

# Pihlajalinna

HALF YEAR FINANCIAL REPORT

1 January–30 June 2020



## Revenue and profitability declined due to the coronavirus epidemic

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

### A brief look at April–June:

- Revenue amounted to EUR 114.7 (129.7) million – a decrease of 11.6%
- Adjusted EBITDA was EUR 9.0 (10.8) million – a decrease of 16.2%
- Adjusted EBIT was EUR 0.6 (2.1) million
- IFRS 3 costs and amortisation related to M&A had a negative effect of EUR 0.8 (1.4) million on operating profit
- Earnings per share (EPS) was EUR -0.03 (-0.02)

### A brief look at January–June:

- Revenue amounted to EUR 247.6 (262.2) million – a decrease of 5.5%
- Adjusted EBITDA was EUR 21.7 (23.3) million – a decrease of 7.1%
- Adjusted EBIT was EUR 4.8 (6.0) million
- IFRS 3 costs and amortisation related to M&A had a negative effect of EUR 1.7 (2.6) million on operating profit
- Earnings per share (EPS) was EUR 0.03 (0.04)
- Pihlajalinna temporarily withdrew its financial outlook issued for 2020 due to the uncertainties caused by the coronavirus epidemic. The long-term financial targets remained unchanged.
- The voluntary tender offer by Mehiläinen Yhtiöt Oy is expected to be completed in the third quarter of 2020 at the latest.

|                                                  | 4–6/2020<br>3 months | 4–6/2019<br>3 months | 1–6/2020<br>6 months | 1–6/2019<br>6 months | 2019<br>12<br>months |
|--------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>INCOME STATEMENT</b>                          |                      |                      |                      |                      |                      |
| Revenue, EUR million                             | 114.7                | 129.7                | 247.6                | 262.2                | 518.6                |
| EBITDA, EUR million                              | 8.5                  | 10.4                 | 20.6                 | 22.6                 | 47.8                 |
| EBITDA, %                                        | 7.4                  | 8.1                  | 8.3                  | 8.6                  | 9.2                  |
| Adjusted EBITDA, EUR million*                    | 9.0                  | 10.8                 | 21.7                 | 23.3                 | 55.1                 |
| Adjusted EBITDA, %*                              | 7.9                  | 8.3                  | 8.8                  | 8.9                  | 10.6                 |
| Operating profit (EBIT), EUR million             | 0.1                  | 1.6                  | 3.4                  | 5.1                  | 10.2                 |
| Operating profit, %                              | 0.1                  | 1.2                  | 1.4                  | 2.0                  | 2.0                  |
| Adjusted operating profit (EBIT), EUR million*   | 0.6                  | 2.1                  | 4.8                  | 6.0                  | 20.8                 |
| Adjusted operating profit, %*                    | 0.5                  | 1.6                  | 2.0                  | 2.3                  | 4.0                  |
| Profit before tax (EBT), EUR million             | -0.9                 | 0.6                  | 1.1                  | 3.2                  | 6.3                  |
| <b>SHARE-RELATED INFORMATION</b>                 |                      |                      |                      |                      |                      |
| Earnings per share (EPS), EUR                    | -0.03                | -0.02                | 0.03                 | 0.04                 | 0.15                 |
| Equity per share, EUR                            |                      |                      | 4.50                 | 5.26                 | 4.47                 |
| <b>OTHER KEY FIGURES</b>                         |                      |                      |                      |                      |                      |
| Return on capital employed (ROCE), %             |                      |                      | 2.6                  | 4.9                  | 2.9                  |
| Return on equity (ROE), %                        |                      |                      | 2.6                  | 7.5                  | 3.8                  |
| Equity ratio, %                                  |                      |                      | 25.0                 | 29.7                 | 24.3                 |
| Gearing, %                                       |                      |                      | 187.6                | 148.6                | 181.7                |
| Interest-bearing net debt, EUR million           |                      |                      | 199.8                | 191.9                | 192.7                |
| Net debt/adjusted EBITDA, 12 months*             |                      |                      | 3.7                  | 3.7                  | 3.5                  |
| Gross investments, EUR million**                 | 7.0                  | 8.4                  | 17.2                 | 22.4                 | 44.1                 |
| Cash flow from operating activities, EUR million | 10.1                 | 11.2                 | 31.5                 | 14.5                 | 36.8                 |

|                                          |      |     |       |       |       |
|------------------------------------------|------|-----|-------|-------|-------|
| Cash flow after investments, EUR million | 12.6 | 4.0 | 30.7  | 2.9   | 17.4  |
| Average number of personnel (FTE)        |      |     | 4,306 | 4,666 | 4,515 |
| Personnel at the end of the period (NOE) |      |     | 5,640 | 6,100 | 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 0.5 (0.3) million for the quarter and EUR 1.0 (0.7) million for the review period. Adjustments to operating profit amounted to EUR 0.5 (0.5) million for the quarter and EUR 1.4 (0.9) 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 hard to assess and predict reliably the financial impact caused by the duration of the coronavirus epidemic on Pihlajalinna's business operations. Pihlajalinna estimates that it will issue an updated outlook for 2020 later this year, or when issuing an outlook statement is possible.

In Pihlajalinna's business, it currently appears that the dip in demand has passed for the time being. In June, the demand for services reached — and, in some areas, exceeded — the volumes seen in June in the previous year. The aim of the restrictions and recommendations issued by the authorities in response to the coronavirus epidemic is to prevent the spread of the epidemic to minimise its negative impacts on people, businesses, society and the realisation of basic rights. The Finnish Government began to gradually lift its coronavirus restrictions and recommendations starting from the beginning of June. The Emergency Powers Act was lifted on 16 June 2020 after it had been in effect for three months.

Although the coronavirus situation in Finland is calm and the number of new infections has remained low, the epidemic continues to overshadow and complicate the predictability of Pihlajalinna's business. The financial impacts cannot be fully determined at present, as they depend on the duration and scope of the measures taken to reduce the spread of the virus. Globally, the pandemic is not yet over, and a second wave of the pandemic is possible in Finland according to the forecasts of the Finnish Institute for Health and Welfare.

### 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:

Pihlajalinna was able to mitigate the business impacts of the decline in demand caused by the coronavirus epidemic fairly well in the second quarter. The coronavirus epidemic and the related restrictions reduced customer flows the most in Pihlajalinna's fitness centres, private clinics and dental clinics. Well over half of Pihlajalinna's business volume remained stable in spite of the coronavirus epidemic. The Finnish Institute

for Health and Welfare considers it possible that Finland will see a second wave of the epidemic, which creates continued business uncertainty for the remainder of the year.

Due to the changes in the operating environment caused by the coronavirus epidemic, the Group carried out cooperation negotiations on temporary lay-offs concerning all of its personnel in April. The negotiations were fully completed on 24 April 2020. The personnel adjustment measures were implemented in several stages with the aim of returning service operations to normal as quickly as possible when a recovery in customer flows occurs.

Pihlajalinna's Medical Management Team and the Group Management Team have monitored the development of the situation and the recommendations issued by authorities on a daily basis during the epidemic. Service demand has also been monitored on a daily basis. Starting from June, demand has clearly recovered in private clinics, occupational healthcare services and dental care services, and we are now fairly close to a normal situation. The coronavirus testing services launched in April continue.

Forever fitness centres, which were closed in the spring due to the epidemic, were reopened in May on a restricted basis. Since the beginning of August, the fitness centres have operated normally while taking the safety of customers and personnel into consideration.

Mehiläinen Yhtiöt Oy has extended the offer period under the voluntary recommended cash tender offer for all shares in Pihlajalinna Plc until 14 September 2020. The Finnish Competition and Consumer Authority has applied for, and the Finnish Market Court has granted, an additional extension of 23 working days for concluding the Phase II Investigation. Currently, the tender offer is expected to be completed during the third quarter of 2020.

The Finnish Government's draft legislation on the reform of healthcare and social services was circulated for consultation in June. The services are currently produced through strong cooperation between the public sector, private enterprises and the third sector. The ageing of the population, amongst other factors, will increase the demand for services in the future. The private sector will continue to play an important role in ensuring the availability of services.

Pihlajalinna has extensive experience in the provision of public social and healthcare services. Before outsourcing agreements were signed, the costs of social and healthcare services had grown quickly and unpredictably for a long time in many municipalities. The municipalities that have entered into a complete outsourcing arrangement with Pihlajalinna have been able to bring costs under control. Moreover, the outsourcing agreements have helped ensure the continued provision of services as well as jobs in social and healthcare services in certain cases, such as in the peripheral areas of regions. The continued provision of social and healthcare services ensures that members of the workforce and families with children can reside in the municipality in question. This means that the provision of social and healthcare services has extensive indirect impacts. Focusing on strong primary care and prevention is amongst the objectives in all of Pihlajalinna's complete outsourcing agreements. Even under the exceptional circumstances created by the epidemic, we have been able to secure service provision in all of our municipal companies and adapt the operations to ensure the effective management of the epidemiological situation.

The development of occupational healthcare services has been positive and fixed-price services have supported profitability during the exceptional circumstances this past spring and summer. The customer flows of insurance company partners improved in the first quarter and we expect that insurance company sales will develop favourably also in the autumn season that is now beginning. In private clinic operations, demand is expected to normalise when responsible behaviour of individuals becomes the new normal and the strategy based on testing, tracing and isolation works effectively.

## 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.

### April–June 2020

| EUR million                       | 4–6/2020     | %          | 4–6/2019     | %          | change       | change %     |
|-----------------------------------|--------------|------------|--------------|------------|--------------|--------------|
| Southern Finland                  | 23.2         | 18         | 30.0         | 21         | -6.8         | -22.6        |
| Mid-Finland                       | 73.1         | 56         | 80.8         | 56         | -7.6         | -9.5         |
| Ostrobothnia                      | 28.7         | 22         | 29.1         | 20         | -0.4         | -1.5         |
| Northern Finland                  | 3.3          | 3          | 3.8          | 3          | -0.5         | -11.9        |
| Other operations                  | 2.2          | 2          | 1.8          | 1          | 0.5          | 27.0         |
| Intra-Group sales                 | -15.9        |            | -15.7        |            | -0.2         |              |
| <b>Total consolidated revenue</b> | <b>114.7</b> | <b>100</b> | <b>129.7</b> | <b>100</b> | <b>-15.1</b> | <b>-11.6</b> |

In relative terms, the effects of the coronavirus epidemic were the strongest in Southern Finland. Revenue for Southern Finland was EUR 23.2 (30.0) million, a decrease of EUR 6.8 million, or 22.6 per cent. Pihlajalinna's Forever fitness centres were closed immediately in mid-March in accordance with the recommendations of the Finnish Government. The quarterly revenue of the fitness centres declined by more than 84 per cent and was EUR 3.5 million lower than in the corresponding period in the previous year. Fitness centre services and opening hours returned to normal starting from 1 August 2020.

The revenue of dental care services in Southern Finland decreased by approximately 43 per cent. Revenue from private clinic services fell by 19 per cent and revenue from surgical operations decreased by 14 per cent. Revenue from occupational healthcare services grew by nearly 10 per cent thanks to the growth of the customer base and fixed-price agreements. According to guidelines issued by the Ministry of Social Affairs and Health on 24 March 2020, dental care services are particularly prone to the spread of infection compared to other healthcare services. In addition, the policy issued by the Finnish Government on 16 March 2020 advising people over 70 years of age to avoid contacts with other people and the recommendation to reduce non-urgent care led to a decline in the demand for all healthcare services — and dental care services in particular.

Revenue for Mid-Finland was EUR 73.1 (80.8) million, a decrease of EUR 7.6 million, or 9.5 per cent. The coronavirus epidemic reduced revenue by 27 per cent in private clinic services, 14 per cent in occupational healthcare services, 51 per cent in dental care services, 68 per cent in fitness centre services and 8 per cent in surgical operations. The expiration of the agreement with Hattula as well as agreements concerning reception centre operations also contributed to the decrease in revenue for the region. Complete outsourcings of social and healthcare services account for a significant proportion of the region's revenue. The region's revenue remained stable thanks to the steady recognition of revenue from complete outsourcing agreements and annual price adjustments.

Revenue for Ostrobothnia was EUR 28.7 (29.1) million, a decrease of EUR 0.4 million, or 1.5 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 21 per cent in private clinic services, 36 per cent in dental care services and 84 per cent in fitness centre services. Revenue from occupational healthcare services rose by more than 11 per cent thanks to the growth of the customer base, while revenue from surgical operations increased by 26 per cent due to an increase in the volume of surgeries in Seinäjoki.

Revenue for Northern Finland was EUR 3.3 (3.8) million, a decrease of EUR 0.5 million, or 11.9 per cent. Revenue fell by 23 per cent in private clinic services, 41 per cent in dental care services, 6 per cent in occupational healthcare services and 21 per cent in surgical operations.

Revenue from Pihlajalinna's other operations increased by EUR 0.5 million, or 27.0 per cent.

## January–June 2020

| EUR million                       | 1–6/2020     | %          | 1–6/2019     | %          | change       | change %    |
|-----------------------------------|--------------|------------|--------------|------------|--------------|-------------|
| Southern Finland                  | 53.2         | 19         | 61.1         | 21         | -7.9         | -12.9       |
| Mid-Finland                       | 155.9        | 56         | 163.8        | 56         | -7.9         | -4.8        |
| Ostrobothnia                      | 58.4         | 21         | 57.0         | 19         | 1.3          | 2.3         |
| Northern Finland                  | 7.6          | 3          | 7.5          | 3          | 0.1          | 1.6         |
| Other operations                  | 4.5          | 2          | 3.4          | 1          | 1.1          | 33.2        |
| Intra-Group sales                 | -32.0        |            | -30.6        |            | -1.3         |             |
| <b>Total consolidated revenue</b> | <b>247.6</b> | <b>100</b> | <b>262.2</b> | <b>100</b> | <b>-14.5</b> | <b>-5.5</b> |

Revenue for Southern Finland was EUR 53.2 (61.1) million, a decrease of EUR 7.9 million, or 12.9 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 50 per cent and was EUR 4.5 million lower than in the corresponding period in the previous year. Fitness centre services and opening hours returned to normal starting from 1 August 2020. The revenue of dental care services decreased by 26 per cent due to the reduction in demand caused by the coronavirus epidemic. Revenue from private clinic services fell by 11 per cent and revenue from surgical operations decreased by 11 per cent. The demand for staffing services among industry operators was also substantially reduced due to the epidemic. Revenue from occupational healthcare services grew by 13 per cent thanks to the growth of the customer base and fixed-price agreements.

Revenue for Mid-Finland was EUR 155.9 (163.8) million, a decrease of EUR 7.9 million, or 4.8 per cent. The coronavirus epidemic reduced revenue by 15 per cent in private clinic services, 9 per cent in occupational healthcare services, 35 per cent in dental care services and 19 per cent in fitness centre services. The expiration of the agreement with Hattula as well as agreements concerning reception centre operations also contributed to the decrease in revenue for the region. Complete outsourcings of social and healthcare services account for a significant proportion of the region's revenue. The region's revenue remained stable thanks to the steady recognition of revenue from complete outsourcing agreements and annual price adjustments. Revenue from surgical operations increased by 3 per cent thanks to growth in insurance company sales. Surgical volumes in the region developed favourably in June in particular.

Revenue for Ostrobothnia amounted to EUR 58.4 (57.0) million, an increase of EUR 1.3 million, or 2.3 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 10 per cent in private clinic services, 25 per cent in dental care services and 25 per cent in fitness centre services. Revenue from occupational healthcare services rose by 19 per cent thanks to the growth of the customer base, while revenue from surgical operations increased by 27 per cent due to an increase in the volume of surgeries in Seinäjoki.

Revenue in Northern Finland amounted to EUR 7.6 (7.5) million, an increase of EUR 0.1 million, or 1.6 per cent. Revenue fell by 4 per cent in private clinic services and 26 per cent in dental care services. Revenue from occupational healthcare services increased by 5 per cent thanks to the growth of the customer base and fixed-price services. Revenue from surgical operations increased by 17 per cent thanks to growth in insurance company sales.

Revenue from Pihlajalinna's other operations (mainly remote services) increased by EUR 1.1 million, or 33.2 per cent.

## Revenue by customer group

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

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

### April–June 2020

| EUR million                          | 4–6/2020     | %          | 4–6/2019     | %          | change       | change %     |
|--------------------------------------|--------------|------------|--------------|------------|--------------|--------------|
| Corporate customers                  | 27.8         | 21         | 30.1         | 21         | -2.2         | -7.4         |
| of which insurance company customers | 6.6          | 5          | 6.7          | 5          | -0.1         | -1.4         |
| Private customers                    | 14.7         | 11         | 25.4         | 17         | -10.8        | -42.4        |
| Public sector                        | 88.1         | 67         | 89.9         | 62         | -1.8         | -2.0         |
| Intra-Group sales                    | -15.9        |            | -15.7        |            | -0.2         |              |
| <b>Total consolidated revenue</b>    | <b>114.7</b> | <b>100</b> | <b>129.7</b> | <b>100</b> | <b>-15.1</b> | <b>-11.6</b> |

Revenue from corporate customers was EUR 27.8 (30.1) million, a decrease of EUR 2.2 million, or 7.4 per cent. Sales to insurance company customers decreased by EUR 0.1 million, or 1.4 per cent. Occupational healthcare invoicing and other corporate invoicing declined as the coronavirus epidemic affected volumes. The demand for staffing services among industry operators was substantially reduced due to the epidemic.

Revenue from private customers was EUR 14.7 (25.4) million, a decrease of EUR 10.8 million, or 42.4 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 3.9 million, or 83 per cent. Fitness centre services and opening hours returned to normal starting from 1 August 2020. The demand for private clinic services and dental care services among private customers declined significantly due to the coronavirus-related restrictions and the coronavirus situation in general. The epidemic did not affect the demand for fertility treatments.

Revenue from the public sector was EUR 88.1 (89.9) million, a decrease of EUR 1.8 million, or 2.0 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 agreement with Hattula as well as agreements concerning reception centre operations had a negative effect on revenue. Demand increased slightly for public sector occupational health services, responsible doctor services and surgical operations.

## January–June 2020

| EUR million                          | 1–6/2020     | %          | 1–6/2019     | %          | change       | change %    |
|--------------------------------------|--------------|------------|--------------|------------|--------------|-------------|
| Corporate customers                  | 60.8         | 22         | 61.2         | 21         | -0.5         | -0.8        |
| of which insurance company customers | 14.9         | 5          | 13.8         | 5          | 1.1          | 7.9         |
| Private customers                    | 38.1         | 14         | 51.9         | 18         | -13.7        | -26.5       |
| Public sector                        | 180.7        | 65         | 179.7        | 61         | 1.0          | 0.5         |
| Intra-Group sales                    | -32.0        |            | -30.6        |            | -1.3         |             |
| <b>Total consolidated revenue</b>    | <b>247.6</b> | <b>100</b> | <b>262.2</b> | <b>100</b> | <b>-14.5</b> | <b>-5.5</b> |

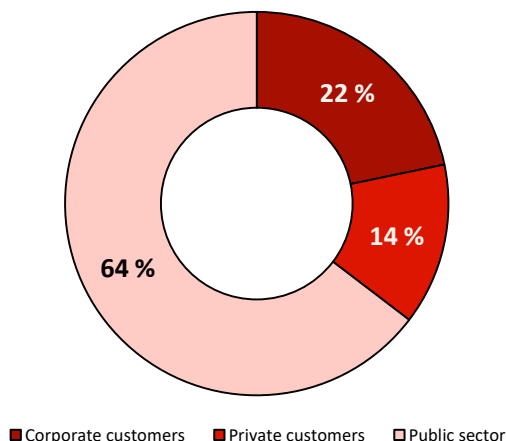
Revenue from corporate customers was EUR 60.8 (61.2) million, a decrease of EUR 0.5 million, or 0.8 per cent. Sales to insurance company customers increased by EUR 1.1 million, or 7.9 per cent. Occupational healthcare invoicing and other corporate invoicing declined year-on-year as the coronavirus epidemic affected volumes. The demand for staffing services among industry operators was substantially reduced due to the epidemic. The number of remote consultations grew.

Revenue from private customers was EUR 38.1 (51.9) million, a decrease of EUR 13.7 million, or 26.5 per cent. The demand for private clinic services by self-paying private customers declined due to the coronavirus epidemic by EUR 5.1 million, or 21 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 4.7 million, or 47 per cent. The demand for dental care services and the volume of surgical operations for self-paying customers also declined significantly due to the coronavirus-related restrictions and the coronavirus situation in general. The coronavirus situation did not affect the demand for fertility treatments.

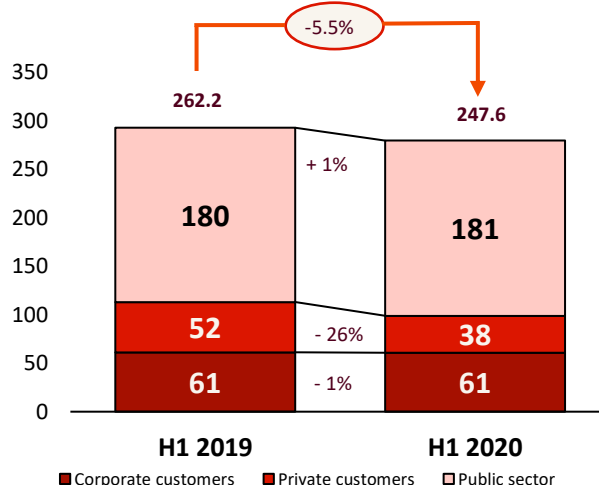
Revenue from the public sector amounted to EUR 180.7 (179.7) million, an increase of EUR 1.0 million, or 0.5 per cent. Complete outsourcings of social and healthcare services represent the majority of the revenue. Revenue remained stable in spite of the coronavirus situation thanks to the steady recognition of revenue from complete outsourcing agreements and annual price adjustments. The expiration of the agreement with Hattula as well as agreements concerning reception centre operations had a negative effect on revenue. The demand for public sector occupational healthcare services grew by 25 per cent. Demand grew by 9 per cent for responsible doctor services and by 7 per cent for public surgical operations.

## Revenue by customer group January–June 2020

REVENUE BY CUSTOMER GROUP H1  
2020, %



REVENUE BY CUSTOMER GROUP,  
EUR MILLION



## Consolidated revenue and result

### April–June 2020

Pihlajalinna's revenue amounted to EUR 114.7 (129.7) million, a decrease of EUR 15.1 million, or 11.6 per cent. Well over than half of Pihlajalinna's business volume remained stable in spite of the coronavirus epidemic. 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. The coronavirus epidemic did not have a significant impact on the demand for housing services for the elderly, recruitment services, public surgical operations and fertility treatments.

After mid-March, the coronavirus epidemic and the related restrictions reduced customer flows in Pihlajalinna's private clinics and dental clinics and caused the temporary closure of Forever fitness centres. To minimise the negative financial impacts, cooperation negotiations were initiated in late March concerning the Group's personnel at fitness centres and dental care services. The negotiations led to full-time and part-time lay-offs of the personnel.

Cooperation negotiations concerning all of the Group's personnel were initiated at the beginning of April. Doctors working in operative clinical work and a majority of the municipal joint-stock companies' service functions were excluded from the negotiations. The negotiations 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 have suffered a significant decrease in revenue due to the coronavirus epidemic and that have costs which are difficult to adjust. Pihlajalinna has recognised the financial support, which was primarily intended to cover the fixed costs of the Group's fitness centres, in other operating income. The Group has allocated a total of EUR 0.5 million in support for business costs for the quarter.

EBITDA was EUR 8.5 (10.4) million. Adjusted EBITDA was EUR 9.0 (10.8) million, a decrease of EUR 1.7 million, or 16.2 per cent. EBITDA adjustments amounted to EUR 0.5 (0.3) million. The profitability of primary care services in municipal outsourcing arrangements reflects the low demand and flexibility of employment relationships during the coronavirus spring. The volumes of surgical operations declined due to the coronavirus epidemic, but profitability was improved by the previous year's efficiency improvement programme and the flexibility of employment relationships. The profitability of occupational healthcare services improved thanks to an increase in the relative share of fixed-price agreements. In addition, the profitability of the former clinics of Terveyspalvelu Verso in Savo, in particular, was improved by an efficiency improvement programme and synergies. Profitability was significantly weighed down by the temporary closure of fitness centres.

Depreciation, amortisation and impairment amounted to EUR 8.4 (8.8) million. Depreciation of intangible assets amounted to EUR 1.6 (1.9) million, of which depreciation related to purchase price allocations amounted to EUR 0.8 (1.2) million. Depreciation, amortisation and impairment of property, plant and equipment amounted to EUR 2.1 (2.0) million and depreciation of right-of-use assets totalled EUR 4.7 (4.9) million. Adjustments to depreciation totalled EUR 0.0 (0.1) million.

Pihlajalinna's EBIT was EUR 0.1 (1.6) million. The EBIT-to-revenue ratio (EBIT margin) was 0.1 (1.2) per cent. Adjusted EBIT amounted to EUR 0.6 (2.1) million, a decrease of EUR 1.4 million. The adjusted EBIT margin was 0.5 (1.6) per cent. Adjustments to EBIT amounted to EUR 0.5 (0.5) million.

Pihlajalinna's revenue from public specialised care included in complete outsourcings of social and healthcare services was EUR 21.5 (22.2) million. The EBITDA of public specialised care amounted to EUR 0.6 (1.1) million and the operating result was EUR 0.6 (1.1) 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 amounted to EUR -0.9 (0.6) million. Taxes in the income statement amounted to EUR 0.1 (-0.3) million. The profit was EUR -0.8 (0.4) million. Earnings per share (EPS) was EUR -0.03 (-0.02).

## January–June 2020

Pihlajalinna's revenue amounted to EUR 247.6 (262.2) million, a decrease of EUR 14.5 million, or 5.5 per cent. Well over 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.

The coronavirus epidemic and the related restrictions reduced customer flows the most in Pihlajalinna's private clinics and dental clinics, and Pihlajalinna's Forever fitness centres were temporarily closed due to the restrictions. 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 have suffered a significant decrease in revenue due to the coronavirus epidemic and that have costs which are difficult to adjust. Pihlajalinna has recognised the financial support, which was primarily intended to cover the fixed

costs of the Group's fitness centres, in other operating income. The Group has allocated a total of EUR 0.5 million in support for business costs for the review period.

EBITDA was EUR 20.6 (22.6) million. Adjusted EBITDA was EUR 21.7 (23.3) million, a decrease of EUR 1.6 million, or 7.1 per cent. EBITDA adjustments amounted to EUR 1.0 (0.7) million. The profitability of occupational healthcare services improved thanks to an increase in the relative share of fixed-price agreements. In addition, the profitability of the former clinics of Terveyspalvelu Verso in Savo, in particular, was improved by an efficiency improvement programme and synergies. The volumes of surgical operations declined due to the coronavirus spring, but profitability was improved by the previous year's efficiency improvement programme and the flexibility of employment relationships. Profitability was significantly weighed down by the temporary closure of fitness centres and public sector specialised care cost accruals.

Depreciation, amortisation and impairment amounted to EUR 17.2 (17.5) million. Depreciation of intangible assets amounted to EUR 3.3 (3.7) million, of which depreciation related to purchase price allocations amounted to EUR 1.6 (2.3) million. Depreciation, amortisation and impairment of property, plant and equipment amounted to EUR 4.6 (3.9) million and depreciation of right-of-use assets totalled EUR 9.4 (9.8) million. Adjustments to depreciation totalled EUR 0.4 (0.1) million.

Pihlajalinna's EBIT was EUR 3.4 (5.1) million. The EBIT-to-revenue ratio (EBIT margin) was 1.4 (2.0) per cent. Adjusted EBIT amounted to EUR 4.8 (6.0) million, a decrease of EUR 1.2 million. The adjusted EBIT margin was 2.0 (2.3) per cent. Adjustments to EBIT amounted to EUR 1.4 (0.9) million.

Pihlajalinna's revenue from public specialised care included in complete outsourcings of social and healthcare services was EUR 44.8 (43.9) million. The EBITDA of public specialised care amounted to EUR -0.5 (1.3) million and the operating result amounted to EUR -0.6 (1.2) 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 -2.4 (-2.0) million. Net financial expenses were increased on a non-recurring basis by a waiver expense associated with a financing arrangement. Profit before taxes amounted to EUR 1.1 (3.2) million. Taxes in the income statement amounted to EUR -0.5 (-0.9) million. Unrecognised deferred tax assets on tax losses had an effect of EUR -0.3 (-0.2) million on taxes in the income statement. The profit was EUR 0.6 (2.2) million. Earnings per share (EPS) was EUR 0.03 (0.04).

## **The operating environment**

The coronavirus outbreak was declared as a pandemic in March 2020. Finland was also in an exceptional situation due to the coronavirus, and the Parliament approved the Government's proposal on the use of powers under the Emergency Powers Act on 17 March 2020. The epidemiological situation in Finland calmed down during the second quarter and, at the beginning of May, the Government approved a plan on the gradual lifting of the restrictions introduced in response to the epidemic. The use of powers under the Emergency Powers Act was repealed effective from 16 June 2020. This marked the end of three months under a state of emergency. The coronavirus situation was subsequently managed under normal legislation based on orders and recommendations issued by the authorities. Nevertheless, a second wave of the pandemic is possible in Finland according to the forecasts of the Finnish Institute for Health and Welfare.

The unprecedented scale and speed of the changes make it difficult to reliably assess and predict the business impact of the coronavirus epidemic in the social and healthcare service sector. The comprehensive assessment of the financial impact of the coronavirus epidemic is also difficult because pent-up demand for

social services and healthcare as well as non-urgent care in wellness services is estimated to have accumulated during the spring and summer, and demand is expected to again grow as the situation returns to normal.

According to the forecast published by the Bank of Finland on 9 June, the Finnish economy will contract by approximately 7 per cent in 2020 due to the coronavirus pandemic. The report states that the forecast involves exceptional uncertainty due to the coronavirus pandemic and that, depending on the development of the epidemic, the Finnish economy may contract by as little as 5 per cent or as much as 11 per cent this year. The report predicts growth of approximately 3 per cent for the Finnish economy in 2021–2022. In a communication published on 20 May, the European Commission forecasts that the Finnish economy will contract by 6.3 per cent in 2020 and grow by 2.8 per cent next year.

Also in May, the European Commission published country-specific recommendations aimed at providing economic policy guidance for Member States under the circumstances created by the coronavirus pandemic. The country-specific recommendations for Finland mention challenges related to the resilience of the healthcare system. According to the Commission's forecast, the fragmentation of service provision and the unequal access to social and primary healthcare services is expected to remain an issue after the coronavirus epidemic subsides.

The Commission recommends that, in the medium term, Finland should continue to pursue health and social services reform. The communication states that health and social services reform will prepare Finland for demographic changes and help the country maintain the quality of its health system in the future while improving its accessibility.

The Finnish Government's draft legislation on the reform of healthcare and social services was circulated for consultation on 15 June. According to the draft, which is aimed at creating a harmonised social and healthcare service structure, a total of 21 health and social services counties would be established in Finland, with the responsibility for organising social and healthcare services as well as rescue services transferred from municipalities to these counties. The services entrusted to the future health and social services counties would be produced primarily as public services, complemented by the private sector and the third sector.

The draft proposes that health and social services counties could purchase social and healthcare services from private service providers if doing so is necessary for the provision of legally required and equal services and the appropriate performance of duties, such as ensuring that the customers of the health and social services counties have access to care within the time frame specified in the Health Care Act.

The draft estimates that the current complete outsourcing agreements could potentially be invalidated for being in violation of the Constitution of Finland. The draft states that, based on this, the health and social services counties' responsibility for organising social and healthcare services would not be fulfilled in the case of complete outsourcing agreements.

Pihlajalinna's view is that partnerships between the public sector and private corporations remain a good solution for satisfying the growing demand in the current epidemiological situation and thereafter. Activity increased among municipalities during the first months of 2020, as municipalities have not wanted to merely wait for potential reforms. Several municipalities have commenced talks on outsourcings of varying scope.

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.

## **Consolidated statement of financial position and cash flow**

Pihlajalinna Group's total statement of financial position amounted to EUR 427.4 (435.7) million. Consolidated cash and cash equivalents amounted to EUR 14.6 (26.6) million.

Net cash flow from operating activities in the quarter amounted to EUR 10.1 (11.2) million. Taxes paid amounted to EUR -0.9 (-1.3) million. The change in net working capital was EUR 2.4 (2.1) million.

Net cash flow from operating activities during the review period amounted to EUR 31.5 (14.5) million. Taxes paid amounted to EUR -2.1 (-3.9) million. The change in net working capital was EUR 13.0 (-4.1) million. Working capital totalling EUR 15.7 (-2.5) million was released from trade and other payables. Working capital amounting to EUR 0.7 (1.4) million was tied up in trade and other receivables and EUR 1.1 (0.2) million in inventories. Changes in provisions tied up EUR -0.9 (0.0) million in working capital.

Net cash flow from investing activities totalled EUR 2.5 (-7.2) million during the quarter. Acquisitions of subsidiaries had an impact of EUR 0.0 (-4.4) million on net cash flow from investing activities. Investments in tangible and intangible assets amounted to EUR -4.2 (-3.0) million, and the proceeds from the disposal of tangible assets amounted to EUR 6.6 (0.2) million. Pihlajalinna sold and leased back two care properties in Laihia in May.

Net cash flow from investing activities during the review period amounted to EUR -0.8 (-11.6) 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 -6.2 (-7.1) million, and the proceeds from the disposal of tangible assets amounted to EUR 6.7 (0.3) million.

The Group's cash flow after investments (free cash flow) was EUR 12.6 (4.0) million for the quarter and EUR 30.7 (2.9) million for the review period.

Net cash flow from financing activities totalled EUR -16.6 (-5.2) million for the quarter. The change in financial liabilities, including changes in credit limits, amounted to EUR -10.4 (3.2) million. Payments for financial lease liabilities amounted to EUR -4.5 (-5.2) million, and interest paid and other financial expenses amounted to EUR -1.0 (-0.9) million. Pihlajalinna Plc did not pay dividends for the financial year 2019. For the financial year 2018, Pihlajalinna Plc paid dividends totalling EUR 2.3 million. A total of EUR 0.1 (0.0) million in dividends was paid to non-controlling interests. The Group acquired its own shares for its incentive scheme in the amount of EUR 0.7 (0.0) million.

Net cash flow from financing activities during the review period amounted to EUR -43.1 (-12.7) million. The change in financial liabilities, including changes in credit limits, amounted to EUR -11.4 (2.7) million. Payments for financial lease liabilities amounted to EUR -10.2 (-9.9) million, and interest paid and other financial expenses amounted to EUR -2.4 (-1.9) 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.

The Group's gearing was 187.6 (148.6) per cent. Interest-bearing net debt amounted to EUR 199.8 (191.9) 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 2.6 (4.9) per cent and return on equity was 2.6 (7.5) 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 June 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 are 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 – will take effect again when the covenants are 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 June 2020, leverage in accordance with the financing arrangement stood at 3.62.

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 40.0 million in unused committed credit limits.

When 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 in shareholding. After the announcement of the final result of the tender offer, Pihlajalinna and the funding providers have 30 business days to agree on the impacts of the change in shareholding on the financing arrangement.

## **Capital expenditure**

Gross investments, including acquisitions, amounted to EUR 17.2 (22.4) 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 6.1 (5.0) million in the review period. Gross investments in connection with the opening of new units amounted to EUR 0.3 (2.8) million. Gross investments in relation to M&A transactions amounted to EUR 0.0 (3.7) million. Gross investments in right-of-use assets amounted to EUR 10.8 (10.8) 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 (4.6) 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 procurement of three social and healthcare service buildings with the city of Mänttä-Vilppula. The transaction will be completed by 31 December 2020. The total value of the deal is estimated at EUR 4–7 million depending on the plans concerning the development of the buildings.

## Non-controlling interests

| Company                 | Pihlajalinna's holding, 31 December 2019 | Pihlajalinna's holding, 30 June 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 acquisition |
|---------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|----------------------|
| Forever Matinkylä Oy<br>Etelä-Karjalan Liikuntakeskus Oy<br>Forever Hiekkaharju Oy<br>Forever Varisto Oy<br>Keravan Forever Oy<br>Klaari Oy | Forever Helsinki Oy       | 1 January 2020       |
| Kompassi Hammaslääkärikeskus Oy                                                                                                             | Pihlajalinna Seinäjoki Oy | 1 February 2020      |

## Research and development

Development costs that fulfilled the criteria for capitalisation amounted to EUR 0.2 (0.4) 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 5,640 (6,100). The Group's personnel averaged 4,306 (4,666) persons as full-time equivalents, a decrease of 360 persons or 8 per cent. The Group's employee benefit expenses totalled EUR 108.7 (114.6) million, a decrease of EUR 5.9 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 11,887 (13,013) shareholders. A list of the largest shareholders is available on the company's investor website at [investors.pihlajalinna.fi](http://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               | 4–6/2020   | 4–6/2019   | 1–6/2020   | 1–6/2019   | 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         | 22,578,050 | 22,620,135 | 22,599,093 | 22,620,135 | 22,620,135 |
| Highest price, EUR                                          | 15.15      | 11.76      | 15.66      | 11.76      | 15.88      |
| Lowest price, EUR                                           | 13.40      | 9.80       | 11.58      | 8.70       | 8.70       |
| Average price, EUR*                                         | 14.25      | 10.91      | 14.43      | 10.63      | 12.77      |
| Closing price, EUR                                          | 14.05      | 11.26      | 14.05      | 11.26      | 15.28      |
| Share turnover, 1,000 shares                                | 1,357      | 650        | 2,720      | 1,221      | 4,062      |
| Share turnover, %                                           | 6.0        | 2.9        | 12.0       | 5.4        | 18.0       |
| Market capitalisation at the end of the period, EUR million | 317.1      | 254.7      | 317.1      | 254.7      | 345.6      |

\* average share price weighted by trading volume

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

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

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

The Finnish Financial Supervisory Authority approved the tender offer document on 8 January 2020. The offer period commenced on 9 January 2020 at 9:30 a.m. (Finnish time) and its original tentative time of expiration was 19 March 2020 at 4:00 p.m. (Finnish time). The Finnish Competition and Consumer Authority (FCCA) extended the time limit applicable to merger control clearance with retroactive effect as of 20 May 2020. On 25 June 2020, the FCCA confirmed that the review period had been reinstated with effect as of 24 June 2020.

The tender offeror extended the offer period until 14 September 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. Based on currently available information, the tender offeror expects to obtain the approval pertaining to merger control clearance and complete the tender offer during the third quarter of 2020.

## **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 monitored operational indicators and assessed the situation and the necessary measures on a daily basis. The Medical Management Team met daily and issued instructions to the Group's units in accordance with the guidelines and policies issued by the authorities and municipalities. As 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.

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 given on 14 February 2020. It is hard to assess and predict the financial impact caused by the emergency

laws issued by the Finnish Government and the duration of the coronavirus epidemic on Pihlajalinna's business operations.

The coronavirus epidemic situation continues to overshadow and complicate the predictability of Pihlajalinna's business. Globally, the coronavirus pandemic is not yet over. According to the Finnish Institute for Health and Welfare's modelling, a second wave of the epidemic is possible. People's behaviour plays a major role in the continuation of the epidemic.

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

A tax audit of the Group's main companies, which began in spring 2017, was completed with regard to income taxation (the Act on the Taxation of Business Profits and Income from Professional Activity) and value added taxes (Value Added Tax Act) without notable sanctions. For withholding taxes (Tax Prepayment Act), the audit reports are still pending approval by the Tax Office for Major Corporations. No material consequences are expected.

The Finnish Government's draft legislation on the reform of healthcare and social services and the county model was circulated for consultation on 15 June. The consultation period will last until 25 September 2020. According to the draft legislation, complete outsourcings could be invalidated on weighty social grounds. The invalidation of the agreements would take place with a two-year transition period. According to the proposal, counties would not be liable to pay penalties for the invalidation of the agreements. In the view of Pihlajalinna's management and legal experts, the invalidation of such agreements would 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 2.4 million at the end of the review period. The District Court postponed the main hearing on the case from the beginning of March to the end of August 2020 at the request of the claimant. The balance sheet of Jämsän Terveys Oy also includes other receivables amounting to a total of EUR 3.2 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.

Kuusiolinna Terveys Oy has trade and other receivables totalling EUR 5.2 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 1.3 million from a client. The receivables are associated with increased regulatory requirements for services for senior citizens and the calculation of net expenditure pursuant to the previous agreement. A social and healthcare service property transaction that will be completed in 2020 has been agreed upon with the client. According to the management's estimate, the customer will pay the receivables in full in conjunction with the completion of the property transaction.

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.

#### **Impairment testing of goodwill**

At the end of the review period, goodwill on Pihlajalinna's statement of financial position amounted to EUR 173.6 (171.6) million. Pihlajalinna checks annually and, if necessary, quarterly, that the carrying amount of goodwill does not exceed the fair value, i.e. the recoverable amount. Although the coronavirus epidemic is not expected to diminish Pihlajalinna's outlook in the medium and long term, it was deemed to increase uncertainty associated with goodwill. A critical assessment of carrying amounts and the Audit Committee's duty of due diligence led to a decision to carry out impairment testing of goodwill based on the situation as of 30 June 2020. The impairment testing did not indicate a need for write-downs. According to the testing, the carrying amounts correspond to the recoverable amounts. If permanent negative changes were to occur in the development of Pihlajalinna's profit and growth, this could lead to an impairment of goodwill.

The management has exercised significant judgement in assessing the indications of impairment. The impacts of the coronavirus epidemic depend on the duration and severity of the pandemic. As such, it is challenging to estimate the demand for healthcare services in the current situation. The assumptions used in assessing the present value of goodwill are based on the management's best estimate under these circumstances. More information on the impairment testing is provided in the tables under "Changes in intangible assets".

#### **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 2.4 million at the end of the review period. The main hearing on the case was postponed to the end of August 2020 at the request of the claimant.

The municipality of Hattula filed an application for a summons with the District Court of Kanta-Häme 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.

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 0.7 million has been allocated to the review period due to the share-based reward paid due to the change in control.

## **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 per cent of the total number of shares.

## **Events after the review period**

There were no reportable events after the review period.

## **Accounting policies**

This half year financial report has been prepared in compliance with IFRS standards and the provisions of IAS 34 (Interim Financial Reporting). The information published in this half year financial 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 a half year financial report 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 half year financial 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 half year financial report under the going concern principle is justified and appropriate.

The half year financial report has been prepared in compliance with the IFRS standards that are currently in effect. The half year financial 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 June 2020.

# Tables

## 1 January–30 June 2020

### Consolidated statement of comprehensive income

| EUR million                                                                                                                    | 4–6/2020<br>3 months | 4–6/2019<br>3 months | 1–6/2020<br>6 months | 1–6/2019<br>6 months | 2019         |
|--------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|----------------------|----------------------|--------------|
| <b>Revenue</b>                                                                                                                 | <b>114.7</b>         | <b>129.7</b>         | <b>247.6</b>         | <b>262.2</b>         | <b>518.6</b> |
| Other operating income                                                                                                         | 0.9                  | 0.4                  | 1.3                  | 0.7                  | 1.6          |
| Materials and services                                                                                                         | -44.2                | -49.7                | -96.9                | -100.3               | -200.2       |
| Employee benefit expenses                                                                                                      | -52.3                | -57.6                | -108.7               | -114.6               | -222.0       |
| Other operating expenses                                                                                                       | -10.6                | -12.4                | -22.7                | -25.4                | -50.2        |
| Share of profit in associated companies and joint ventures                                                                     | 0.0                  | 0.0                  | 0.0                  | 0.0                  | 0.0          |
| <b>EBITDA</b>                                                                                                                  | <b>8.5</b>           | <b>10.4</b>          | <b>20.6</b>          | <b>22.6</b>          | <b>47.8</b>  |
| Depreciation, amortisation and impairment                                                                                      | -8.4                 | -8.8                 | -17.2                | -17.5                | -37.7        |
| <b>Operating profit (EBIT)</b>                                                                                                 | <b>0.1</b>           | <b>1.6</b>           | <b>3.4</b>           | <b>5.1</b>           | <b>10.2</b>  |
| Financial income                                                                                                               | 0.1                  | 0.0                  | 0.1                  | 0.0                  | 0.1          |
| Financial expenses                                                                                                             | -1.1                 | -1.0                 | -2.5                 | -2.0                 | -4.0         |
| <b>Profit before taxes</b>                                                                                                     | <b>-0.9</b>          | <b>0.6</b>           | <b>1.1</b>           | <b>3.2</b>           | <b>6.3</b>   |
| Income tax                                                                                                                     | 0.1                  | -0.3                 | -0.5                 | -0.9                 | -1.8         |
| Profit for the period*                                                                                                         | -0.8                 | 0.4                  | 0.6                  | 2.2                  | 4.5          |
| <b>Total comprehensive income for the period</b>                                                                               | <b>-0.8</b>          | <b>0.4</b>           | <b>0.6</b>           | <b>2.2</b>           | <b>4.5</b>   |
| Total comprehensive income for the period attributable:                                                                        |                      |                      |                      |                      |              |
| To the owners of the parent company                                                                                            | -0.6                 | -0.5                 | 0.7                  | 0.9                  | 3.4          |
| To non-controlling interests                                                                                                   | -0.3                 | 0.9                  | -0.1                 | 1.3                  | 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                                                                                                              | -0.03                | -0.02                | 0.03                 | 0.04                 | 0.15         |

\* The Group has no other comprehensive income items

## Consolidated statement of financial position

| EUR million                                        | 30 June 2020 | 30 June 2019 | 2019         |
|----------------------------------------------------|--------------|--------------|--------------|
| <b>ASSETS</b>                                      |              |              |              |
| <b>Non-current assets</b>                          |              |              |              |
| Property, plant and equipment                      | 46.4         | 45.1         | 53.2         |
| Goodwill                                           | 173.6        | 171.6        | 173.6        |
| Other intangible assets                            | 17.9         | 23.2         | 19.1         |
| Right-of-use assets                                | 108.5        | 116.8        | 108.1        |
| Interests in associates                            | 0.0          | 0.0          | 0.0          |
| Other investments                                  | 0.1          | 0.2          | 0.1          |
| Other receivables                                  | 6.0          | 1.7          | 2.0          |
| Deferred tax assets                                | 7.5          | 4.9          | 6.0          |
| <b>Total non-current assets</b>                    | <b>360.0</b> | <b>363.4</b> | <b>362.2</b> |
| <b>Current assets</b>                              |              |              |              |
| Inventories                                        | 3.4          | 2.7          | 2.3          |
| Trade and other receivables                        | 48.2         | 39.8         | 46.1         |
| Current tax assets                                 | 1.1          | 3.2          | 0.9          |
| Cash and cash equivalents                          | 14.6         | 26.6         | 27.0         |
| <b>Total current assets</b>                        | <b>67.4</b>  | <b>72.3</b>  | <b>76.3</b>  |
| <b>Total assets</b>                                | <b>427.4</b> | <b>435.7</b> | <b>438.4</b> |
| <b>EQUITY AND LIABILITIES</b>                      |              |              |              |
| <b>Equity attributable to owners of the parent</b> |              |              |              |
| Share capital                                      | 0.1          | 0.1          | 0.1          |
| Reserve for invested unrestricted equity           | 116.5        | 116.5        | 116.5        |
| Retained earnings                                  | -15.7        | 1.4          | -18.8        |
| Profit for the period                              | 0.7          | 0.9          | 3.4          |
|                                                    | <b>101.6</b> | <b>118.9</b> | <b>101.1</b> |
| Non-controlling interests                          | 4.9          | 10.1         | 5.0          |
| <b>Total equity</b>                                | <b>106.5</b> | <b>129.1</b> | <b>106.1</b> |
| <b>Non-current liabilities</b>                     |              |              |              |
| Deferred tax liabilities                           | 5.6          | 5.7          | 5.7          |
| Provisions                                         | 0.0          | 0.3          | 0.2          |
| Lease liabilities                                  | 101.0        | 102.1        | 96.4         |
| Financial liabilities                              | 93.4         | 95.5         | 103.9        |
| Other non-current liabilities                      | 1.2          | 1.3          | 1.3          |
| <b>Total non-current liabilities</b>               | <b>201.2</b> | <b>204.8</b> | <b>207.5</b> |
| <b>Current liabilities</b>                         |              |              |              |
| Trade and other payables                           | 98.0         | 77.8         | 102.0        |
| Current tax liabilities                            | 0.7          | 1.6          | 0.4          |
| Provisions                                         | 0.9          | 0.1          | 1.6          |
| Lease liabilities                                  | 18.9         | 17.4         | 17.7         |
| Financial liabilities                              | 1.2          | 4.9          | 3.1          |
| <b>Total current liabilities</b>                   | <b>119.6</b> | <b>101.8</b> | <b>124.9</b> |
| <b>Total liabilities</b>                           | <b>320.9</b> | <b>306.7</b> | <b>332.4</b> |
| <b>Total equity and liabilities</b>                | <b>427.4</b> | <b>435.7</b> | <b>438.4</b> |

## Consolidated statement of changes in equity

|                                                  | Equity attributable to owners of the parent company |                                          |                   |                           |              |
|--------------------------------------------------|-----------------------------------------------------|------------------------------------------|-------------------|---------------------------|--------------|
| EUR million                                      | Share capital                                       | Reserve for invested unrestricted equity | Retained earnings | Non-controlling interests | Equity total |
| <b>Total equity, 1 Jan. 2019</b>                 | <b>0.1</b>                                          | <b>116.5</b>                             | <b>4.6</b>        | <b>9.2</b>                | <b>130.3</b> |
| Profit for the period                            |                                                     |                                          | 0.9               | 1.3                       | 2.2          |
| <b>Total comprehensive income for the period</b> |                                                     |                                          | <b>0.9</b>        | <b>1.3</b>                | <b>2.2</b>   |
| Dividends paid                                   |                                                     |                                          | -2.3              |                           | -2.3         |
| Investments in Group companies                   |                                                     |                                          | 0.1               | -0.1                      | 0.0          |
| <b>Total transactions with owners</b>            |                                                     |                                          | <b>-2.2</b>       | <b>-0.1</b>               | <b>-2.3</b>  |
| Changes in NCI without a change in control       |                                                     |                                          | -1.0              | -0.3                      | -1.2         |
| <b>Total changes in subsidiary shareholdings</b> |                                                     |                                          | <b>-1.0</b>       | <b>-0.3</b>               | <b>-1.2</b>  |
| <b>Total equity, 30 Jun. 2019</b>                | <b>0.1</b>                                          | <b>116.5</b>                             | <b>2.3</b>        | <b>10.1</b>               | <b>129.1</b> |

|                                                  | Equity attributable to owners of the parent |                                          |                   |                           |              |
|--------------------------------------------------|---------------------------------------------|------------------------------------------|-------------------|---------------------------|--------------|
| EUR million                                      | Share capital                               | Reserve for invested unrestricted equity | Retained earnings | Non-controlling interests | Equity Total |
| <b>Total equity, 1 Jan. 2020</b>                 | <b>0.1</b>                                  | <b>116.5</b>                             | <b>-15.5</b>      | <b>5.0</b>                | <b>106.1</b> |
| Profit for the period                            |                                             |                                          | 0.7               | -0.1                      | 0.6          |
| <b>Total comprehensive income for the period</b> |                                             |                                          | <b>0.7</b>        | <b>-0.1</b>               | <b>0.6</b>   |
| Dividends paid                                   |                                             |                                          |                   | -0.1                      | -0.1         |
| Acquisition of own shares                        |                                             |                                          | -0.7              |                           | -0.7         |
| Share-based benefits                             |                                             |                                          | 1.0               |                           | 1.0          |
| <b>Total transactions with owners</b>            |                                             |                                          | <b>0.3</b>        | <b>-0.1</b>               | <b>0.2</b>   |
| Changes in NCI without a change in control       |                                             |                                          | -0.5              | 0.2                       | -0.3         |
| <b>Total changes in subsidiary shareholdings</b> |                                             |                                          | <b>-0.5</b>       | <b>0.2</b>                | <b>-0.3</b>  |
| <b>Total equity, 30 Jun. 2020</b>                | <b>0.1</b>                                  | <b>116.5</b>                             | <b>-15.0</b>      | <b>4.9</b>                | <b>106.5</b> |

## Consolidated statement of cash flows

| EUR million                                                                                   | 4–6/2020<br>3 months | 4–6/2019<br>3 months | 1–6/2020<br>6 months | 1–6/2019<br>6 months | 2019         |
|-----------------------------------------------------------------------------------------------|----------------------|----------------------|----------------------|----------------------|--------------|
| <b>Cash flow from operating activities</b>                                                    |                      |                      |                      |                      |              |
| Profit for the period                                                                         | -0.6                 | -0.5                 | 0.7                  | 0.9                  | 3.4          |
| Cash flow adjustments for business operations:                                                |                      |                      |                      |                      |              |
| Taxes                                                                                         | -0.1                 | 0.3                  | 0.5                  | 0.9                  | 1.8          |
| Depreciation, amortisation and impairment                                                     | 8.4                  | 8.8                  | 17.2                 | 17.5                 | 37.7         |
| Financial income and expenses                                                                 | 1.0                  | 1.0                  | 2.4                  | 2.0                  | 3.9          |
| Other                                                                                         | -0.3                 | 0.8                  | -0.2                 | 1.2                  | 1.0          |
| Net cash generated from operating activities before change in working capital                 | 8.5                  | 10.3                 | 20.6                 | 22.5                 | 47.7         |
| Change in working capital                                                                     | 2.4                  | 2.1                  | 13.0                 | -4.1                 | -6.2         |
| Interest received                                                                             | 0.1                  | 0.0                  | 0.1                  | 0.0                  | 0.1          |
| Taxes paid                                                                                    | -0.9                 | -1.3                 | -2.1                 | -3.9                 | -4.7         |
| <b>Net cash flow from operating activities</b>                                                | <b>10.1</b>          | <b>11.2</b>          | <b>31.5</b>          | <b>14.5</b>          | <b>36.8</b>  |
| <b>Cash flows from investing activities</b>                                                   |                      |                      |                      |                      |              |
| Investments in tangible and intangible assets                                                 | -4.2                 | -3.0                 | -6.2                 | -7.1                 | -15.4        |
| Proceeds from disposal of property, plant and equipment and intangible assets and prepayments | 6.6                  | 0.2                  | 6.7                  | 0.3                  | 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                  | -4.4                 | -1.4                 | -4.9                 | -4.9         |
| <b>Net cash flow from investing activities</b>                                                | <b>2.5</b>           | <b>-7.2</b>          | <b>-0.8</b>          | <b>-11.6</b>         | <b>-19.5</b> |
| <b>Cash flows from financing activities</b>                                                   |                      |                      |                      |                      |              |
| Changes in non-controlling interests                                                          | 0.0                  | 0.0                  | -18.3                | -1.3                 | -1.3         |
| Acquisition of own shares                                                                     | -0.7                 | 0.0                  | -0.7                 | 0.0                  | 0.0          |
| Proceeds from and repayment of borrowings                                                     | -10.4                | 3.2                  | -11.4                | 2.7                  | 7.7          |
| Repayment of lease liabilities                                                                | -4.5                 | -5.2                 | -10.2                | -9.9                 | -22.7        |
| Interest and other operational financial expenses                                             | -1.0                 | -0.9                 | -2.4                 | -1.9                 | -3.8         |
| Dividends paid and other profit distribution                                                  | -0.1                 | -2.3                 | -0.1                 | -2.3                 | -6.7         |
| <b>Net cash flow from financing activities</b>                                                | <b>-16.6</b>         | <b>-5.2</b>          | <b>-43.1</b>         | <b>-12.7</b>         | <b>-26.7</b> |
| Changes in cash and cash equivalents                                                          | -4.1                 | -1.2                 | -12.4                | -9.7                 | -9.3         |
| Cash at beginning of period                                                                   | 18.7                 | 27.8                 | 27.0                 | 36.3                 | 36.3         |
| <b>Cash at end of review period</b>                                                           | <b>14.6</b>          | <b>26.6</b>          | <b>14.6</b>          | <b>26.6</b>          | <b>27.0</b>  |

## Contingent liabilities and commitments

| EUR million                                    | 30 June 2020 | 30 June 2019 | 2019 |
|------------------------------------------------|--------------|--------------|------|
| <b>Collateral given on own behalf</b>          |              |              |      |
| Pledged collateral notes                       |              | 1.0          |      |
| Sureties                                       | 4.4          |              | 3.7  |
| Lease deposits                                 | 1.1          | 1.8          | 1.8  |
| Properties' VAT refund liability               | 0.1          | 1.2          | 1.7  |
| Lease commitments for off-balance sheet leases | 0.4          | 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 procurement of three social and healthcare service buildings with Mänttä-Vilppula. 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 June 2020 | 30 June 2019 | 2019         |
|-------------------------------------------------|--------------|--------------|--------------|
| Acquisition cost at beginning of period         | 224.7        | 217.4        | 217.4        |
| Additions                                       | 2.1          | 1.8          | 3.6          |
| Business combinations                           | 0.0          | 3.8          | 3.7          |
| Transfers between items                         | 0.0          | 0.2          | 0.2          |
| Disposals                                       | -0.4         | 0.0          | -0.1         |
| Acquisition cost at end of period               | 226.4        | 223.1        | 224.7        |
| Accumulated depreciation at beginning of period | -32.1        | -24.5        | -24.5        |
| Depreciation and amortisation for the period    | -3.3         | -3.7         | -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       | -34.9        | -28.4        | -32.1        |
| <b>Carrying amount at end of period</b>         | <b>191.5</b> | <b>194.7</b> | <b>192.7</b> |

### Impairment testing of cash-generating units that include goodwill

The Group carried out its annual impairment testing of goodwill on 31 October 2019. The result of the testing was that no impairment losses were recognised for the Group's cash-generating units for the financial year that ended on 31 December 2019. The Group's recoverable amounts exceeded the carrying amounts by a significant margin.

The coronavirus pandemic was deemed to increase uncertainty pertaining to goodwill, which is why the critical assessment of carrying amounts and the Audit Committee's duty of due diligence led to a decision to carry out impairment testing of goodwill concerning the situation as of 30 June 2020. The impairment testing did not indicate a need for write-downs. According to the testing, the carrying amounts correspond to the recoverable amounts.

| EUR million              | 06/2020 | 2019  |
|--------------------------|---------|-------|
| Tested goodwill in total | 173.6   | 173.6 |

### Key accounting estimates and decisions based on management judgement in impairment testing

The cash flow forecasts are based on the management's cash flow estimates for the years 2020–2023. The cash flow forecasts for 2024–2025, after the forecast period approved by the management, reflect one per cent growth. The growth rate of 2% used in the calculation of the terminal value is in line with the sector's actual long-term growth. The duration of the tested forecast period is five years.

The discount rate used in the calculations is determined using the weighted average cost of capital (WACC), which de-

scribes the total cost of equity and liabilities, taking into account the asset-specific risks. Due to the coronavirus epidemic, the Group's additional risk premium was increased by one percentage point, while the other factors remained unchanged.

|                                                                   | 06/2020 | 2019  |
|-------------------------------------------------------------------|---------|-------|
| Discount rate (pre tax WACC)                                      | 7.63%   | 6.82% |
| Discount rate (after tax WACC)                                    | 6.46%   | 5.84% |
|                                                                   |         |       |
| The terminal period's share of the amount of expected cash flows: | 80%     | 79%   |

#### Sensitivity analyses in impairment testing

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

|                           | 06/2020                        | 2019                           |
|---------------------------|--------------------------------|--------------------------------|
| Decline in EBIT margin    | more than 6 percentage points  | more than 5 percentage points  |
| Decline in volume         | more than 41 percentage points | more than 34 percentage points |
| Increase in discount rate | more than 12 percentage points | more than 7 percentage points  |

## Changes in property, plant and equipment

| EUR million                                     | 30 June 2020 | 30 June 2019 | 2019        |
|-------------------------------------------------|--------------|--------------|-------------|
| Acquisition cost at beginning of period         | 97.4         | 79.7         | 79.7        |
| Additions                                       | 4.4          | 7.0          | 18.4        |
| Business combinations                           | 0.0          | 0.0          | 0.0         |
| Transfers between items                         | 0.9          | 0.1          | 1.5         |
| Disposals                                       | -10.3        | -0.6         | -2.3        |
| Acquisition cost at end of period               | 92.4         | 86.2         | 97.4        |
|                                                 |              |              |             |
| Accumulated depreciation at beginning of period | -44.1        | -36.4        | -36.4       |
| Depreciation and amortisation for the period    | -4.6         | -3.9         | -7.7        |
| Transfers between items                         | -1.0         | -1.0         | -1.5        |
| Accumulated depreciation on disposals           | 3.7          | 0.2          | 1.5         |
| Accumulated depreciation at end of period       | -46.0        | -41.1        | -44.1       |
| <b>Carrying amount at end of period</b>         | <b>46.4</b>  | <b>45.1</b>  | <b>53.2</b> |

## Changes in right-of-use assets

| EUR million                                     | 30 June 2020 | 30 June 2019 | 2019  |
|-------------------------------------------------|--------------|--------------|-------|
| Acquisition cost at beginning of period         | 172.7        | 162.5        | 162.5 |
| Additions                                       | 10.4         | 6.8          | 14.5  |
| Disposals                                       | -2.9         |              | -8.1  |
| Business combinations                           |              | 3.8          | 3.8   |
| Acquisition cost at end of period               | 180.2        | 173.1        | 172.7 |
|                                                 |              |              |       |
| Accumulated depreciation at beginning of period | -64.6        | -46.5        | -46.5 |
| Depreciation and amortisation for the period    | -9.4         | -9.8         | -22.5 |
| Accumulated depreciation on disposals           | 2.2          | 0.0          | 4.5   |

|                                           |              |              |              |
|-------------------------------------------|--------------|--------------|--------------|
| Accumulated depreciation at end of period | -71.8        | -56.3        | -64.6        |
| <b>Carrying amount at end of period</b>   | <b>108.5</b> | <b>116.8</b> | <b>108.1</b> |

## Right-of-use assets and lease liabilities

| EUR million                            | Right-of-use assets | Lease liabilities |
|----------------------------------------|---------------------|-------------------|
| Carrying amount at 1 January 2020      | 108.1               | 114.2             |
| Changes                                | 9.7                 | 16.0              |
| Depreciation and amortisation          | -9.4                |                   |
| Repayments of lease liabilities        |                     | -10.2             |
| <b>Carrying amount at 30 June 2020</b> | <b>108.5</b>        | <b>119.9</b>      |

On 30 June 2020, EUR 89.2 million of the lease liabilities were the result of the adoption of IFRS 16 and EUR 30.7 million were financial lease liabilities in accordance with previous accounting standards.

| EUR million                            | Right-of-use assets | Lease liabilities |
|----------------------------------------|---------------------|-------------------|
| Opening balance 1 January 2019         | 116.0               | 118.5             |
| Changes                                | 10.6                | 10.8              |
| Depreciation and amortisation          | -9.8                |                   |
| Repayments of lease liabilities        |                     | -9.9              |
| <b>Carrying amount at 30 June 2019</b> | <b>116.8</b>        | <b>119.4</b>      |

On 30 June 2019, EUR 87.8 million of the lease liabilities were the result of the adoption of IFRS 16 and EUR 31.6 million were financial lease liabilities in accordance with previous accounting standards.

| EUR million                                | Right-of-use assets | Lease liabilities |
|--------------------------------------------|---------------------|-------------------|
| Opening balance 1 January 2019             | 116.0               | 118.5             |
| Changes                                    | 14.7                | 18.3              |
| Depreciation and amortisation              | -22.5               |                   |
| Repayments of lease liabilities            |                     | -22.7             |
| <b>Carrying amount at 31 December 2019</b> | <b>108.1</b>        | <b>114.2</b>      |

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                   | Q2/20 | Q1/20 | Q4/19 | Q3/19 | Q2/19 | Q1/19 | Q4/18 | Q3/18 |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>INCOME STATEMENT</b>       |       |       |       |       |       |       |       |       |
| Revenue                       | 114.7 | 133.0 | 133.8 | 122.7 | 129.7 | 132.5 | 127.0 | 116.3 |
| EBITDA                        | 8.5   | 12.1  | 12.3  | 12.9  | 10.4  | 12.2  | 14.1  | 14.3  |
| EBITDA, %                     | 7.4   | 9.1   | 9.2   | 10.5  | 8.1   | 9.2   | 11.1  | 12.3  |
| Adjusted EBITDA               | 9.0   | 12.7  | 14.4  | 17.4  | 10.8  | 12.6  | 14.6  | 14.2  |
| Adjusted EBITDA, %            | 7.9   | 9.5   | 10.8  | 14.2  | 8.3   | 9.5   | 11.5  | 12.3  |
| Depreciation and amortisation | -8.4  | -8.8  | -8.6  | -11.5 | -8.8  | -8.6  | -8.2  | -8.2  |
| Operating profit (EBIT)       | 0.1   | 3.3   | 3.7   | 1.4   | 1.6   | 3.5   | 5.9   | 6.0   |
| Operating profit, %           | 0.1   | 2.5   | 2.7   | 1.1   | 1.2   | 2.7   | 4.7   | 5.2   |

|                                                                                 |       |       |       |       |       |       |       |       |
|---------------------------------------------------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Adjusted operating profit (EBIT)                                                | 0.6   | 5.3   | 5.6   | 9.3   | 2.1   | 3.9   | 6.5   | 6.0   |
| Adjusted operating profit (EBIT), %                                             | 0.5   | 4.0   | 4.2   | 7.5   | 1.6   | 3.0   | 5.1   | 5.2   |
| Financial income                                                                | 0.1   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
| Financial expenses                                                              | -1.1  | -1.4  | -1.0  | -1.0  | -1.0  | -1.0  | -1.0  | -1.0  |
| Profit before taxes                                                             | -0.9  | 2.0   | 2.7   | 0.4   | 0.6   | 2.5   | 4.9   | 5.1   |
| Income tax                                                                      | 0.1   | -0.6  | -0.6  | -0.3  | -0.3  | -0.7  | -1.3  | -1.2  |
| Profit for the period                                                           | -0.8  | 1.4   | 2.1   | 0.1   | 0.4   | 1.9   | 3.6   | 3.9   |
| Share of the result for the period attributable to owners of the parent company | -0.6  | 1.3   | 3.7   | -1.3  | -0.5  | 1.4   | 2.5   | 2.2   |
| Share of the result for the period attributable to non-controlling interests    | -0.3  | 0.1   | -1.6  | 1.4   | 0.9   | 0.4   | 1.1   | 1.7   |
| EPS                                                                             | -0.03 | 0.06  | 0.16  | -0.06 | -0.02 | 0.06  | 0.11  | 0.10  |
|                                                                                 |       |       |       |       |       |       |       |       |
| Personnel at the end of the period (NOE)                                        | 5,640 | 5,865 | 5,815 | 5,936 | 6,100 | 5,871 | 5,850 | 5,867 |
| Change in personnel during the quarter                                          | -226  | 50    | -121  | -164  | 230   | 21    | -17   | -51   |

## 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. As no significant changes have been observed in customers' payment behaviour, expected losses have been recognised in accordance with the same principles as in the financial statements for 2019. 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 June 2020 | 31 December 2019 |
|--------------------------------|--------------|------------------|
| Trade receivables              | 40.2         | 30.5             |
| Prepayments and accrued income | 5.3          | 13.3             |
| Current subleases              | 0.4          | 0.1              |
| Other receivables              | 2.3          | 2.2              |
| <b>Total</b>                   | <b>48.2</b>  | <b>46.1</b>      |

### Age distribution of trade receivables

| EUR million       | 30 June 2020 | of which written down | Net 30 June 2020 | 31 December 2019 | of which written down | Net 31 December 2019 |
|-------------------|--------------|-----------------------|------------------|------------------|-----------------------|----------------------|
| Not yet due       | 16.1         | 0.0                   | 16.1             | 18.1             | 0.0                   | 18.1                 |
| <b>Past due</b>   |              |                       |                  |                  |                       |                      |
| Less than 30 days | 4.8          | 0.0                   | 4.8              | 3.1              | 0.0                   | 3.1                  |
| 30–60 days        | 0.6          | -0.1                  | 0.6              | 1.8              | -0.1                  | 1.7                  |
| 61–90 days        | 8.1          | -0.1                  | 7.9              | 0.6              | -0.1                  | 0.5                  |
| More than 90 days | 11.3         | -0.5                  | 10.8             | 7.5              | -0.5                  | 7.1                  |
| <b>Total</b>      | <b>40.9</b>  | <b>-0.7</b>           | <b>40.2</b>      | <b>31.2</b>      | <b>-0.7</b>           | <b>30.5</b>          |

| EUR million | 30 June 2020 | 31 December 2019 |
|-------------|--------------|------------------|
|-------------|--------------|------------------|

|                                        |      |      |
|----------------------------------------|------|------|
| Credit loss provision at the beginning | 0.7  | 0.6  |
| Credit losses recorded                 | 0.1  | 0.2  |
| Credit loss provision, used            | -0.1 | -0.2 |
| Credit loss provision, increase        | 0.0  | 0.0  |
| Credit loss provision at the end       | 0.7  | 0.7  |

## Related party transactions

| EUR million                     | 1–6/2020 | 1–6/2019 | 2019 |
|---------------------------------|----------|----------|------|
| <b>Key management personnel</b> |          |          |      |
| Rents paid                      | 0.4      | 0.5      | 0.9  |
| Services procured               | 0.5      | 0.6      | 1.0  |
| Trade payables                  | 0.0      | 0.1      | 0.0  |

## Tax footprint

| EUR million                                                   | 1–6/2020     | 1–6/2019     | 2019         |
|---------------------------------------------------------------|--------------|--------------|--------------|
| <b>Direct tax payable for the period</b>                      |              |              |              |
| Income tax (business income tax)                              | 2.2          | 2.1          | 4.1          |
| Employer's pension contributions                              | 14.4         | 15.0         | 31.0         |
| Social security contributions                                 | 1.3          | 0.8          | 2.1          |
| Employer's unemployment insurance contributions               | 1.3          | 2.8          | 2.6          |
| Contribution to accident insurance and group life insurance   | 0.4          | 0.5          | 0.8          |
| Employer contributions, total                                 | 17.4         | 19.0         | 36.4         |
| Property taxes                                                | 1.8          | 0.1          | 0.1          |
| Transfer taxes                                                | 0.4          | 0.2          | 0.2          |
| <b>Direct tax payable for the period, total</b>               | <b>21.7</b>  | <b>21.3</b>  | <b>40.8</b>  |
| <b>Value added tax of acquisitions payable by the company</b> |              |              |              |
| Value added taxes, estimate                                   | 5.7          | 6.3          | 12.3         |
| <b>Tax for the period</b>                                     |              |              |              |
| Withholding taxes                                             | 19.7         | 21.8         | 45.1         |
| Employee pension contributions, deferred                      | 6.6          | 6.3          | 13.0         |
| Employee unemployment insurance contributions, notional       | 1.1          | 1.3          | 2.7          |
| Payroll tax, total                                            | 27.3         | 29.4         | 60.8         |
| Net value-added tax                                           | 0.5          | 0.4          | 0.9          |
| <b>Total tax for the period</b>                               | <b>27.8</b>  | <b>29.9</b>  | <b>61.7</b>  |
| <b>Revenue</b>                                                | <b>247.6</b> | <b>262.2</b> | <b>518.6</b> |
| <b>Profit before taxes</b>                                    | <b>1.1</b>   | <b>3.2</b>   | <b>6.3</b>   |
| <b>Average number of personnel (FTE)</b>                      | <b>4,306</b> | <b>4,666</b> | <b>4,515</b> |
| <b>Public subsidies</b>                                       | <b>0.8</b>   | <b>0.4</b>   | <b>0.7</b>   |

## Calculation of key financial figures and alternative performance measures

|                                         |                                                                                                                                                                                             |       |
|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| <b>Key figures</b>                      |                                                                                                                                                                                             |       |
| Earnings per share (EPS)                | $\frac{\text{Profit for the financial period attributable to owners of the parent company}}{\text{Average number of shares during the financial year}}$                                     |       |
| <b>Alternative performance measures</b> |                                                                                                                                                                                             |       |
| 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       | 4-6/2020<br>3 months | 4-6/2019<br>3 months | 1-6/2020<br>6 months | 1-6/2019<br>6 months | 2019       |
|--------------------------------------------|----------------------|----------------------|----------------------|----------------------|------------|
| <b>Return on equity (ROE), %</b>           |                      |                      |                      |                      |            |
| Profit for the period (rolling 12 months)/ |                      |                      | 2.8                  | 9.8                  | 4.5        |
| Equity at beginning of period              |                      |                      | 106.1                | 130.3                | 130.3      |
| Equity at end of period                    |                      |                      | 106.5                | 129.1                | 106.1      |
| Equity (average) x 100                     |                      |                      | 106.3                | 129.7                | 118.2      |
| <b>Return on equity (ROE), %</b>           |                      |                      | <b>2.6</b>           | <b>7.5</b>           | <b>3.8</b> |

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

|                                             |  |  |     |      |     |
|---------------------------------------------|--|--|-----|------|-----|
| <b>Return on capital employed (ROCE), %</b> |  |  |     |      |     |
| Profit before taxes (rolling 12 months) +   |  |  | 4.2 | 13.2 | 6.3 |

|                                                                |  |  |            |            |            |
|----------------------------------------------------------------|--|--|------------|------------|------------|
| Financial expenses (rolling 12 months)                         |  |  | 4.5        | 4.1        | 4.0        |
| /                                                              |  |  | 8.7        | 17.2       | 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        |  |  | 97.2       | 78.2       | 78.2       |
|                                                                |  |  | 341.3      | 358.6      | 358.6      |
| Total statement of financial position at end of period -       |  |  | 427.4      | 435.7      | 438.4      |
| Non-interest-bearing liabilities at end of period              |  |  | 105.2      | 86.6       | 97.2       |
|                                                                |  |  | 322.2      | 349.1      | 341.3      |
| Average x 100                                                  |  |  | 331.8      | 353.9      | 349.9      |
| <b>Return on capital employed (ROCE), %</b>                    |  |  | <b>2.6</b> | <b>4.9</b> | <b>2.9</b> |

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

|                                         |  |  |             |             |             |
|-----------------------------------------|--|--|-------------|-------------|-------------|
| <b>Equity ratio, %</b>                  |  |  |             |             |             |
| Equity /                                |  |  | 106.5       | 129.1       | 106.1       |
| Total statement of financial position - |  |  | 427.4       | 435.7       | 438.4       |
| Advances received x 100                 |  |  | 1.1         | 0.6         | 1.1         |
| <b>Equity ratio, %</b>                  |  |  | <b>25.0</b> | <b>29.7</b> | <b>24.3</b> |

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

|                                          |  |  |              |              |              |
|------------------------------------------|--|--|--------------|--------------|--------------|
| <b>Gearing, %</b>                        |  |  |              |              |              |
| Interest-bearing financial liabilities - |  |  | 214.5        | 218.5        | 219.7        |
| Cash and cash equivalents /              |  |  | 14.6         | 26.6         | 27.0         |
| Equity x 100                             |  |  | 106.5        | 129.1        | 106.1        |
| <b>Gearing, %</b>                        |  |  | <b>187.6</b> | <b>148.6</b> | <b>181.7</b> |

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

|                                                    |  |  |            |            |            |
|----------------------------------------------------|--|--|------------|------------|------------|
| <b>Net debt/adjusted EBITDA, rolling 12 months</b> |  |  |            |            |            |
| Interest-bearing financial liabilities -           |  |  | 214.5      | 218.5      | 219.7      |
| Cash and cash equivalents                          |  |  | 14.6       | 26.6       | 27.0       |
| Net debt /                                         |  |  | 199.8      | 191.9      | 192.7      |
| Adjusted EBITDA (rolling 12 months)                |  |  | 53.5       | 52.1       | 55.1       |
| <b>Net debt/adjusted EBITDA, rolling 12 months</b> |  |  | <b>3.7</b> | <b>3.7</b> | <b>3.5</b> |

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

|                                   |                              |                              |                              |                              |             |
|-----------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|-------------|
|                                   | <b>4–6/2020<br/>3 months</b> | <b>4–6/2019<br/>3 months</b> | <b>1–6/2020<br/>6 months</b> | <b>1–6/2019<br/>6 months</b> | <b>2019</b> |
| <b>EBITDA and Adjusted EBITDA</b> |                              |                              |                              |                              |             |
| Profit for the period             | -0.8                         | 0.4                          | 0.6                          | 2.2                          | 4.5         |

|                                           |            |             |             |             |             |
|-------------------------------------------|------------|-------------|-------------|-------------|-------------|
| Income tax                                | 0.1        | -0.3        | -0.5        | -0.9        | -1.8        |
| Financial expenses                        | -1.1       | -1.0        | -2.5        | -2.0        | -4.0        |
| Financial income                          | 0.1        | 0.0         | 0.1         | 0.0         | 0.1         |
| Depreciation, amortisation and impairment | -8.4       | -8.8        | -17.2       | -17.5       | -37.7       |
| <b>EBITDA</b>                             | <b>8.5</b> | <b>10.4</b> | <b>20.6</b> | <b>22.6</b> | <b>47.8</b> |
| Total EBITDA adjustments                  | 0.5        | 0.3         | 1.0         | 0.7         | 7.3         |
| <b>Adjusted EBITDA</b>                    | <b>9.0</b> | <b>10.8</b> | <b>21.7</b> | <b>23.3</b> | <b>55.1</b> |

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

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

|                                                                     |            |            |            |            |             |
|---------------------------------------------------------------------|------------|------------|------------|------------|-------------|
| <b>EBITDA, %</b>                                                    |            |            |            |            |             |
| EBITDA/                                                             | 8.5        | 10.4       | 20.6       | 22.6       | 47.8        |
| Revenue x 100                                                       | 114.7      | 129.7      | 247.6      | 262.2      | 518.6       |
| <b>EBITDA, %</b>                                                    | <b>7.4</b> | <b>8.1</b> | <b>8.3</b> | <b>8.6</b> | <b>9.2</b>  |
| <b>Adjusted EBITDA, %</b>                                           |            |            |            |            |             |
| Adjusted EBITDA/                                                    | 9.0        | 10.8       | 21.7       | 23.3       | 55.1        |
| Revenue x 100                                                       | 114.7      | 129.7      | 247.6      | 262.2      | 518.6       |
| <b>Adjusted EBITDA, %</b>                                           | <b>7.9</b> | <b>8.3</b> | <b>8.8</b> | <b>8.9</b> | <b>10.6</b> |
| <b>Operating profit (EBIT) and Adjusted operating profit (EBIT)</b> |            |            |            |            |             |
| Profit for the period                                               | -0.8       | 0.4        | 0.6        | 2.2        | 4.5         |
| Income tax                                                          | 0.1        | -0.3       | -0.5       | -0.9       | -1.8        |
| Financial expenses                                                  | -1.1       | -1.0       | -2.5       | -2.0       | -4.0        |
| Financial income                                                    | 0.1        | 0.0        | 0.1        | 0.0        | 0.1         |
| <b>Operating profit (EBIT)</b>                                      | <b>0.1</b> | <b>1.6</b> | <b>3.4</b> | <b>5.1</b> | <b>10.2</b> |
| Total adjustments to depreciation, amortisation and impairment      | 0.0        | 0.1        | 0.4        | 0.1        | 3.3         |
| Total EBITDA adjustments                                            | 0.5        | 0.3        | 1.0        | 0.7        | 7.3         |
| Total operating profit (EBIT) adjustments                           | 0.5        | 0.5        | 1.4        | 0.9        | 10.6        |
| <b>Adjusted operating profit (EBIT)</b>                             | <b>0.6</b> | <b>2.1</b> | <b>4.8</b> | <b>6.0</b> | <b>20.8</b> |

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

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

|                                            |            |            |            |            |            |
|--------------------------------------------|------------|------------|------------|------------|------------|
| <b>Operating profit (EBIT), %</b>          |            |            |            |            |            |
| Operating profit /                         | 0.1        | 1.6        | 3.4        | 5.1        | 10.2       |
| Revenue x 100                              | 114.7      | 129.7      | 247.6      | 262.2      | 518.6      |
| <b>Operating profit (EBIT), %</b>          | <b>0.1</b> | <b>1.2</b> | <b>1.4</b> | <b>2.0</b> | <b>2.0</b> |
| <b>Adjusted operating profit (EBIT), %</b> |            |            |            |            |            |

|                                            |             |            |             |            |             |
|--------------------------------------------|-------------|------------|-------------|------------|-------------|
| Adjusted operating profit (EBIT)/          | 0.6         | 2.1        | 4.8         | 6.0        | 20.8        |
| Revenue x 100                              | 114.7       | 129.7      | 247.6       | 262.2      | 518.6       |
| <b>Adjusted operating profit (EBIT), %</b> | <b>0.5</b>  | <b>1.6</b> | <b>2.0</b>  | <b>2.3</b> | <b>4.0</b>  |
|                                            |             |            |             |            |             |
| <b>Cash flow after investments</b>         |             |            |             |            |             |
| Net cash flow from operating activities    | 10.1        | 11.2       | 31.5        | 14.5       | 36.8        |
| Net cash flow from investing activities    | 2.5         | -7.2       | -0.8        | -11.6      | -19.5       |
| <b>Cash flow after investments</b>         | <b>12.6</b> | <b>4.0</b> | <b>30.7</b> | <b>2.9</b> | <b>17.4</b> |

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

|                                                                                  |              |            |              |             |             |
|----------------------------------------------------------------------------------|--------------|------------|--------------|-------------|-------------|
|                                                                                  |              |            |              |             |             |
| <b>Profit before taxes</b>                                                       |              |            |              |             |             |
| Profit for the period                                                            | -0.8         | 0.4        | 0.6          | 2.2         | 4.5         |
| Income tax                                                                       | 0.1          | -0.3       | -0.5         | -0.9        | -1.8        |
| <b>Profit before taxes</b>                                                       | <b>-0.9</b>  | <b>0.6</b> | <b>1.1</b>   | <b>3.2</b>  | <b>6.3</b>  |
|                                                                                  |              |            |              |             |             |
| <b>Gross investments</b>                                                         |              |            |              |             |             |
| Property, plant and equipment at the end of the period                           | 46.4         | 45.1       | 46.4         | 45.1        | 53.2        |
| Right-of-use assets at the end of the period                                     | 108.5        | 116.8      | 108.5        | 116.8       | 108.1       |
| Other intangible assets at end of period                                         | 17.9         | 23.2       | 17.9         | 23.2        | 19.1        |
| Goodwill at end of period                                                        | 173.6        | 171.6      | 173.6        | 171.6       | 173.6       |
| Depreciation, amortisation and impairment for the period are added               | 8.4          | 8.8        | 17.2         | 17.5        | 37.7        |
| -                                                                                |              |            |              |             |             |
| Property, plant and equipment at the start of the period                         | 53.1         | 44.9       | 53.2         | 43.3        | 43.3        |
| Right-of-use assets at the start of the period                                   | 108.3        | 119.9      | 108.1        | 116.0       | 116.0       |
| Other intangible assets at beginning of period                                   | 18.6         | 22.0       | 19.1         | 22.9        | 22.9        |
| Goodwill at beginning of period                                                  | 173.6        | 170.6      | 173.6        | 169.9       | 169.9       |
| Proceeds from the sale of property, plant and equipment during the period        | -5.9         | -0.2       | -7.7         | -0.4        | -4.5        |
| <b>Gross investments</b>                                                         | <b>7.0</b>   | <b>8.4</b> | <b>17.2</b>  | <b>22.4</b> | <b>44.1</b> |
|                                                                                  |              |            |              |             |             |
| <b>Organic revenue growth, %</b>                                                 |              |            |              |             |             |
| Revenue for the period -                                                         | 114.7        | 129.7      | 247.6        | 262.2       | 518.6       |
| <b>Revenue from M&amp;A transactions during the period (rolling 12 months) -</b> | <b>0.3</b>   | <b>2.5</b> | <b>1.1</b>   | <b>12.4</b> | <b>17.4</b> |
| Revenue for the previous period                                                  | 129.7        | 125.3      | 262.2        | 244.5       | 487.8       |
| <b>Organic revenue growth/</b>                                                   | <b>-15.3</b> | <b>1.9</b> | <b>-15.7</b> | <b>5.2</b>  | <b>13.4</b> |
| Revenue for the previous period x 100                                            | 129.7        | 125.3      | 262.2        | 244.5       | 487.8       |
| <b>Organic revenue growth, %</b>                                                 | <b>-11.8</b> | <b>1.5</b> | <b>-6.0</b>  | <b>2.1</b>  | <b>2.8</b>  |
| <b>Revenue growth due to M&amp;A transactions, %</b>                             | <b>0.2</b>   | <b>2.0</b> | <b>0.4</b>   | <b>5.1</b>  | <b>3.6</b>  |
| Revenue growth                                                                   | -15.1        | 4.4        | -14.5        | 17.7        | 30.8        |
| Revenue growth, %                                                                | -11.6        | 3.5        | -5.5         | 7.2         | 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                                                              | 4–6/2020<br>3 months | 4–6/2019<br>3 months | 1–6/2020<br>6 months | 1–6/2019<br>6 months | 2019        |
|--------------------------------------------------------------------------|----------------------|----------------------|----------------------|----------------------|-------------|
| <b>EBITDA</b>                                                            | <b>8.5</b>           | <b>10.4</b>          | <b>20.6</b>          | <b>22.6</b>          | <b>47.8</b> |
| <b>Adjustments to EBITDA</b>                                             |                      |                      |                      |                      |             |
| Dismissal-related expenses                                               | 0.0                  | 0.4                  | -0.1                 | 0.4                  | 3.0         |
| Change in fair value of contingent consideration                         |                      | 0.0                  |                      | 0.3                  | 0.3         |
| Onerous contracts                                                        |                      |                      |                      |                      | 1.8         |
| IAS 37, contingent assets                                                |                      |                      |                      |                      | 1.8         |
| Other                                                                    | 0.5                  | -0.1                 | 1.1                  | 0.0                  | 0.3         |
| <b>Adjustments to EBITDA in total</b>                                    | <b>0.5</b>           | <b>0.3</b>           | <b>1.0</b>           | <b>0.7</b>           | <b>7.3</b>  |
| <b>Adjusted EBITDA</b>                                                   | <b>9.0</b>           | <b>10.8</b>          | <b>21.7</b>          | <b>23.3</b>          | <b>55.1</b> |
| Depreciation, amortisation and impairment                                | -8.4                 | -8.8                 | -17.2                | -17.5                | -37.7       |
| <b>Adjustments to depreciation, amortisation and impairment</b>          |                      |                      |                      |                      |             |
| Double depreciation arising from a merger with no cash flow effect       |                      |                      | 0.4                  |                      |             |
| Closure of operating locations                                           |                      | 0.1                  |                      | 0.1                  | 3.3         |
| <b>Adjustments to depreciation, amortisation and impairment in total</b> | <b>0.0</b>           | <b>0.1</b>           | <b>0.4</b>           | <b>0.1</b>           | <b>3.3</b>  |
| <b>Adjusted operating profit (EBIT)</b>                                  | <b>0.6</b>           | <b>2.1</b>           | <b>4.8</b>           | <b>6.0</b>           | <b>20.8</b> |
| <b>Operating profit (EBIT)</b>                                           | <b>0.1</b>           | <b>1.6</b>           | <b>3.4</b>           | <b>5.1</b>           | <b>10.2</b> |

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

| EUR million                                    | 4–6/2020<br>3 months | 4–6/2019<br>3 months | 1–6/2020<br>6 months | 1–6/2019<br>6 months | 2019        |
|------------------------------------------------|----------------------|----------------------|----------------------|----------------------|-------------|
| Revenue                                        |                      |                      |                      |                      | 1.8         |
| Employee benefit expenses                      | 0.3                  | 0.4                  | 0.6                  | 0.7                  | 3.6         |
| Other operating expenses                       | 0.2                  | -0.1                 | 0.4                  | 0.0                  | 1.9         |
| <b>EBITDA adjustment items total</b>           | <b>0.5</b>           | <b>0.3</b>           | <b>1.0</b>           | <b>0.7</b>           | <b>7.3</b>  |
| Depreciation, amortisation and impairment      |                      | 0.1                  | 0.4                  | 0.1                  | 3.3         |
| <b>Operating profit adjustment items total</b> | <b>0.5</b>           | <b>0.5</b>           | <b>1.4</b>           | <b>0.9</b>           | <b>10.6</b> |

## Pihlajalinna's financial reporting in 2020

Interim report January–September: Wednesday, 4 November 2020

### Briefing

Pihlajalinna will hold a briefing for analysts and the media on Friday, 14 August 2020 at 10:00 a.m. The event will be held remotely.

**Helsinki, 13 August 2020**

**The Board of Directors of Pihlajalinna Plc**

### Further information

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### Pihlajalinna in brief

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