providers to control the growth of costs. However, the National Audit Office praised the many amendments made to the draft proposal by the government after it was widely circulated for comment. One such amendment concerned the position of private sector service providers. According to the draft proposal, all service procurement is allowed unless specifically prohibited by law.

The need for occupational healthcare services has not decreased during the epidemic. Companies have also purchased testing services from occupational healthcare providers to prevent unnecessary extended absences, for example, and keep the wheels of society turning. At the same time, however, massive lay-offs and the decline in private consumption caused by the epidemic have driven companies to cut the contents of their occupational healthcare agreements.

Non-urgent care has been temporarily reduced due to the epidemic, which is reflected in longer queues for treatment. According to the Finnish Institute for Health and Welfare, the number of people who have waited for treatment for more than six months grew in the hospital districts during the summer. At the end

of August 2020, nearly 137,000 patients were waiting for access to treatment at the hospital districts' hospitals. Of those waiting for treatment, 13 per cent had waited for access to non-urgent care for more than the maximum period of 180 days stipulated by the legislation on the treatment time guarantee.

Consolidated statement of financial position and cash flow

Pihlajalinna Group's total statement of financial position amounted to EUR 430.2 (424.0) million. Consolidated cash and cash equivalents amounted to EUR 6.2 (24.4) million.

Net cash flow from operating activities in the quarter amounted to EUR -3.0 (2.6) million. Taxes paid amounted to EUR -0.8 (0.3) million. The change in net working capital was EUR -18.9 (-10.7) million.

Net cash flow from operating activities during the review period amounted to EUR 28.6 (17.1) million. Taxes paid amounted to EUR -3.0 (-3.6) million. The change in net working capital was EUR -5.9 (-14.8) million.

Net cash flow from investing activities totalled EUR -1.6 (-3.5) million during the quarter.

Net cash flow from investing activities during the review period amounted to EUR -2.5 (-15.1) million. Acquisitions of subsidiaries had an impact of EUR -1.4 (-4.9) million on net cash flow from investing activities. Investments in tangible and intangible assets amounted to EUR -7.8 (-10.8) million, and the proceeds from the disposal of tangible assets amounted to EUR 6.7 (0.5) million. Pihlajalinna sold and leased back two care properties in Laihia in May 2020.

The Group's cash flow after investments (free cash flow) was EUR -4.6 (-1.0) million for the quarter and EUR 26.1 (2.0) million for the review period.

Net cash flow from financing activities totalled EUR -3.9 (-1.2) million for the quarter. The change in financial liabilities, including changes in credit limits, amounted to EUR 2.4 (6.6) million. Payments for financial lease liabilities amounted to EUR -5.0 (-6.7) million, and interest paid and other financial expenses amounted to EUR -1.1 (-1.1) million. A total of EUR 0.1 (0.0) million in dividends was paid to non-controlling interests.

Net cash flow from financing activities during the review period amounted to EUR -47.0 (-13.8) million. The change in financial liabilities, including changes in credit limits, amounted to EUR -9.0 (9.3) million. Payments for financial lease liabilities amounted to EUR -15.2 (-16.5) million, and interest paid and other financial expenses amounted to EUR -3.6 (-3.0) million. The net effect of the change in non-controlling interests on cash flow was EUR -18.3 (-1.3) million. In January 2020, Pihlajalinna paid EUR 16.3 million in total for shares in KuusioLinna Terveys to the municipalities of Alavus, Ähtäri and Soini as well as EUR 2.0 million to the city of Mänttä-Vilppula for shares in Mäntänvuoren Terveys. A total of EUR 0.2 (0.0) million in dividends was paid to non-controlling interests. Pihlajalinna Plc did not pay dividends for the financial year 2019. The Group has acquired its own shares for its incentive scheme in the amount of EUR 0.7 (0.0) million.

The Group's gearing was 185.4 (153.6) per cent. Interest-bearing net debt amounted to EUR 207.3 (197.9) million. In the review period, the Group paid EUR 1.4 (1.5) million in contingent considerations (earn-out payments).

Return on capital employed was 4.7 (3.6) per cent and return on equity was 7.4 (4.6) per cent.

Financing arrangements

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

The financing arrangement includes the customary financial covenants concerning leverage (ratio of net debt to pro forma EBITDA) and gearing. The calculation of covenants will continue with the creditor banks in accordance with the accounting principles confirmed in the original financing arrangement (frozen GAAP, i.e. excluding the IFRS 16 impact). The Group met the set covenants on 30 September 2020.

Due to the changes in the operating environment caused by the coronavirus epidemic, Pihlajalinna and the creditor banks agreed on a temporary adjustment to the covenants of the financing arrangement at the end of March. The temporary covenants for the first and second quarter of the year were as follows: leverage must not exceed 4.25 and gearing must not exceed 140 per cent. The original covenants of the financing arrangement – leverage of 3.75 and gearing of 115 per cent – took effect again when the covenants were reviewed in the third quarter.

As part of the agreement, a permanent new margin ceiling was added to the financing arrangement. The margin ceiling will enter into effect if leverage exceeds 3.50. On 30 September 2020, leverage in accordance with the financing arrangement stood at 3.45.

The Group has credit limit agreements valid until further notice, totalling EUR 10 million. The notice period of the credit limit agreements is one month. At the end of the review period, Pihlajalinna had a total of EUR 37.3 million in unused committed credit limits.

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

Capital expenditure

Gross investments, including acquisitions, amounted to EUR 20.7 (31.0) million. The Group's gross investments in property, plant and equipment, which consisted of development, additional and replacement investments required for growth, amounted to EUR 8.0 (8.4) million in the review period. Gross investments in connection with the opening of new units amounted to EUR 0.4 (4.3) million. Gross investments in relation to M&A transactions amounted to EUR 0.0 (3.8) million. Gross investments in right-of-use assets amounted to EUR 12.3 (14.6) million, including the opening of new units in Riihimäki (Uniikki special needs residential services) and Helsinki (Pihlajalinna Tavastia private clinic).

Investment commitments for the Group's development, additional and replacement investments amounted to approximately EUR 0.5 (5.2) million. The investment commitments are related to IT system development projects and replacement investments in clinical equipment.

At the end of the financial year 2019, Pihlajalinna agreed on the acquisition of three social and healthcare service buildings with the city of Mänttä-Vilppula. Provided that the conditions are fulfilled, the transaction will be completed by 31 December 2020. The total value of the deal is estimated at EUR 4–7 million depending on the plans concerning the development of the buildings.

Non-controlling interests

Company	Pihlajalinna's holding, 31 December 2019	Pihlajalinna's holding, 30 September 2020	First year of service production under the current contract	Duration of contract (years)
Jokilaakson Terveys Oy	90%	90%	internal service provision	internal service provision
Jämsän Terveys Oy	51%	51%	2015	10
Kuusiolinna Terveys Oy	90%	90%	2016	15
Mäntänvuoren Terveys Oy	91%	91%	2016	15
Kolmostien Terveys Oy	96%	96%	2015	15
Laihian Hyvinvointi Oy	81%	81%	2018	service voucher

Changes in Group structure

Merged company	Target company	Month of merger
Forever Matinkylä Oy Etelä-Karjalan Liikuntakeskus Oy Forever Hiekkaharju Oy Forever Varisto Oy Keravan Forever Oy Klaari Oy	Forever Helsinki Oy	1 January 2020
Kompassi Hammaslääkärikeskus Oy	Pihlajalinna Seinäjoki Oy	1 February 2020
Forever Herttoniemi Oy Forever Hämeenlinna Oy	Forever Helsinki Oy	1 September 2020
Pihlajalinna Solutions Oy Impact Care Oy	Pihlajalinna Lääkärikeskukset Oy	1 September 2020

Research and development

Development costs that fulfilled the criteria for capitalisation amounted to EUR 0.3 (0.5) million during the review period.

In the financial year 2020, development operations will again be focused on a remote service model for municipal residents for use in social and healthcare outsourcing and mobile solutions, the operating model for fixed-price occupational healthcare agreements (occupational healthcare portal) and sports clinic and social and healthcare centre concepts.

Personnel

At the end of the review period, the number of personnel was 5,882 (5,936). The Group's personnel averaged 4,303 (4,713) persons as full-time equivalents, a decrease of 410 persons or 9 per cent. The Group's employee benefit expenses totalled EUR 158.8 (167.0) million, a decrease of EUR 8.2 million or 5 per cent.

Management Team

CEO Joni Aaltonen serves as the Chairman of the Management Team. The Management Team also includes COO Teija Kulmala, CFO Tarja Rantala, Chief Legal Officer Marko Savolainen, Chief People and Culture Officer Elina Heliö, Head of Service Development and CIO Sanna Määttä and, starting from 25 June 2020, Sales Director Juha-Pekka Halttunen.

Board of Directors

The Annual General Meeting on 15 April 2020 confirmed the number of the members of the Board of Directors as seven. Matti Jaakola, Hannu Juvonen, Mika Manninen, Leena Niemistö, Kati Sulin, Seija Turunen and

Mikko Wirén were re-elected to the Board of Directors for a term of office ending at the conclusion of the next Annual General Meeting.

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

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

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

Committees nominated by the Board

Pihlajalinna Plc's Board of Directors appointed the following members to its committees at its constitutive meeting on 15 April 2020:

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

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

It was agreed that all members of the Board of Directors may join any of the committee meetings.

Remuneration of the members of the Board of Directors

The Annual General Meeting on 15 April 2020 decided that the remuneration of the Board of Directors be kept unchanged, and that the following annual remuneration be paid to the members of the Board of Directors to be elected at the Annual General Meeting for the term of office ending at the close of the Annual General Meeting 2021: to the full-time Chairman of the Board of Directors EUR 250,000 per year; to the Vice-Chairman EUR 36,000 per year, and to members EUR 24,000 per year.

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

Board authorisations

The Annual General Meeting on 15 April 2020 authorised the Board of Directors to decide on the acquisition of a maximum of 2,061,314 shares, which is approximately 9 per cent of the Group's current share volume. Under this authorisation, the acquisition of the Group's own shares is only permitted using unrestricted equity. Targeted share acquisition is possible. The authorisation is effective until the next Annual General Meeting, or until 30 June 2021 at the latest.

The Annual General Meeting also authorised the Board of Directors to decide on a share issue and other special rights conferring an entitlement to shares under Chapter 10, Section 1 of the Limited Liability Companies Act. The amount of shares to be issued cannot exceed 3,091,971 shares, which corresponds to 14% of all the shares in the group. The authorisation concerns both the issuance of new shares and the sale or transfer of the Group's own shares. The authorisation permits a targeted share issue. The authorisation is effective until the next Annual General Meeting, or until 30 June 2021 at the latest.

Auditors and auditing

At Pihlajalinna's Annual General Meeting held on 15 April 2020, KPMG Oy Ab, a firm of authorised public accountants, was elected as the company's auditor for the financial year 1 January–31 December 2020. Lotta Nurminen, APA, is the principal auditor.

Shares and shareholders

At the end of the financial period, Pihlajalinna Plc's share capital entered in the Trade Register amounted to EUR 80,000 and the total number of shares was 22,620,135, of which 22,572,736 were outstanding and 47,399 were held by the company. The company has one share series, with each share entitling its holder to one vote at the Annual General Meeting. All of the outstanding shares bestow their holders with equal rights to dividends and other distribution of the company's assets. At the end of the review period, the company had 12,108 (13,188) shareholders. A list of the largest shareholders is available on the company's investor website at investors.pihlajalinna.fi.

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

Share-related information, outstanding shares	7–9/2020	7–9/2019	1–9/2020	1–9/2019	2019
No. of shares outstanding at the end of the period	22,572,736	22,620,135	22,572,736	22,620,135	22,620,135
Average no. of shares outstanding during the period	22,572,736	22,620,135	22,590,243	22,620,135	22,620,135
Highest price, EUR	15.05	11.96	15.66	11.96	15.88
Lowest price, EUR	10.30	9.78	10.30	8.70	8.70
Average price, EUR*	12.85	10.71	13.93	10.66	12.77
Closing price, EUR	10.35	10.40	10.35	10.40	15.28
Share turnover, 1,000 shares	1,271	713	3,991	1,935	4,062
Share turnover, %	5.6	3.2	17.7	8.6	18.0
Market capitalisation at the end of the period, EUR million	233.6	235.2	233.6	235.2	345.6

* average rate weighted by trading level

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

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

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

The Finnish Financial Supervisory Authority approved the tender offer document on 8 January 2020. The offer period commenced on 9 January 2020 at 9:30 a.m. (Finnish time) and it was set to expire on 15 October 2020 at 4:00 p.m. (Finnish time). The Offeror has decided to extend the offer period until 20 November 2020 at 4:00 p.m. (Finnish time) unless it is further extended or discontinued in accordance with, and subject to, the terms and conditions of the Tender Offer and applicable laws and regulations. The Board of Directors of Pihlajalinna has provided its consent to the extension of the offer period until 20 November 2020.

On 29 September 2020, the Finnish Competition and Consumer Authority made a proposal to the Market Court to prohibit the proposed combination of Mehiläinen and Pihlajalinna, and the matter has been transferred to be reviewed by the Market Court. Based on available information, the Offeror estimates that the Market Court will render its decision in the matter towards the end of the statutory handling period, which expires on 29 December 2020.

The Combination Agreement provides for a mutual termination right of the Combination Agreement in the event that the Tender Offer has not been completed by the agreed long-stop date of 30 November 2020 (the “Long-Stop Date”). For as long as the Combination Agreement remains in force, the Offeror has an obligation thereunder to use reasonable best efforts to complete the Tender Offer, including by way of extending the Offer Period to the extent permissible under applicable laws and regulations.

In accordance with its obligations under the Combination Agreement, the Offeror has decided to extend the Offer Period until 20 November 2020. While the Offeror currently deems it more unlikely than likely that the Market Court would render its decision in time to enable completion of the Tender Offer prior to the Long-Stop Date, the Offeror is for reasons outlined below currently not in a position to extend the Offer Period beyond 20 November 2020, such date being the latest date enabling completion of the Tender Offer by the Long-Stop Date, should the Market Court render its decision in time.

An extension of the Offer Period beyond the Long-Stop Date to account for the entire expected duration of the Market Court proceedings would necessarily entail that the Tender Offer could not be completed until the first quarter of 2021 at the earliest, assuming the Market Court’s decision will not be appealed. This would in turn necessitate amendments to the existing debt and equity financing arrangements for the Tender Offer. The Offeror is therefore currently not in a position to extend the Offer Period beyond the agreed Long-Stop Date to account for the entire expected duration of the Market Court proceedings.

The Offeror will continue the Market Court proceedings with the aim of obtaining clearance for the proposed combination. Mehiläinen will also continue its ongoing dialogue with Pihlajalinna with respect to the conduct of the Market Court proceedings.

Due the circumstances referred to above, shareholders of Pihlajalinna are advised of the increased uncertainties related to the completion of the Tender Offer. Firstly, there can be no guarantee that the Offer Period can be extended further, which could result in the lapsing of the Tender Offer after 20 November 2020 provided that the Market Court has not rendered its decision within this time period. Secondly, even if the Offer Period is extended further, there can be no guarantee that the Market Court will approve the proposed combination on terms that are within the limits set out in the terms and conditions of the Tender Offer, or at all. If the Offer Period is extended further and the Market Court decides to approve the proposed combination, The Offeror currently estimates that the Tender Offer could be completed during the first quarter of 2021 at the earliest, assuming the Market Court’s decision is not appealed.

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.

Pihlajalinna sharpened its management system in response to the coronavirus epidemic. The Group Management Team monitors operational indicators and assesses the situation and the necessary measures. The Medical Management Team meets weekly and issues instructions to the Group’s units in accordance with the guidelines and policies issued by the national and regional authorities. While the coronavirus epidemic

continues, the safety and health of the Group's personnel and customers remain the first priority in Pihlajalinna's management system. Regional management, personnel and practitioners are kept up to date on the situation through continuous communication on the intranet despite the fact that daily crisis management has been discontinued.

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

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

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

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

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

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

A factor that links all risk categories together is the reputational risk that may affect the reputation of the Group's brands or the entire Group. Endangering data security or protection can cause loss and claims for damages and compromise the reputation.

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

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

Risks and uncertainties in business operations

Due to the coronavirus epidemic, Pihlajalinna temporarily withdrew its outlook for 2020, which had been issued on 14 February 2020. It is still hard to assess and predict the financial impact caused by the restrictions recommended by the Finnish Government and the duration of the COVID-19 situation on Pihlajalinna's business operations.

In addition to the scenarios pertaining to the continuation of the COVID-19 epidemic, the most essential risks and uncertainties affecting the Group's operations are connected to the complete outsourcing agreements on social and healthcare service, material amendments to legislation, opening new locations, success in acquisitions and information system projects, tax-related risks and the commitment and recruitment of competent management.

Policy adjustments and amendments were made to the Government's draft proposal for social and healthcare services reform based on the consultation round that ended in September. Instead of the nullification of outsourcing agreements, which was proposed before the draft was circulated for consultation, the new draft proposes that some agreements would be subject to a termination procedure.

Under the draft proposal, the nullification of outsourcing agreements concerning social and health services would be limited to very comprehensive and significant agreements and areas of operation for which outsourcing is specifically prohibited (e.g. the exercise of public authority, 24-hour social services). In the view of Pihlajalinna's management and legal experts, the nullification of such agreements or making them subject to a termination procedure would still potentially be in conflict with the Constitution and contract law.

Determining the annual profitability of the Group's complete social and healthcare services outsourcing agreements may become accurate with a delay. The group may not always be aware of the actual costs of the agreements at the time of preparing the financial statements, and the agreements may involve variable elements of compensation. The cost accumulation of public specialised care involves random fluctuation. In addition, individual cases falling within the scope of the hospital districts' pooling system for high-cost care and operational economy surplus refunds may influence the costs of specialised care considerably during the financial year, and between financial periods, in Pihlajalinna's municipal companies.

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

The City of Jämsä has taken legal action against Jämsän Terveys Oy over the service agreement. The dispute concerns the provision on price adjustments pursuant to the service agreement. The difference of opinion regarding the determination of the annual price is estimated to have been approximately EUR 2.6 million at the end of the review period. The District Court postponed the main hearing on the case from the beginning of March 2020 to January 2021 at the request of the claimant. The balance sheet of Jämsän Terveys Oy also includes other receivables amounting to a total of EUR 3.0 million from the City of Jämsä, associated with the increased costs of specialised care and increased regulatory requirements for services for senior citizens.

The company has submitted a decision proposal to the City of Jämsä regarding the matter. The proposal is based on a consultation commissioned by the City of Jämsä in the spring. The management expects that a settlement will be reached in the matter concerning the service agreement.

Kuusiölinna Terveys Oy has trade and other receivables totalling EUR 5.1 million from a client. The protocol on interpretation signed with the municipalities of Alavus, Ähtäri and Soini in conjunction with the share transactions also agreed on the principles of charging the variable elements of compensation. The outstanding receivables are associated with increased regulatory requirements for services for senior citizens, the costs of specialised care, the costs of child protective services and the calculation of net expenditure. A share transaction has not yet been completed with Kuortane, and no corresponding protocol on interpretation has been signed. According to the management's estimate, the client will pay the receivables in full, as the majority of the client's shareholders have agreed on the charging principles.

Mäntänvuoren Terveys Oy has trade and other receivables totalling EUR 1.4 million from a client. The receivables are associated with increased regulatory requirements for services for senior citizens and the calculation of net expenditure pursuant to the previous agreement. A social and healthcare service property transaction has been agreed upon with the client and will be finalised in 2020 provided that the conditions are fulfilled. According to the management's estimate, the customer will pay the receivables in full in conjunction with the completion of the property transaction.

In its receivables at the end of the review period, the Group has a total of EUR 1.5 million in service provider refunds for public sector specialised care cost accruals, estimated on a municipality-specific basis. According to the Group management's view, under the service agreements, the refunds of cost accruals are payable to Pihlajalinna because they were accumulated during Pihlajalinna's service provision and liability for costs.

Pending legal processes:

The City of Jämsä has taken legal action against Jämsän Terveys Oy over the service agreement. The dispute concerns the provision on price adjustments pursuant to the service agreement. The difference of opinion regarding the determination of the annual price is estimated to have been approximately EUR 2.6 million at the end of the review period. The claimant postponed the main hearing on the case from the beginning of March 2020 to January 2021.

The municipality of Hattula filed an application for a summons with the District Court regarding confirmation, contractual penalty and claim for damages based on a breach of contract. Pihlajalinna was served the summons on 27 February 2020. The claim filed by the municipality of Hattula in the dispute is for the total amount of EUR 2.6 million plus penalty interest and the claimant's legal fees. Pihlajalinna has disputed the presented claims and alleged breach of contract and filed a counterclaim of approximately EUR 1.7 million for the groundless termination of the agreement, amongst other things. Pihlajalinna's service production in Hattula ended on 31 March 2020.

Flagging notifications

The company did not receive any flagging notifications under Chapter 9, Section 5 of the Securities Markets Act during the review period.

Current incentive schemes

At its meeting on 14 February 2019, the Board of Directors approved the terms of a share-based long-term incentive programme for Pihlajalinna Group's senior management (LTI 2019). The incentive programme is effective from 1 January 2019 onwards and it is aimed at the CEO, the Management Team and other key employees selected for inclusion in the programme. In the initial stage, 25 key employees were selected for the programme. LTI 2019 includes an overall five-year plan period and none of the share rewards received by the key employees thereunder may be sold or transferred prior to the year 2022. The key employee shall, in addition, make an investment in Pihlajalinna shares as a precondition for participation in the programme. At the end of the review period, 21 key employees fulfilled the minimum investment requirement of the scheme.

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

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

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

For the second performance period of 2020 under the performance- and quality-based matching share plan, the reward for the Group's management is 50 per cent of the performance-based maximum for the full year. The shares will be conveyed in accordance with the incentive plan in June 2021 at the latest. It is presumed that the second six-month period will follow the previously determined performance indicators.

The LTI 2019 incentive plan includes terms and conditions relating to a potential change in control. Based on Mehiläinen's public tender offer, the above-mentioned provisions on change in control apply. The cash tender offer announced by Mehiläinen for all of the shares in Pihlajalinna on 5 November 2019 will result in the payment of the fixed matching share plan in full if the transaction is completed. The transfer restriction of the shares expires immediately when the outcome of the tender offer is announced in the execution of the tender offer.

According to the fixed matching share plan, a total of 100,000 matching shares fall due to the 21 key employees who met the investment requirement if the change in control takes place. The fair value of the matching shares is EUR 1.6 million in accordance with the cash tender offer. An expense of EUR 1.2 million has been allocated to the review period due to the share-based reward and performance-based reward paid due to the change in control.

Should the cash tender offer by Mehiläinen not be realised by the end of 2020, the Group would match each participant's share investments with additional shares at a fixed rate based on the fixed matching share plan. The additional shares should be delivered to key employees by the end of 2020, and they would be subject to the transfer restriction.

Repurchasing own shares for the incentive programme

The Board of Directors of Pihlajalinna Plc decided on 20 March 2020 to start repurchasing the company's own shares on the basis of the authorisation given by the Annual General Meeting on 4 April 2019. The shares were acquired for use as part of the company's incentive programme in public trading on Nasdaq Helsinki Ltd at the market price prevailing at the time of purchase.

Pihlajalinna started repurchasing the company's own shares on 31 March 2020 and completed it on 17 April 2020. During that time, Pihlajalinna acquired a total of 47,399 of its own shares for an average price of EUR 14.56 per share.

Following the repurchase, Pihlajalinna holds a total of 47,399 of its own shares, corresponding to 0.21% of the total number of shares.

Events after the review period

Pihlajalinna emerged successful in a public bidding competition organised for the sale of Työterveys Virta Oy's share capital and its occupational healthcare services. Työterveys Virta Oy's owners and Pihlajalinna will next sign a memorandum of intent. The parties intend to carry out the transaction and the acquisition of occupational healthcare services based on acquisition agreements by the end of January 2021 at the latest.

Työterveys Virta Oy's majority owners are the City of Oulu and Northern Ostrobothnia Hospital District. The company's other owners are the municipalities of Hailuoto, Kempele, Liminka, Lumijoki, Muhos and Tyrnävä, the Laboratory Centre of the Business-based Joint Municipal Authority of Northern Finland (NordLab) and the Joint Municipal Authority of Wellbeing in Raahe District.

As part of the transaction, the occupational healthcare services of the employees of the present owners of Työterveys Virta Oy will be transferred to Pihlajalinna. The contractual period is four years, after which the agreements will continue to be valid until further notice. The responsibility of providing occupational healthcare services that forms part of the statutory organisational responsibility of the municipalities will also be transferred to Pihlajalinna.

Työterveys Virta has approximately 26,000 individual customers and about 140 employees. The company has a total of seven branches in Oulu, Kempele, Muhos, Liminka, Tyrnävä and Raahe. The company's revenue totalled approximately EUR 13.6 million in 2019, consisting solely of the sale of occupational healthcare services.

The transaction will strengthen Pihlajalinna's growth in the Oulu region and the surrounding municipalities, and significantly expand Pihlajalinna's business throughout Northern Finland.

In order to complete the transaction, the appropriate due diligence procedures will be carried out, after which the acquisition will proceed to the contract stage and the approval of the contracts of sale.

The decision announced by Mehiläinen Yhtiöt Oy on 15 October 2020 to extend the offer period under the voluntary recommended cash tender offer for all shares in Pihlajalinna Plc until 20 November 2020 is discussed under the heading *Mehiläinen's cash tender offer for all shares in Pihlajalinna Plc*.

Accounting policies

This interim report has been prepared in compliance with IFRS standards and the provisions of IAS 34 (Interim Financial Reporting). The information published in this interim report has not been audited. All figures have been rounded, due to which the actual total of individual figures may differ from the total presented. Key figures and figures reflecting changes have been calculated using the exact figures.

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

The impact of the coronavirus epidemic and the resulting exceptional circumstances on the company's business operations have been taken into account in the preparation of this interim report. The management has used various scenarios to analyse the impacts of the coronavirus epidemic on various regions and customer groups, demand and profitability. The company has initiated measures to maintain and promote profitability and sales. The adequacy of financing, liquidity, credit risks and the covenants of the financing arrangement are continuously monitored. The impact of the coronavirus epidemic on items subject to management judgment as well as the basis and underlying assumptions of the management's estimates has been evaluated and taken into consideration. In the view of the management, preparing the interim report under the going concern principle is justified and appropriate.

The interim report has been prepared in compliance with the IFRS standards that are currently in effect. The interim report has been prepared according to the accounting policies applied in the financial statements of 31 December 2019, taking into account the new and amended standards and interpretations that became effective on 1 January 2020.

Impacts of new and revised IFRS standards

In 2020, the Group has adopted the following amended standards published by the IASB. They are not, however, estimated to have a material effect on Pihlajalinna's financial statements.

Amendments to **IFRS 3 Business Combinations** (effective for financial periods beginning on or after 1 January 2020). The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing inputs or processes, specify the definitions of business and outputs and provide additional guidance to assist entities in assessing whether the object of an acquisition is an independent process. The amendments also introduce an optional fair value concentration test.

Amendments to **IAS 1 Presentation of Financial Statements** and **IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors** (effective for financial periods beginning on or after 1 January 2020). The purpose of the amendments is to align the definition of "material" across the standards and to clarify certain aspects of the definition. The amendments clarify that materiality will depend on the nature or magnitude of information, or both.

Amendments to **IFRS 16 Leases Covid-19-Related Rent Concessions*** (effective for financial periods beginning on or after 1 June 2020). The amendment gives lessees the opportunity to apply a practical expedient that simplifies the accounting treatment of rent concessions that are the direct result of COVID-19. Lessees that apply the practical expedient are not required to assess whether rent concessions constitute changes in leases if the criteria presented in the amendment to the standard are fulfilled.

* The regulation in question has not been approved for application in the EU as of 30 September 2020.

Tables

1 January–30 September 2020

Consolidated statement of comprehensive income

EUR million	7–9/2020 3 months	7–9/2019 3 months	1–9/2020 9 months	1–9/2019 9 months	2019
Revenue	123.9	122.7	371.5	384.8	518.6
Other operating income	0.6	0.2	1.9	0.9	1.6
Materials and services	-47.5	-45.9	-144.4	-146.3	-200.2
Employee benefit expenses	-50.1	-52.4	-158.8	-167.0	-222.0
Other operating expenses	-10.2	-11.5	-32.9	-37.0	-50.2
Share of profit in associated companies and joint ventures	0.0	0.0	0.0	0.0	0.0
EBITDA	16.7	12.9	37.3	35.5	47.8
Depreciation, amortisation and impairment	-8.7	-11.5	-25.9	-29.0	-37.7
Operating profit (EBIT)	8.0	1.4	11.4	6.5	10.2
Financial income	0.1	0.0	0.2	0.1	0.1
Financial expenses	-1.1	-1.0	-3.6	-3.0	-4.0
Profit before taxes	7.0	0.4	8.0	3.6	6.3
Income tax	-1.5	-0.3	-2.1	-1.2	-1.8
Profit for the period*	5.4	0.1	6.0	2.4	4.5
Total comprehensive income for the period	5.4	0.1	6.0	2.4	4.5
Total comprehensive income for the period attributable:					
To the owners of the parent company	4.6	-1.3	5.3	-0.3	3.4
To non-controlling interests	0.8	1.4	0.7	2.7	1.1
Earnings per share calculated on the basis of the result for the period attributable to the owners of the parent company (EUR)					
Basic and diluted	0.20	-0.06	0.24	-0.01	0.15

* The Group has no other comprehensive income items

Consolidated statement of financial position

EUR million	30 September 2020	30 September 2019	2019
ASSETS			
Non-current assets			
Property, plant and equipment	45.4	47.6	53.2
Goodwill	173.6	173.6	173.6
Other intangible assets	17.0	19.9	19.1
Right-of-use assets	104.9	110.5	108.1
Interests in associates	0.0	0.0	0.0
Other investments	0.1	0.2	0.1
Other receivables	5.6	1.9	2.0
Deferred tax assets	7.6	6.4	6.0
Total non-current assets	354.2	360.0	362.2
Current assets			
Inventories	3.6	2.5	2.3
Trade and other receivables	64.6	36.0	46.1
Current tax assets	1.6	1.0	0.9
Cash and cash equivalents	6.2	24.4	27.0
Total current assets	76.0	63.9	76.3
Total assets	430.2	424.0	438.4
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	0.1	0.1	0.1
Reserve for invested unrestricted equity	116.5	116.5	116.5
Retained earnings	-15.8	1.0	-18.8
Profit for the period	5.3	-0.3	3.4
	106.1	117.3	101.1
Non-controlling interests	5.7	11.5	5.0
Total equity	111.8	128.8	106.1
Non-current liabilities			
Deferred tax liabilities	5.6	5.6	5.7
Provisions	0.0	1.6	0.2
Lease liabilities	97.6	98.9	96.4
Financial liabilities	93.1	104.2	103.9
Other non-current liabilities	1.2	1.3	1.3
Total non-current liabilities	197.4	213.2	207.5
Current liabilities			
Trade and other payables	95.4	59.7	102.0
Current tax liabilities	1.9	1.6	0.4
Provisions	0.8	1.6	1.6
Lease liabilities	18.9	17.6	17.7
Financial liabilities	3.9	2.9	3.1
Total current liabilities	121.0	81.9	124.9
Total liabilities	318.4	295.1	332.4
Total equity and liabilities	430.2	424.0	438.4

Consolidated statement of changes in equity

EUR million	Equity attributable to owners of the parent company				
	Share capital	Reserve for invested unrestricted equity	Retained earnings	Non-controlling interests	Equity total
Total equity, 1 Jan. 2019	0.1	116.5	4.6	9.2	130.3
Profit for the period			-0.3	2.7	2.4
Total comprehensive income for the period			-0.3	2.7	2.4
Dividends paid			-2.3		-2.3
Investments in Group companies			0.1	-0.1	0.0
Total transactions with owners			-2.2	-0.1	-2.3
Changes in NCI without a change in control		0.0	-1.3	-0.2	-1.6
Total changes in subsidiary shareholdings			-1.3	-0.2	-1.6
Total equity on 30.9.2019	0.1	116.5	0.7	11.5	128.8

EUR million	Equity attributable to owners of the parent				
	Share capital	Reserve for invested unrestricted equity	Retained earnings	Non-controlling interests	Equity Total
Total equity, 1 Jan. 2020	0.1	116.5	-15.5	5.0	106.1
Profit for the period			5.3	0.7	6.0
Total comprehensive income for the period			5.3	0.7	6.0
Dividends paid				-0.2	-0.2
Acquisition of own shares			-0.7		-0.7
Share-based benefits			1.0		1.0
Total transactions with owners			0.3	-0.2	0.0
Changes in NCI without a change in control			-0.6	0.3	-0.3
Total changes in subsidiary shareholdings			-0.6	0.3	-0.3
Total equity, 30 Sep. 2020	0.1	116.5	-10.5	5.7	111.8

Consolidated statement of cash flows

EUR million	7–9/2020 3 months	7–9/2019 3 months	1–9/2020 9 months	1–9/2019 9 months	2019
Cash flow from operating activities					
Profit for the period	4.6	-1.3	5.3	-0.3	3.4
Cash flow adjustments for business operations:					
Taxes	1.5	0.3	2.1	1.2	1.8
Depreciation, amortisation and impairment	8.7	11.5	25.9	29.0	37.7
Financial income and expenses	1.0	1.0	3.4	2.9	3.9
Other	0.8	1.4	0.6	2.6	1.0
Net cash generated from operating activities before change in working capital	16.7	12.9	37.2	35.4	47.7
Change in working capital	-18.9	-10.7	-5.9	-14.8	-6.2
Interest received	0.1	0.0	0.2	0.1	0.1
Taxes paid	-0.8	0.3	-3.0	-3.6	-4.7
Net cash flow from operating activities	-3.0	2.6	28.6	17.1	36.8
Cash flows from investing activities					
Investments in tangible and intangible assets	-1.7	-3.7	-7.8	-10.8	-15.4
Proceeds from disposal of property, plant and equipment and intangible assets and prepayments	0.0	0.2	6.7	0.5	0.8
Changes in other receivables and investments	0.0	0.0	0.0	0.0	0.0
Dividends received	0.0	0.0	0.0	0.0	0.0
Acquisition of subsidiaries less cash and cash equivalents at date of acquisition	0.0	0.0	-1.4	-4.9	-4.9
Net cash flow from investing activities	-1.6	-3.5	-2.5	-15.1	-19.5
Cash flows from financing activities					
Changes in non-controlling interests	0.0	0.0	-18.3	-1.3	-1.3
Acquisition of own shares	0.0	0.0	-0.7	0.0	0.0
Proceeds from and repayment of borrowings	2.4	6.6	-9.0	9.3	7.7
Repayment of lease liabilities	-5.0	-6.7	-15.2	-16.5	-22.7
Interest and other operational financial expenses	-1.1	-1.1	-3.6	-3.0	-3.8
Dividends paid and other profit distribution	-0.1	0.0	-0.2	-2.3	-6.7
Net cash flow from financing activities	-3.9	-1.2	-47.0	-13.8	-26.7
Changes in cash and cash equivalents	-8.5	-2.1	-20.8	-11.9	-9.3
Cash at beginning of period	14.6	26.6	27.0	36.3	36.3
Cash at end of review period	6.2	24.4	6.2	24.4	27.0

Contingent liabilities and commitments

EUR million	30 September 2020	30 September 2019	2019
Collateral given on own behalf			
Sureties	4.4	0.7	3.7
Lease deposits	0.6	1.9	1.8
Properties' VAT refund liability	0.1	1.5	1.7
Lease commitments for off-balance sheet leases	0.6	0.7	1.0

The investment commitments for the Group's development, supplementary and replacement investments are approximately EUR 0.5 million.

At the end of the financial year 2019, Pihlajalinna agreed on the acquisition of three social and healthcare service buildings with Mänttä-Vilppula. Provided that the conditions are fulfilled, the transaction will be completed by 31 December 2020. The purchase price is based on the book values of the social and healthcare service buildings. The total value of the building project is estimated at EUR 4–7 million.

Changes in intangible assets

EUR million	30 September 2020	30 September 2019	31 December 2019
Acquisition cost at beginning of period	224.8	217.4	217.4
Additions	2.8	2.5	3.6
Business combinations		3.8	3.7
Transfers between items	0.0	0.1	0.2
Disposals	-0.4	0.0	-0.1
Acquisition cost at end of period	227.2	223.8	224.8
Accumulated depreciation at beginning of period	-32.1	-24.5	-24.5
Depreciation and amortisation for the period	-4.9	-5.5	-7.4
Transfers between items	0.0	-0.2	-0.2
Accumulated depreciation on disposals	0.4	0.0	0.1
Accumulated depreciation at end of period	-36.5	-30.2	-32.1
Carrying amount at end of period	190.6	193.5	192.7

Changes in property, plant and equipment

EUR million	30 September 2020	30 Sep- tem- ber 2019	31 December 2019
Acquisition cost at beginning of period	97.4	79.7	79.7
Additions	5.6	10.2	18.4
Business combinations		0.0	0.0
Transfers between items	0.9	1.3	1.5
Disposals	-10.4	-1.3	-2.3
Acquisition cost at end of period	93.5	89.9	97.4
Accumulated depreciation at beginning of period	-44.1	-36.4	-36.4
Depreciation and amortisation for the period	-6.7	-5.6	-7.7
Transfers between items	-1.0	-1.3	-1.5
Accumulated depreciation on disposals	3.7	1.0	1.5
Accumulated depreciation at end of period	-48.1	-42.3	-44.1
Carrying amount at end of period	45.4	47.6	53.2

Changes in right-of-use assets

EUR million	30 September 2020	30 September 2019	31 De- cem- ber 2019
Acquisition cost at beginning of period	172.7	162.5	162.5
Additions	11.9	10.8	14.5
Disposals	-3.2	-4.6	-8.1
Business combinations		3.8	3.8
Acquisition cost at end of period	181.4	172.5	172.7
Accumulated depreciation at beginning of period	-64.6	-46.5	-46.5
Depreciation and amortisation for the period	-14.3	-17.9	-22.5
Accumulated depreciation on disposals	2.3	2.5	4.5
Accumulated depreciation at end of period	-76.6	-61.9	-64.6
Carrying amount at end of period	104.9	110.5	108.1

Right-of-use assets and lease liabilities

EUR million	Right-of-use assets 30 September 2020	Lease liabilities 30 September 2020
Carrying amount at the beginning of the period	108.1	114.2
Changes	11.0	17.5
Depreciation and amortisation	-14.3	
Repayments of lease liabilities		-15.2
Carrying amount at end of period	104.9	116.5

On 30 September 2020, EUR 86.8 million of the lease liabilities were the result of the adoption of IFRS 16 and EUR 29.7 million were financial lease liabilities in accordance with previous accounting standards.

EUR million	Right-of-use assets 30 September 2019	Lease liabilities 30 September 2019
Carrying amount at the beginning of the period	116.0	118.5
Changes	12.5	14.6
Depreciation and amortisation	-17.9	
Repayments of lease liabilities		-16.5
Carrying amount at end of period	110.5	116.5

On 30 September 2019, EUR 88.6 million of the lease liabilities were the result of the adoption of IFRS 16 and EUR 28.0 million were financial lease liabilities in accordance with previous accounting standards.

EUR million	Right-of-use assets 31 December 2019	Lease liabilities 31 December 2019
Carrying amount at the beginning of the period	116.0	118.5
Changes	14.7	18.3
Depreciation and amortisation	-22.5	
Repayments of lease liabilities		-22.7
Carrying amount at end of period	108.1	114.2

On 31 December 2019, EUR 87.0 million of the lease liabilities were the result of the adoption of IFRS 16 and EUR 27.1 million were financial lease liabilities in accordance with previous accounting standards.

Quarterly information

EUR million	Q3/20	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19	Q4/18
INCOME STATEMENT								
Revenue	123.9	114.7	133.0	133.8	122.7	129.7	132.5	127.0
EBITDA	16.7	8.5	12.1	12.3	12.9	10.4	12.2	14.1
EBITDA, %	13.5	7.4	9.1	9.2	10.5	8.1	9.2	11.1
Adjusted EBITDA	17.2	9.0	12.7	14.4	17.4	10.8	12.6	14.6
Adjusted EBITDA, %	13.9	7.9	9.5	10.8	14.2	8.3	9.5	11.5
Depreciation and amortisation	-8.7	-8.4	-8.8	-8.6	-11.5	-8.8	-8.6	-8.2
Operating profit (EBIT)	8.0	0.1	3.3	3.7	1.4	1.6	3.5	5.9
Operating profit, %	6.4	0.1	2.5	2.7	1.1	1.2	2.7	4.7
Adjusted operating profit (EBIT)	8.7	0.6	5.3	5.6	9.3	2.1	3.9	6.5
Adjusted operating profit (EBIT), %	7.0	0.5	4.0	4.2	7.5	1.6	3.0	5.1
Financial income	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financial expenses	-1.1	-1.1	-1.4	-1.0	-1.0	-1.0	-1.0	-1.0
Profit before taxes	7.0	-0.9	2.0	2.7	0.4	0.6	2.5	4.9
Income tax	-1.5	0.1	-0.6	-0.6	-0.3	-0.3	-0.7	-1.3
Profit for the period	5.4	-0.8	1.4	2.1	0.1	0.4	1.9	3.6
Share of the result for the period attributable to owners of the parent company	4.6	-0.6	1.3	3.7	-1.3	-0.5	1.4	2.5
Share of the result for the period attributable to non-controlling interests	0.8	-0.3	0.1	-1.6	1.4	0.9	0.4	1.1
EPS	0.20	-0.03	0.06	0.16	-0.06	-0.02	0.06	0.11
Personnel at the end of the period (NOE)	5,882	5,640	5,865	5,815	5,936	6,100	5,871	5,850
Change in personnel during the quarter	243	-226	50	-121	-164	230	21	-17

Trade and other receivables

Due to the coronavirus epidemic, Pihlajalinna has reviewed the credit risk of receivables and the procedures used to estimate the credit risk. No significant changes have been observed in customers' payment behaviour. The collection of trade receivables has been enhanced.

The Group has recognised impairment losses of EUR 0.2 (0.3) million on trade receivables for the review period.

EUR million	30 September 2020	31 December 2019
Trade receivables	51.8	30.5
Prepayments and accrued income	11.5	13.3
Current subleases	0.5	0.1
Other receivables	0.7	2.2
Total	64.6	46.1

Aging analysis of trade receivables

EUR million	30 September 2020	of which written down	Net 30 September 2020	31 December 2019	of which written down	Net 31 December 2019
Not yet due	21.2	0.0	21.2	18.1	0.0	18.1
Past due			0.0			
Less than 30 days	3.3	0.0	3.3	3.1	0.0	3.1
30–60 days	3.0	-0.1	2.9	1.8	-0.1	1.7
61–90 days	2.9	-0.1	2.8	0.6	-0.1	0.5
More than 90 days	22.2	-0.5	21.7	7.5	-0.5	7.1
Total	52.6	-0.8	51.8	31.2	-0.7	30.5

Tax footprint

EUR million	1–9/2020	1–9/2019	2019
Direct tax payable for the period			
Income tax (business income tax)	3.8	4.0	4.1
Employer's pension contributions	20.9	22.5	31.0
Social security contributions	1.8	1.1	2.1
Employer's unemployment insurance contributions	1.9	3.5	2.6
Contribution to accident insurance and group life insurance	0.6	0.7	0.8
Employer contributions, total	25.3	27.7	36.4
Property taxes	0.1	0.1	0.1
Transfer taxes	0.4	0.2	0.2
Direct tax payable for the period, total	29.5	32.0	40.8
Value added tax of acquisitions payable by the company			
Value added taxes, estimate	8.2	9.2	12.3
Tax for the period			
Withholding taxes	32.1	33.4	45.1
Employee pension contributions, deferred	10.4	9.9	13.0
Employee unemployment insurance contributions, notional	1.7	2.1	2.7
Payroll tax, total	44.2	45.3	60.8
Net value-added tax	1.0	0.5	0.9
Total tax for the period	45.1	45.8	61.7
Revenue	371.5	384.8	518.6
Profit before taxes	8.0	3.6	6.3
Average number of personnel (FTE)	4,303	4,713	4,515
Public subsidies	1.2	0.5	0.7

Calculation of key financial figures and alternative performance measures

Key figures		
Earnings per share (EPS)	$\frac{\text{Profit for the financial period attributable to owners of the parent company}}{\text{Average number of shares during the financial year}}$	
Alternative performance measures		
Equity per share	$\frac{\text{Equity attributable to owners of the parent company}}{\text{Number of shares at the end of the financial period}}$	
Dividend per share	$\frac{\text{Dividend distribution for the financial year (or proposal)}}{\text{Number of shares at the end of the financial period}}$	
Dividend/result, %	$\frac{\text{Dividend per share}}{\text{Earnings per share (EPS)}}$	x 100
Effective dividend yield, %	$\frac{\text{Dividend per share}}{\text{Closing price for the financial year}}$	x 100
P/E ratio	$\frac{\text{Closing price for the financial year}}{\text{Earnings per share (EPS)}}$	
Share turnover, %	$\frac{\text{Number of shares traded during the period}}{\text{Average number of shares}}$	x 100
Return on equity (ROE), %	$\frac{\text{Profit for the period (rolling 12 months)}}{\text{Equity (average)}}$	x 100
Return on capital employed, % (ROCE)	$\frac{\text{Profit before taxes (rolling 12 months) + financial expenses (rolling 12 months)}}{\text{Total statement of financial position – non-interest-bearing liabilities (average)}}$	x 100
Equity ratio, %	$\frac{\text{Equity}}{\text{Total statement of financial position – prepayments received}}$	x 100
Gearing, %	$\frac{\text{Interest-bearing net debt - cash and cash equivalents}}{\text{Equity}}$	x 100
EBITDA	Operating profit + depreciation, amortisation and impairment	
EBITDA, %	$\frac{\text{Operating profit + depreciation, amortisation and impairment}}{\text{Revenue}}$	x 100
Adjusted EBITDA*	Operating profit + depreciation, amortisation and impairment + adjustment items	
Adjusted EBITDA, %*	$\frac{\text{Operating profit + depreciation, amortisation and impairment + adjustment items}}{\text{Revenue}}$	x 100

Net debt/Adjusted EBITDA*, rolling 12 months	$\frac{\text{Interest-bearing net debt - cash and cash equivalents}}{\text{Adjusted EBITDA (rolling 12 months)}}$	
Cash flow after investments	Net cash flow from operating activities + net cash flow from investing activities	
Adjusted operating profit (EBIT)*	Operating profit + adjustment items	
Adjusted operating profit, %*	$\frac{\text{Adjusted operating profit (EBIT)}}{\text{Revenue}} \times 100$	
Profit before taxes	Profit for the financial year + income tax	
Gross investments	Increase in tangible and intangible assets and in right-of-use assets	
Organic revenue growth, %	$\frac{\text{Revenue for the period - revenue from M\&A transactions for the period - revenue for the previous period}}{\text{Revenue for the previous period}} \times 100$	

* 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 with alternative key figures and ratios

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

Reading notes:

/	divide by the following number(s)
-	deduct the following number(s)
+	add the following number(s)

EUR million, unless otherwise stated	7-9/2020 3 months	7-9/2019 3 months	1-9/2020 9 months	1-9/2019 9 months	2019
Return on equity (ROE), %					
Profit for the period (rolling 12 months)/			8.1	6.0	4.5
Equity at beginning of period			106.1	130.3	130.3
Equity at end of period			111.8	128.8	106.1
Equity (average) x 100			108.9	129.6	118.2
Return on equity (ROE), %			7.4	4.6	3.8

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 months) +			10.7	8.5	6.3

Financial expenses (rolling 12 months)			4.6	4.1	4.0
/			15.3	12.6	10.3
Total statement of financial position at beginning of period -			438.4	436.8	436.8
non-interest-bearing liabilities at beginning of period			112.7	92.1	92.1
			325.8	344.7	344.7
Total statement of financial position at end of period -			430.2	424.0	438.4
Non-interest-bearing liabilities at end of period			105.0	72.8	112.7
			325.2	351.1	325.8
Average x 100			325.5	347.9	335.2
Return on capital employed (ROCE), %			4.7	3.6	3.1

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 /			111.8	128.8	106.1
Total statement of financial position -			430.2	424.0	438.4
Advances received x 100			1.3	0.7	1.1
Equity ratio, %			26.1	30.4	24.3

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 -			213.4	222.3	219.7
Cash and cash equivalents /			6.2	24.4	27.0
Equity x 100			111.8	128.8	106.1
Gearing, %			185.4	153.6	181.7

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 months					
Interest-bearing financial liabilities -			213.4	222.3	219.7
Cash and cash equivalents			6.2	24.4	27.0
Net debt /			207.3	197.9	192.7
Adjusted EBITDA (rolling 12 months)			53.4	55.2	55.1
Net debt/adjusted EBITDA, rolling 12 months			3.9	3.6	3.5

This figure illustrates how quickly, at the current profit rate, the company would have paid off its debts if the EBITDA were to be used in full to repay the debts, if the company does not, for example, invest or distribute any dividend.

	7-9/2020 3 months	7-9/2019 3 months	1-9/2020 9 months	1-9/2019 9 months	2019
EBITDA and Adjusted EBITDA					
Profit for the period	5.4	0.1	6.0	2.4	4.5

Income tax	-1.5	-0.3	-2.1	-1.2	-1.8
Financial expenses	-1.1	-1.0	-3.6	-3.0	-4.0
Financial income	0.1	0.0	0.2	0.1	0.1
Depreciation, amortisation and impairment	-8.7	-11.5	-25.9	-29.0	-37.7
EBITDA	16.7	12.9	37.3	35.5	47.8
Total EBITDA adjustments	0.6	4.4	1.6	5.1	7.3
Adjusted EBITDA	17.2	17.4	38.9	40.7	55.1

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.

EBITDA, %					
EBITDA/	16.7	12.9	37.3	35.5	47.8
Revenue x 100	123.9	122.7	371.5	384.8	518.6
EBITDA, %	13.5	10.5	10.0	9.2	9.2
Adjusted EBITDA, %					
Adjusted EBITDA/	17.2	17.4	38.9	40.7	55.1
Revenue x 100	123.9	122.7	371.5	384.8	518.6
Adjusted EBITDA, %	13.9	14.2	10.5	10.6	10.6
Operating profit (EBIT) and Adjusted operating profit (EBIT)					
Profit for the period	5.4	0.1	6.0	2.4	4.5
Income tax	-1.5	-0.3	-2.1	-1.2	-1.8
Financial expenses	-1.1	-1.0	-3.6	-3.0	-4.0
Financial income	0.1	0.0	0.2	0.1	0.1
Operating profit (EBIT)	8.0	1.4	11.4	6.5	10.2
Total adjustments to depreciation, amortisation and impairment	0.1	3.4	0.5	3.6	3.3
Total EBITDA adjustments	0.6	4.4	1.6	5.1	7.3
Total operating profit (EBIT) adjustments	0.7	7.9	2.1	8.7	10.6
Adjusted operating profit (EBIT)	8.7	9.3	13.5	15.3	20.8

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.

Operating profit (EBIT), %					
Operating profit/	8.0	1.4	11.4	6.5	10.2
Revenue x 100	123.9	122.7	371.5	384.8	518.6
Operating profit (EBIT), %	6.4	1.1	3.1	1.7	2.0
Adjusted operating profit (EBIT), %					

Adjusted operating profit (EBIT)/	8.7	9.3	13.5	15.3	20.8
Revenue x 100	123.9	122.7	371.5	384.8	518.6
Adjusted operating profit (EBIT), %	7.0	7.5	3.6	4.0	4.0
Cash flow after investments					
Net cash flow from operating activities	-3.0	2.6	28.6	17.1	36.8
Net cash flow from investing activities	-1.6	-3.5	-2.5	-15.1	-19.5
Cash flow after investments	-4.6	-1.0	26.1	2.0	17.4

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

Profit before taxes					
Profit for the period	5.4	0.1	6.0	2.4	4.5
Income tax	-1.5	-0.3	-2.1	-1.2	-1.8
Profit before taxes	7.0	0.4	8.0	3.6	6.3
Gross investments					
Property, plant and equipment at the end of the period	45.4	47.6	45.4	47.6	53.2
Right-of-use assets at the end of the period	104.9	110.5	104.9	110.5	108.1
Other intangible assets at end of period	17.0	19.9	17.0	19.9	19.1
Goodwill at end of period	173.6	173.6	173.6	173.6	173.6
Depreciation, amortisation and impairment for the period are added	8.7	11.5	25.9	29.0	37.7
-					
Property, plant and equipment at the start of the period	46.4	45.1	53.2	43.3	43.3
Right-of-use assets at the start of the period	108.5	116.8	108.1	116.0	116.0
Other intangible assets at beginning of period	17.9	23.2	19.1	22.9	22.9
Goodwill at beginning of period	173.6	171.6	173.6	169.9	169.9
Proceeds from the sale of property, plant and equipment during the period	-0.3	-2.0	-8.0	-2.4	-4.5
Gross investments	3.5	8.6	20.7	31.0	44.1
Organic revenue growth, %					
Revenue for the period -	123.9	122.7	371.5	384.8	518.6
Revenue from M&A transactions during the period (rolling 12 months) -	0.2	2.0	1.4	14.5	17.4
Revenue for the previous period	122.7	116.3	384.8	360.8	487.8
Organic revenue growth/	1.0	4.4	-14.8	9.5	13.4
Revenue for the previous period x 100	122.7	116.3	384.8	360.8	487.8
Organic revenue growth, %	0.8	3.7	-3.8	2.6	2.8
Revenue growth due to M&A transactions, %	0.2	1.7	0.4	4.0	3.6
Revenue growth	1.2	6.4	-13.3	24.0	30.8
Revenue growth, %	1.0	5.5	-3.5	6.7	6.3

Organic revenue growth is growth in existing business operations that has not come about as a result of M&A transactions. Organic growth can be achieved through increasing the service offering, new customer acquisition, growth in custom from existing customers, price increases and digitalisation. Social and healthcare outsourcing

contracts won through public competitive bidding and new business locations established by the group itself are included in organic growth.

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

EUR million	7–9/2020 3 months	7–9/2019 3 months	1–9/2020 9 months	1–9/2019 9 months	2019
EBITDA	16.7	12.9	37.3	35.5	47.8
Adjustments to EBITDA					
Dismissal-related expenses	0.1	2.6	-0.1	3.0	3.0
Change in fair value of contingent consideration				0.3	0.3
Onerous contracts		1.8		1.8	1.8
IAS 37, contingent assets					1.8
Other	0.5	0.0	1.7	0.0	0.3
Adjustments to EBITDA in total	0.6	4.4	1.6	5.1	7.3
Adjusted EBITDA	17.2	17.4	38.9	40.7	55.1
Depreciation, amortisation and impairment	-8.7	-11.5	-25.9	-29.0	-37.7
Adjustments to depreciation, amortisation and impairment					
Double depreciation arising from a merger with no cash flow effect			0.4		
Closure of operating locations	0.1	3.4	0.1	3.6	3.3
Adjustments to depreciation, amortisation and impairment in total	0.1	3.4	0.5	3.6	3.3
Adjusted operating profit (EBIT)	8.7	9.3	13.5	15.3	20.8
Operating profit (EBIT)	8.0	1.4	11.4	6.5	10.2

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

EUR million	7–9/2020 3 months	7–9/2019 3 months	1–9/2020 9 months	1–9/2019 9 months	2019
Revenue					1.8
Employee benefit expenses	0.5	2.6	1.1	3.3	3.6
Other operating expenses	0.1	1.8	0.5	1.9	1.9
EBITDA adjustment items total	0.6	4.4	1.6	5.1	7.3
Depreciation, amortisation and impairment	0.1	3.4	0.5	3.6	3.3
Operating profit adjustment items total	0.7	7.9	2.1	8.7	10.6

Pihlajalinna's financial reporting in 2021

Financial statements bulletin 2020: Friday, 19 February 2021

Financial statements and Board of Directors' report: no later than in week 13

Interim report January–March: Friday, 7 May 2021

Half-year financial report January–June: Friday, 13 August 2021

Interim Report January–September: Thursday, 4 November 2021

Briefing

Pihlajalinna will hold a briefing for analysts and the media on Wednesday, 4 November 2020 at 10:00 a.m. The event will be held remotely.

Helsinki, 3 November 2020

The Board of Directors of Pihlajalinna Plc

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Pihlajalinna in brief

Pihlajalinna is one of Finland's leading private providers of social, healthcare and wellbeing services. The Group provides services to private individuals, companies, insurance companies and public sector entities, such as municipalities and joint municipal authorities, across Finland. The Group provides general practitioner and specialised care services, including emergency and on-call services, a wide range of surgical services, occupational healthcare and dental care services, in private clinics and hospitals. The Group, in cooperation with the public sector, offers social and healthcare service provision models to public sector entities with the aim of providing high-quality services for public pay healthcare customers.