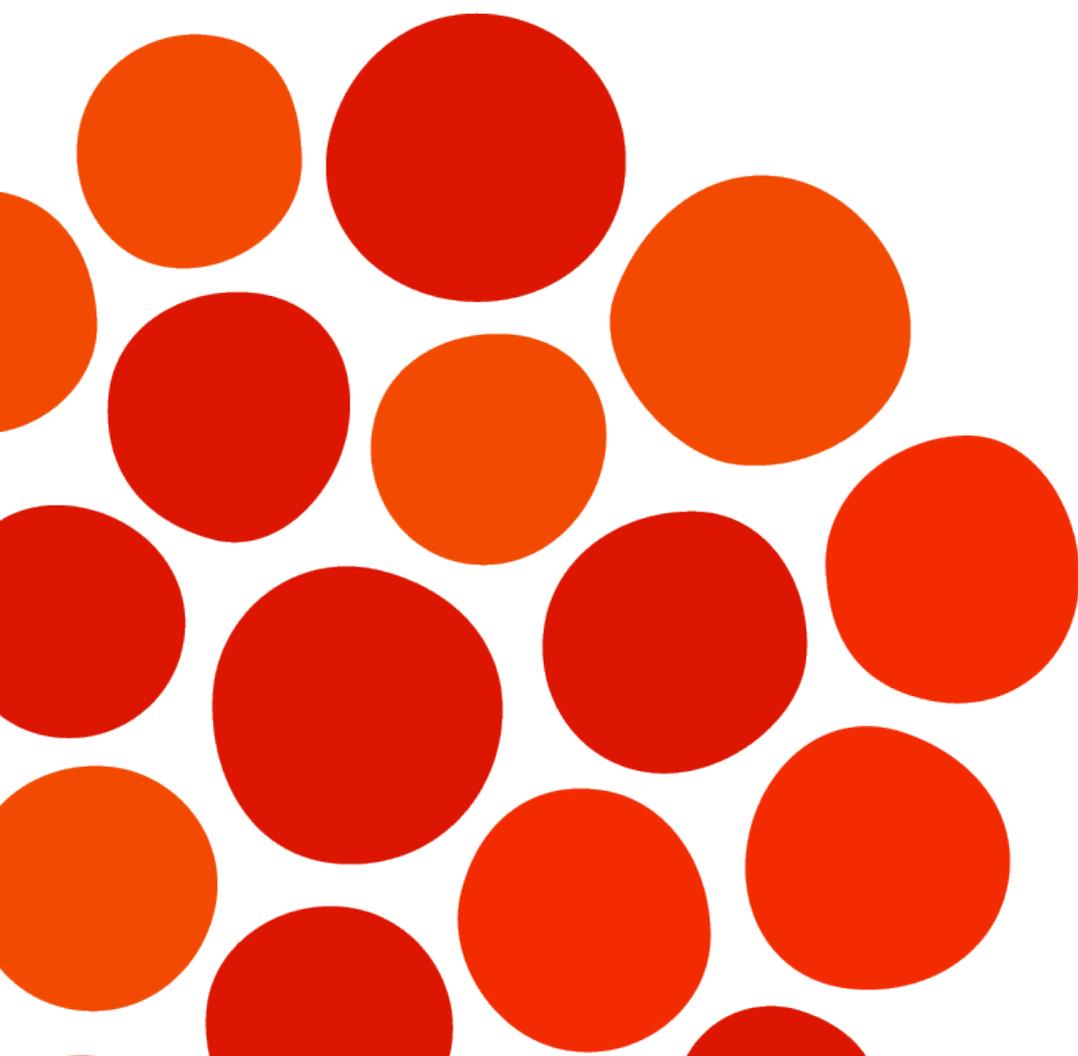


HALF YEAR FINANCIAL REPORT  
1 January–30 June 2017



# Pihlajalinna Half Year Financial Report 1 January–30 June 2017 (6 months)

## Soft second quarter for Private Clinics and Specialised Care, strong profitability in Primary and Social Care

### Brief look at April–June:

- Revenue amounted to EUR 106.7 (101.4) million – an increase of 5 per cent
- EBITDA amounted to EUR 7.1 (7.0) million
- Adjusted EBITDA amounted to EUR 7.4 (7.0) million – an increase of 6 per cent
- Operating profit (EBIT) amounted to EUR 3.7 (3.5) million
- Adjusted operating profit (EBIT) amounted to EUR 4.0 (3.9) million – an increase of 2 per cent
- Earnings per share (EPS) was EUR 0.10 (0.10)

### Brief look at January–June:

- Revenue amounted to EUR 216.7 (201.4) million – an increase of 8 per cent
- EBITDA amounted to EUR 16.0 (14.0) million
- Adjusted EBITDA amounted to EUR 16.5 (14.0) million – an increase of 18 per cent
- Operating profit (EBIT) amounted to EUR 9.1 (7.7) million
- Adjusted operating profit (EBIT) amounted to EUR 9.7 (8.1) million – an increase of 20 per cent
- Number of personnel at the end of the reporting period was 4,898 (4,589)
- Earnings per share (EPS) was EUR 0.25 (0.19)

KEY FIGURES AND RATIOS	4–6/2017 3 mths	4–6/2016 3 mths	1–6/2017 6 mths	1–6/2016 6 mths	2016 12 mths
<b>INCOME STATEMENT</b>					
Revenue, EUR million	106.7	101.4	216.7	201.4	399.1
EBITDA, EUR million	7.1	7.0	16.0	14.0	27.9
EBITDA, %	6.7	6.9	7.4	7.0	7.0
Adjusted EBITDA, EUR million	7.4	7.0	16.5	14.0	28.9
Adjusted EBITDA, %	6.9	6.9	7.6	7.0	7.2
Operating profit (EBIT), EUR million	3.7	3.5	9.1	7.7	15.1
Operating profit, %	3.5	3.5	4.2	3.8	3.8
Adjusted operating profit (EBIT), EUR million	4.0	3.9	9.7	8.1	16.6
Adjusted operating profit, %	3.7	3.9	4.5	4.0	4.2
Profit before tax (EBT), EUR million	3.3	3.1	8.3	6.9	13.7
<b>SHARE RELATED INFORMATION</b>					
Earnings per share (EPS), EUR	0.10	0.10	0.25	0.19	0.39
Equity per share, EUR			4.84	4.66	4.74
<b>OTHER INFORMATION</b>					
Return on capital employed (ROCE), %			10.6	7.1	10.8
Return on equity (ROE), %			11.8	6.8	11.1
Equity ratio, %			44.7	45.4	46.5
Gearing, %			32.4	33.9	21.9
Interest-bearing net debt, EUR million			33.5	33.4	22.1
Net debt/adjusted EBITDA, 12 mths			1.1	1.6	0.8
Gross investments, EUR million*	3.1	10.4	7.8	20.8	27.4
Cash flow from operating activities, EUR million	0.8	-4.6	14.3	9.3	32.3
Cash flow after investments, EUR million	-1.4	-11.2	8.0	-7.3	6.8

Average number of personnel (FTE)**		3,812	3,450	3,503
Personnel at the end of the period		4,898	4,589	4,407

\* Finance leases are not included in the gross investments

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

## Aarne Aktan, CEO of Pihlajalinna:

Pihlajalinna's second quarter of 2017 fell slightly short of our expectations. The organic growth of 2.5 per cent in revenue was mediocre, and there was room for improvement in profitability.

The second quarter was a strong one in the Primary and Social Care (P&S) segment. The profitability of Social and Healthcare Outsourcings improved as expected, and the profitability of Other Business Operations was better than expected.

The second quarter was soft in the Private Clinics and Specialised Care (C&S) segment. The profitability of the segment was weakened by Private Clinics, Public Specialised Care as well as Dental Care. The profitability of Occupational Healthcare was gratifying.

In digital services, Pihlajalinna's remote doctor application has met with a favourable reception. We will continue our investments so that we will be able to launch new digital services and products during the rest of the year.

After the end of the reporting period, we made three acquisitions supporting our strategy. We reinforced our imaging network to improve the care chain of our customers, acquiring the imaging companies Joen Magneetti and Sataman Röntgen in Joensuu and Kuopio, respectively. In Oulu, we acquired Caritas Lääkärit Oy to strengthen the start of our future new private clinic in the city. The acquisition supports our expansion in terms of both personnel and customer accounts.

In May, the municipal councils of Forssa, Humpila and Ypäjä voted in favour of establishing a joint venture with Pihlajalinna to provide social



and healthcare services for the region. The decisions have been appealed to the Market Court. The municipal boards of Forssa and Humpila have proposed in August to the municipal councils to revoke the procurement decision and to suspend the procurement procedure. The procurement decision made by the municipality of Hattula on its social and healthcare services was repealed by the Market Court in June, so the previously announced agreement will not be implemented. In Tervola, where we had already been chosen as a service provider, we unfortunately did not reach an agreement with the municipality on the production of social and healthcare services and their costs.

We do not consider the postponement of the health, social services and regional government reform by one year to be a major issue in the scale of the reform as a whole. We firmly believe that the health, social services and regional government reform will be realised during this government term. The postponement, on the other hand, may refresh the municipal outsourcing market.

## Pihlajalinna's outlook for 2017 unchanged

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

## Consolidated revenue and result

### April–June 2017

Pihlajalinna's revenue for the second quarter amounted to EUR 106.7 (101.4) million, an increase of EUR 5.3 million, or 5 per cent. Organic growth accounted for EUR 2.5 million (47 per cent) of the growth in revenue, including the commencement of social and healthcare service production in Soini on 1 January 2017. M&A transactions accounted for EUR 2.8 million (53 per cent) of the growth in revenue.

EBITDA for the second quarter amounted to EUR 7.1 (7.0) million, an increase of EUR 0.2 million, or 2 per cent. EBITDA was burdened by dismissal-related expenses totalling EUR 0.2 million and transfer taxes and expert fees of EUR 0.2 (0.0) million relating to M&A transactions.

Adjusted EBITDA amounted to EUR 7.4 (7.0) million, an increase of EUR 0.4 million, or 6 per cent. Adjusted EBITDA mainly increased as the result of M&A transactions.

Depreciation, amortisation and impairment totalled EUR 3.4 (3.5) million. Amortisation and impairment of intangible assets was EUR 1.3 (1.1) million, of which amortisation of intangible assets related to the allocation of costs at the time of M&A transactions totalled EUR 0.9 (0.9) million. Depreciation, amortisation and impairment of property, plant and equipment totalled EUR 2.2 (2.3) million.

The depreciation, amortisation and impairment for the comparison period includes an impairment loss of EUR 0.4 million due to the closing down of a dental care clinic in Muurame. This item has been treated as an adjustment of operating profit.

Pihlajalinna's operating profit amounted to EUR 3.7 (3.5) million, an increase of EUR 0.2 million, or 5 per cent. The EBIT-to-revenue ratio (EBIT margin) for the second quarter was 3.5 (3.5) per cent. Adjusted operating profit for the quarter amounted to EUR 4.0 (3.9) million, an increase of EUR 0.1 million, or 2 per cent. Adjusted EBIT margin was 3.7 (3.9) per cent.

The Group's net financial expenses for the quarter totalled EUR -0.4 (-0.4) million. Profit before taxes for the reporting period amounted to EUR 3.3 (3.1) million, an increase of EUR 0.2 million, or 7 per cent. Income taxes amounted to EUR -0.7 (-0.5) million. The profit for the quarter amounted to EUR 2.7 (2.6) million. Earnings per share (EPS) was EUR 0.10 (0.10).

### January–June 2017

Pihlajalinna's revenue for the reporting period amounted to EUR 216.7 (201.4) million, an increase of EUR 15.2 million, or 8 per cent. Organic growth accounted for EUR 7.7 million (51 per cent) of the growth in revenue, including the commencement of social and healthcare service production in Soini on 1 January 2017. M&A transactions accounted for EUR 7.5 million (49 per cent) of the growth in revenue.

EBITDA amounted to EUR 16.0 (14.0) million, an increase of EUR 2.0 million, or 14 per cent. EBITDA was burdened by a conciliation agreement concerning the Group's facility expenses realised during the reporting period, totalling EUR 0.2 million, dismissal-related expenses, totalling EUR 0.2 million, closing down of dental care clinics in Jyväskylä and Tampere, totalling EUR 0.1 million, and transfer taxes and expert fees of EUR 0.4 (0.4) million relating to M&A transactions.

Adjusted EBITDA amounted to EUR 16.5 (14.0) million, an increase of EUR 2.5 million, or 18 per cent. Adjusted EBITDA increased by EUR 1.4 million as the result of M&A transactions. Adjusted EBITDA increased by EUR 1.1 million as the result of organic growth in revenue and increased operational efficiency.

Depreciation, amortisation and impairment totalled EUR 6.9 (6.3) million. Amortisation and impairment of intangible assets was EUR 2.5 (2.1) million, of which amortisation of intangible assets related to the allocation of costs at the time of M&A transactions totalled EUR 1.9 (1.6) million. Depreciation, amortisation and impairment of property, plant and equipment totalled EUR 4.4 (4.2) million.

The depreciation, amortisation and impairment includes an impairment loss of EUR 0.1 million due to the merger of dental care clinics in Jyväskylä and Tampere. The depreciation, amortisation and impairment for the comparison period includes an impairment loss of EUR 0.4 million due to the closing down of a dental care clinic in Muurame. These items have been treated as an adjustment of operating profit.

Pihlajalinna's operating profit amounted to EUR 9.1 (7.7) million, an increase of EUR 1.4 million, or 18 per cent. The EBIT-to-revenue ratio (EBIT margin) was 4.2 (3.8) per cent. Pihlajalinna's adjusted operating profit for the reporting period amounted to EUR 9.7 (8.1) million, an increase of EUR 1.6 million, or 20 per cent. Adjusted EBIT margin was 4.5 (4.0) per cent.

The Group's net financial expenses for the reporting period totalled EUR -0.8 (-0.8) million. Profit before taxes for the reporting period amounted to EUR 8.3 (6.9) million, an increase of EUR 1.4 million, or 20 per cent. Income taxes amounted to EUR -1.7 (-1.6) million. The profit for the reporting period amounted to EUR 6.6 (5.3) million. Earnings per share (EPS) was EUR 0.25 (0.19).

## **Market and legislation review**

The legislation package connected to the health, social services and regional government reform has been in parliamentary reading since the spring. The Constitutional Law Committee issued its statement on the legislation package at the end of June. The government amended the schedule of the health and social services reform after the statement of the Constitutional Law Committee. The reform is intended to enter into force on 1 January 2020. The aim is to hold county elections in October 2018.

In its statement, the Constitutional Law Committee required amendments to the Freedom of Choice Act in particular. A team of civil servants appointed by the Ministry of Social Affairs and Health is preparing a new government proposal for the Freedom of Choice Act based on the statement. The proposed government proposal will be circulated for comments in November. After the circulation for comments, the aim is to put the government proposal to the Parliament in early March 2018. The Act on Freedom of Choice, the Act on Organising Health and Social Services and the Counties Act will be considered simultaneously in the Parliament.

The postponement of the health and social services reform by one year may have effects on municipalities' willingness to outsource their social and healthcare services. Several cities and municipalities have expressed their interest in the possibility of outsourcing social and healthcare services or have commenced the tendering process. The biggest tendering process is underway in Länsi-Pohja.

In May, the municipal councils of Forssa, Humppila and Ypäjä voted in favour of establishing a joint venture with Pihlajalinna. The decisions have been appealed to the Market Court. The municipal boards of Forssa and Humppila have proposed in August to the municipal councils to turn over the procurement decision and to suspend the procurement procedure. The population governed by the Joint Municipal Authority is approximately 34,500. The Joint Municipal Authority has estimated that the value of the possible outsourcing agreement of the five municipalities would be roughly EUR 37 million per year. If the outsourcing involves three municipalities (population approximately 22,800), the value of the agreement will be lower. According to the tendering documentation, the agreement period is 10 years at the minimum and 15 years at the maximum.

The Market Court repealed the municipality of Hattula's decision on the procurement of social and healthcare services in June. In December 2016, the municipal council of Hattula selected Pihlajalinna as the municipality's social welfare and healthcare service partner. According to the decision, Pihlajalinna and the municipality of Hattula would have established a company whose share of service production would have been less than 50 per cent of the current operational social welfare and healthcare costs of the municipality of Hattula. The value of the agreement would have been approximately EUR 7 million per year. Hattula has announced that it will start a new tendering process.

The negotiations between Pihlajalinna and the municipality of Tervola on the service production of social welfare and healthcare services concluded with no successful results in June. Tervola chose Pihlajalinna as its partner in November 2016. The contract negotiations began in late 2016. According to Pihlajalinna's estimate, the costs of the operations envisaged by the municipality to be transferred to the joint venture are larger than the value of the tendered contract, around EUR 13 million annually.

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

## Operating segments

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

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

### April–June 2017

The C&S segment's revenue for the quarter amounted to EUR 59.0 (56.1) million, an increase of EUR 2.9 million, or 5 per cent. Organic growth accounted for EUR 1.0 million (34 per cent) and M&A transactions for EUR 1.9 million (66 per cent) of the growth in revenue. Surgical Operations and Public Specialised Care and Occupational Healthcare contributed to the growth in revenue. Revenue decreased in the Private Clinics and Dental Care service areas.

The C&S segment's EBITDA for the quarter amounted to EUR 3.3 (4.6) million. Adjusted EBITDA totalled EUR 3.4 (4.6) million. Surgical Operations and Public Specialised Care impaired the segment's profitability year-on-year. The profitability of Occupational Healthcare, on the other hand, improved as the result of efficiency measures and increased revenue.

The C&S segment's depreciation, amortisation and impairment for the quarter totalled EUR 2.4 (2.9) million. Amortisation of intangible assets related to the allocation of costs at the time of M&A transactions totalled EUR 0.8 (0.8) million. Other depreciation, amortisation and impairment totalled EUR 1.6 (2.0) million.

The depreciation, amortisation and impairment for the comparison period includes an impairment loss of EUR 0.4 million due to the closing down of a dental care clinic in Muurame. This item has been treated as an adjustment of operating profit.

The C&S segment's EBIT for the past quarter amounted to EUR 0.9 (1.7) million and adjusted EBIT to EUR 1.0 (2.1) million.

The C&S segment's revenue includes EUR 20.8 million of revenue from Public Specialised Care. The EBITDA of Public Specialised Care amounted to EUR -0.9 million and operating profit to EUR -0.9 million for the quarter. Individual adult psychiatry and organ transplant patients increased the costs of public specialised care for the quarter in Pihlajalinna's municipal joint ventures. The cost accumulation of Public Specialised Care involves random fluctuation. Due to random fluctuation and pooling system for high-cost care the final costs for the financial year will only be found out after the end of the calendar year

## **January–June 2017**

The C&S segment's revenue during the reporting period amounted to EUR 121.7 (110.2) million, an increase of EUR 11.5 million, or 10 per cent. Organic growth accounted for EUR 5.4 million (47 per cent) and M&A transactions for EUR 6.1 million (53 per cent) of the growth in revenue. Surgical Operations and Public Specialised Care and Occupational Healthcare contributed to the growth in revenue. Revenue decreased in the Private Clinics and Dental Care service areas.

The C&S segment's EBITDA for the reporting period amounted to EUR 8.5 (9.7) million. Adjusted EBITDA totalled EUR 8.6 (9.7) million. Private Clinics and Surgical Operations and Public Specialised Care impaired the segment's profitability year-on-year. The profitability of Occupational Healthcare, on the other hand, improved as the result of efficiency measures and increased revenue.

The C&S segment's depreciation, amortisation and impairment for the reporting period totalled EUR 4.9 (5.1) million. Amortisation of intangible assets related to the allocation of costs at the time of M&A transactions totalled EUR 1.6 (1.5) million. Other depreciation, amortisation and impairment totalled EUR 3.3 (3.5) million.

The depreciation, amortisation and impairment includes an impairment loss of EUR 0.1 million due to the merger of dental care clinics in Tampere and Jyväskylä. The depreciation, amortisation and impairment for the comparison period includes an impairment loss of EUR 0.4 million due to the closing down of a dental care clinic in Muurame. These items have been treated as an adjustment of operating profit.

The C&S segment's EBIT for the reporting period amounted to EUR 3.5 (4.7) million and adjusted EBIT to EUR 3.8 (5.1) million.

The C&S segment's revenue includes EUR 42.3 million of revenue from Public Specialised Care. The EBITDA of Public Specialised Care amounted to EUR -0.8 million and operating profit to EUR -0.8 million. Individual oncological, psychiatric and organ transplant patients increased the costs of Public Specialised Care in Pihlajalinna's municipal joint ventures. Said costs are included in the sphere of hospital districts' pooling system for high-cost care. The cost accumulation of Public Specialised Care involves random fluctuation. Due to random fluctuation and pooling system for high-cost care the final costs for the financial year will only be found out after the end of the calendar year.

## Primary and Social Care (P&S)

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

### April–June 2017

The P&S segment's revenue during the quarter amounted to EUR 49.6 (47.0) million, an increase of EUR 2.6 million, or 6 per cent. Organic growth accounted for EUR 2.1 million (80 per cent) of the growth in revenue, mainly as a result of the commencement of service production for Soini on 1 January 2017 and increased sales of staffing services. M&A transactions accounted for EUR 0.5 million (20 per cent) of the growth in revenue.

The P&S segment's EBITDA and adjusted EBITDA for the quarter amounted to EUR 4.4 (2.6) million, an increase of EUR 1.8 million, or 67 per cent. Profitability was particularly improved by the social and healthcare outsourcings in Parkano and Kuusiokunnat and by staffing services.

The P&S segment's depreciation, amortisation and impairment for the reporting period totalled EUR 0.9 (0.5) million. Amortisation of intangible assets related to the allocation of costs at the time of M&A transactions totalled EUR 0.1 (0.0) million. Other depreciation, amortisation and impairment totalled EUR 0.8 (0.5) million.

The P&S segment's EBIT and adjusted EBIT during the past quarter amounted to EUR 3.5 (2.1) million, an increase of EUR 1.4 million, or 64 per cent.

### January–June 2017

The P&S segment's revenue during the reporting period amounted to EUR 99.1 (93.8) million, an increase of EUR 5.3 million, or 6 per cent. Organic growth accounted for EUR 4.3 million (81 per cent) of the growth in revenue, mainly as a result of the commencement of service production for Soini on 1 January 2017 and increased sales of staffing services. M&A transactions accounted for EUR 1.0 million (19 per cent) of the growth in revenue.

The P&S segment's EBITDA and adjusted EBITDA for the past reporting period amounted to EUR 8.8 (4.9) million, an increase of EUR 3.9 million, or 81 per cent. The social and healthcare outsourcing in Parkano improved its profitability.

The P&S segment's depreciation, amortisation and impairment for the reporting period totalled EUR 1.8 (1.0) million. Amortisation of intangible assets related to the allocation of costs at the time of M&A transactions totalled EUR 0.3 (0.1) million. Other depreciation, amortisation and impairment totalled EUR 1.5 (0.9) million.

The P&S segment's EBIT and adjusted EBIT for the reporting period amounted to EUR 7.0 (3.9) million, an increase of EUR 3.1 million, or 80 per cent.

## Performance of the segments

Quarter	C & S		P & S	
	4–6/2017	4–6/2016	4–6/2017	4–6/2016
Revenue, EUR million	59.0	56.1	49.6	47.0
EBITDA, EUR million	3.3	4.6	4.4	2.6
EBITDA, %	5.6	8.2	8.9	5.6
Adjusted EBITDA, EUR million	3.4	4.6	4.4	2.6

Adjusted EBITDA, %	5.8	8.2	8.9	5.6
Operating profit, EUR million	0.9	1.7	3.5	2.1
Operating profit, %	1.5	3.1	7.0	4.5
Adjusted operating profit (EBIT), EUR million	1.0	2.1	3.5	2.1
Adjusted operating profit, %	1.7	3.8	7.0	4.5
<b>Cumulative</b>	<b>1–6/2017</b>	<b>1–6/2016</b>	<b>1–6/2017</b>	<b>1–6/2016</b>
Revenue, EUR million	121.7	110.2	99.1	93.8
EBITDA, EUR million	8.5	9.7	8.8	4.9
EBITDA, %	7.0	8.8	8.9	5.2
Adjusted EBITDA, EUR million	8.6	9.7	8.8	4.9
Adjusted EBITDA, %	7.1	8.8	8.9	5.2
Operating profit, EUR million	3.5	4.7	7.0	3.9
Operating profit, %	2.9	4.2	7.1	4.2
Adjusted operating profit (EBIT), EUR million	3.8	5.1	7.0	3.9
Adjusted operating profit, %	3.1	4.6	7.1	4.2

## Consolidated cash flow and financial position

At the end of the reporting period, Pihlajalinna Group's total statement of financial position was EUR 232.4 (217.3) million. Consolidated cash and cash equivalents stood at EUR 27.0 (19.4) million.

The Group's net cash flow from operating activities during the reporting period amounted to EUR 14.3 (9.3) million. A total of EUR 0.6 million in working capital was released during the reporting period. A total of EUR 2.6 million of working capital was tied up during the comparison period. The Group pays the Tyel employees' pension insurance premiums for the entire year in advance in its municipal joint ventures. Advance Tyel premiums totalled EUR 4.1 (5.6) million during the reporting period.

Net cash flow from investing activities totalled EUR -6.3 (-16.7) million. The impact of subsidiary acquisitions on net cash flow in the reporting period was EUR -3.7 (-14.7) million. Investments in property, plant and equipment and intangible assets during the reporting period totalled EUR -2.9 (-2.2) million, and proceeds from the disposals of property, plant and equipment and subsidiaries totalled EUR 0.2 (0.0) million. Dividends received amounted to EUR 0.1 (0.3) million.

The Group's cash flow after investments was EUR 8.0 (-7.3) million.

Net cash flow from financing activities totalled EUR -8.5 (11.4) million. During the reporting period, the Group withdrew EUR 5.0 (14.5) million of new loans within its credit limits and repaid its financial liabilities to a total amount of EUR 5.7 (1.0) million. The parent company of the Group distributed a total of EUR 3.1 million of dividends during the reporting period. In addition, a total of EUR 2.3 million of dividends was distributed to non-controlling interests during the reporting period. Repayment of financial lease liabilities totalled EUR 1.6 (1.2) million and interest paid and other financial expenses amounted to EUR 0.9 (0.6) million.

The Group's gearing was 32.4 (33.9) per cent at the end of the reporting period. Interest-bearing net debt amounted to EUR 33.5 (33.4) million. For the financial year 2016, the facility leases of three care homes in Southwest Finland were reported as operating leases. The Group's gearing for the reporting period is increased by the replacement of said leases by new 15-year leases, which are interpreted as finance leases. The current value of these finance leases was EUR 12.5 million at the beginning of the financial year.

In the reporting period, return on capital employed was 10.6 (7.1) per cent and return on equity was 11.8 (6.8) per cent.

Pihlajalinna has a revolving credit facility (RCF) worth EUR 60 million valid until 2020 and credit limit agreements worth a total of EUR 10 million valid until further notice. The RCF includes a financial covenant based on the ratio of net debt to EBITDA. The Group met the set covenants on 30 June 2017.

At the end of the reporting period, Pihlajalinna had a total of EUR 45.4 million of unused credit limits (EUR 45.2 million on 31 December 2016).

## **Capital expenditure and acquisitions**

On 2 January 2017, Pihlajalinna acquired the entire share capital of Itä-Suomen Lääkäritalo Oy, which operates in the Kuopio region. Itä-Suomen Lääkäritalo has, under the name Lääkärikeskus ITE, worked in close cooperation with Itä-Suomen Lääkärikeskus Oy, which Pihlajalinna acquired on 1 February 2016.

Insta Care Oy, a former joint venture, became a wholly-owned subsidiary of Pihlajalinna as of 1 June 2017. At the same time, the company's name was changed to Pihlajalinna Solutions Oy.

A summary of the acquisitions made during the reporting period is presented in the notes of the half year financial report.

Gross investments, including acquisitions, in the reporting period totalled EUR 7.8 (20.8) million. The Group's gross investments in property, plant and equipment and intangible assets, which consisted of normal additional and replacement investments required for growth, amounted to EUR 3.8 (2.7) million during the reporting period. Capital expenditure relating to the opening of new units totalled EUR 0.1 (0.1) million. Gross investments associated with M&A transactions totalled EUR 3.9 (18.0) million.

The Group's investment commitments related to ordinary additional, replacement and development investments amount to approximately EUR 1.2 million. The investment commitment to build a wellbeing centre in Hattula became void when the Market Court annulled Hattula's procurement decision on social and healthcare services.

The expansion of Pihlajalinna will continue in spite of the postponement of the health and social services reform to 2020. Pihlajalinna will expand to over ten new locations by 2020, primarily by opening completely new clinics. In addition, the company may expedite the pace of expansion with acquisitions. The establishment of new private clinics is underway in Oulu, Turku and Seinäjoki. They will operate as separate limited liability companies so that the local staff and doctors will have a possibility to become shareholders. The Oulu and Turku clinics will open at the turn of the year and the Seinäjoki clinic in February 2018. The opening of the Tapiola clinic in Espoo will be postponed to 2018. The company estimates that the investments required for opening new clinics will remain under EUR 40 million.

## **Personnel**

At the end of the reporting period, the number of personnel amounted to 4,898 (4,589), an increase of 309 persons or 7 per cent. The Group's personnel averaged 3,812 (3,450) persons as full-time equivalents, an increase of 361 persons or 10 per cent. The increase in the Group's average number of personnel (FTE) was due to several acquisitions in late 2016, the commencement of Soini's social and healthcare service production on 1 January 2017 and the acquisition of Itä-Suomen Lääkäritalo in January 2017. During the reporting period, the Group's employee benefit expenses totalled EUR 89.3 (85.3) million, an increase of 5 per cent.

## Changes in Group structure

The following subsidiary mergers were implemented during the reporting period: Itä-Suomen Lääkäritalo merged with Dextra Oy on 1 June 2017, Dextra Medical Spa ja Plastiikkakirurginen sairaala Oy and Itä-Suomen Lääkärikeskus Oy merged with Dextra Oy on 1 May 2017, Laser Tilkka Oy merged with Dextra Oy on 1 March 2017 and Oikare Oy merged with Hoitokoti Setälänpiha Oy on 1 March 2017.

Pihlajalinna founded the companies Pihlajalinna Oulu Oy, Pihlajalinna Seinäjoki Oy, Pihlajalinna Turku Oy and Pihlajalinna Erityisasumispalvelut Oy during the reporting period. Said companies have not yet commenced their business operations.

The business operations of Gyne-Praxis Oy were transferred to Dextra Oy in an acquisition on 31 May 2017. Gyne-Praxis Oy will be dissolved by the end of the year.

Koskisairaala Oy was dissolved on 1 January 2017.

## Management changes

Tarja Rantala was appointed as Pihlajalinna Plc's interim CFO and member of the Management Team as of 1 July 2017. In May, the company announced that CFO Niclas Köhler is leaving the company. The recruitment of a new CFO is proceeding according to plan.

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

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

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

## Management Team

The Group's Management Team includes the following five (5) members: Aarne Aktan, CEO (also Executive Vice President of the C&S segment); Juha Rautio, Deputy CEO and Head of Group Projects; Joni Aaltonen, SVP of the Primary and Social Care segment and Head of Corporate Planning; Tarja Rantala, interim CFO (as of 1 July 2017); and Pauliina Rannikko, General Counsel.

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

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

## Board of Directors

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

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

## Shareholders' Nomination Board

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

## Committees nominated by the Board

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

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

## Remuneration of the members of the Board of Directors

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

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

## Shares and shareholders

At the end of the reporting period, Pihlajalinna Plc's share capital entered in the Trade Register amounted to EUR 80,000 and the total number of shares outstanding was 20,613,146. The company has one share series, with each share entitling its holder to one vote at the Annual General Meeting. All shares bestow their holders with equal rights to dividends and other distribution of the company's assets. At the end of the reporting period, the Company had 10,622 (6,526) shareholders. The company does not hold any treasury shares. A list of the largest shareholders is available on the company's investor website at [investors.pihlajalinna.fi](http://investors.pihlajalinna.fi).

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

Share-related information	4–6/2017	4–6/2016	1–6/2017	1–6/2016	2016
No. of shares outstanding at the end of the period	20,613,146	20,613,146	20,613,146	20,613,146	20,613,146
Average no. of shares outstanding during the period	20,613,146	20,613,146	20,613,146	20,613,146	20,613,146
Highest price, EUR	18.17	17.89	18.42	18.87	18.87
Lowest price, EUR	16.20	15.42	16.20	12.90	12.90
Average price, EUR*	17.43	16.69	17.42	16.42	16.38
Closing price, EUR	17.45	16.53	17.45	16.53	18.42
Share turnover, 1,000 shares	1,425	4,376	2,519	5,565	8,196
Share turnover, %	6.9	21.2	12.2	27.0	39.8
Market capitalisation, EUR million			359.7	340.7	379.7

\* average share price weighted by trading volume

## **Auditing**

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

## **Amendments to the Articles of Association**

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

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

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

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

## **Authorisation for the repurchase of the company's own shares**

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

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

## **Authorisation to decide on a share issue**

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

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

The Board of Directors decides on all other terms and conditions of the issuance of shares and other special rights entitling to shares. The authorisation includes a right to deviate from the shareholders pre-emptive right to subscription (directed issue) if there are weighty reasons for the Company. The authorisation may

be used, for example, to finance acquisitions or other business arrangements and investments or the implementation of the Company's share-based incentive plans, as well as other purposes determined by the Company's Board of Directors.

## **Risks and uncertainties in business operations**

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

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

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

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

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

In addition, the most essential risks and uncertainties affecting the Group's operations are connected to the success of opening new locations, acquisitions and information system projects and risks related to taxes and the commitment and recruitment of competent management. A tax audit of the major Group companies began in spring 2017, and it is still underway.

## **Flagging notifications**

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

## **Current incentive schemes**

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

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

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

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

## Events after the end of the reporting period

Pihlajalinna entered into an agreement for the acquisition of the entire share capital of Caritas Lääkärit Oy in Oulu on 21 July 2017. Caritas Lääkärit provides occupational healthcare and private clinic services in Oulu and Raahе. With this acquisition, Pihlajalinna wants to gain a better standing in the occupational healthcare market in Oulu and Raahе and facilitate the launch of its new private clinic in Oulu. The transaction was completed on 3 August 2017.

Pihlajalinna announced on 6 July 2017 that it had acquired the entire share capital of Sataman Röntgen Oy in Kuopio and Joen Magneetti Oy in Joensuu. The two companies have partly the same owners, and they have a history of close collaboration. The companies have provided imaging services for Pihlajalinna's ITE private clinics in Kuopio and Joensuu. With these acquisitions, Pihlajalinna wants to streamline its care chain at the private clinics in Kuopio and Joensuu and extend its range of imaging services.

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

## Accounting policies

This (unaudited) Interim Report has been prepared in compliance with the IFRS, applying the same accounting policies and calculation methods as in the financial statements for 2016, and the requirements of IAS 34 (Interim Financial reporting) were complied with. All figures have been rounded, due to which the actual total of individual figures may differ from the total presented.

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

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

## Application of new and revised IFRS standards

Pihlajalinna will adopt the IFRS 15 and IFRS 9 standards as of the beginning of the financial year beginning on 1 January 2018 and the IFRS 16 standard as of the beginning of the financial year beginning on 1 January 2019, provided that they have been approved for application within the EU on the planned date of adoption.

**IFRS 15 Revenue from Contracts with Customers** The new standard includes a five-step model for recognising revenue from contracts with customers, and it replaces the current IAS 18 and IAS 11 standards and related interpretations. Revenue can be recognised over time or at a point of time, and the passing of control is a key criterion. The standard also increases the amount of notes to be disclosed.

Pihlajalinna launched a contract-specific IFRS 15 adoption project concerning revenue recognition in autumn 2016, surveying the services sold and provided by segment. The primary performance obligations were surveyed segment-specifically, and the survey covered approximately 65 per cent of the Group's revenue for 2016.

The adoption project has identified the following major performance obligations by segment:

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

Social and Healthcare Outsourcing

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

Residential services (including asylum seeker reception centres)

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

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

Private Clinics and Dental Care

- individual customer visits to healthcare services

Surgical Operations and Public Specialised Care

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

Occupational Healthcare

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

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

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

Pihlajalinna will apply an adjusted procedure by recognising any cumulative adjustment effect caused by the adoption of the standard in the opening retained earnings under equity for the 2018 financial year. Pihlajalinna estimates that the adoption of the standard will not have a significant impact compared to the revenue recognition principles currently applied by Pihlajalinna.

**IFRS 9 Financial Instruments.** In accordance with the standard, financial assets are measured at fair value, unless certain conditions are met, in which case they are measured at amortised cost. The measurement methods have also been simplified. The new standard will result in changes in hedge accounting and provide a new model for the assessment of impairment, in accordance with which expected credit losses are measured already at the beginning of a contract. Pihlajalinna does not apply hedge accounting, and the

changes in the classification of financial instruments and impairment model are not estimated to have a material effect on Pihlajalinna's financial statements.

**IFRS 16 Leases.** There are no significant changes in the accounting practice applied by lessors. In respect of the lessee, all leases except short-term (less than a 12-month) contracts and contracts with low value will be recognised as right-of-use assets on the balance sheet. At the end of the reporting period, the Group's operating leases totalled EUR 30.5 million. In accordance with the standard, the rent liabilities concerning operating premises presented in the Group's operating leases have to be recognised as a right-of-use asset and lease liability on the balance sheet. However, the concepts of agreements recognised as operating leases and leases pursuant to IFRS 16 are different, and therefore the amount of agreements recognised on the balance sheet may differ from the amount of operating leases. The amendment will have significant impacts on Pihlajalinna's financial statements. The amendment will also have effects on balance sheet-based indicators, such as gearing.

# Tables and notes

## 1 January–30 June 2017

### Consolidated statement of comprehensive income

EUR million	4–6/2017 3 mths	4–6/2016 3 mths	1–6/2017 6 mths	1–6/2016 6 mths	2016 12 mths
<b>Revenue</b>	<b>106.7</b>	<b>101.4</b>	<b>216.7</b>	<b>201.4</b>	<b>399.1</b>
Other operating income	0.3	0.4	0.5	0.7	1.5
Materials and services	-45.1	-43.3	-92.4	-85.5	-168.0
Employee benefit expenses	-45.2	-43.2	-89.3	-85.3	-167.2
Other operating expenses	-9.5	-8.3	-19.7	-17.5	-37.7
Share of profit in associated companies and joint ventures	0.1	0.0	0.2	0.1	0.2
<b>EBITDA</b>	<b>7.1</b>	<b>7.0</b>	<b>16.0</b>	<b>14.0</b>	<b>27.9</b>
<b>Adjusted EBITDA</b>	<b>7.4</b>	<b>7.0</b>	<b>16.5</b>	<b>14.0</b>	<b>28.9</b>
Depreciation, amortisation and impairment	-3.4	-3.5	-6.9	-6.3	-12.8
<b>Operating profit (EBIT)</b>	<b>3.7</b>	<b>3.5</b>	<b>9.1</b>	<b>7.7</b>	<b>15.1</b>
<b>Adjusted operating profit (EBIT)</b>	<b>4.0</b>	<b>3.9</b>	<b>9.7</b>	<b>8.1</b>	<b>16.6</b>
Financial income	0.1	0.0	0.1	0.0	0.1
Financial expenses	-0.4	-0.4	-0.9	-0.8	-1.5
<b>Profit before tax</b>	<b>3.3</b>	<b>3.1</b>	<b>8.3</b>	<b>6.9</b>	<b>13.7</b>
Income tax	-0.7	-0.5	-1.7	-1.6	-3.0
<b>Profit for the period *</b>	<b>2.7</b>	<b>2.6</b>	<b>6.6</b>	<b>5.3</b>	<b>10.8</b>
Total comprehensive income for the period	2.7	2.6	6.6	5.3	10.8
<b>Total comprehensive income for the period attributable:</b>					
To the owners of the parent	2.0	2.0	5.2	3.9	8.0
To non-controlling interests	0.7	0.6	1.4	1.4	2.7
<b>Earnings per share calculated on the basis of the profit for the period attributable to owners of the parent (EUR)</b>					
Basic and diluted	0.10	0.10	0.25	0.19	0.39

\* The Group has no other comprehensive income items

## Consolidated statement of financial position

EUR million	6/2017	6/2016	12/2016
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment	56.1	47.2	45.5
Goodwill	94.4	89.6	92.3
Other intangible assets	17.0	17.3	16.3
Interests in associates	2.9	2.7	2.8
Available-for-sale financial assets	0.0	0.0	0.0
Other receivables	2.8	2.9	2.8
Deferred tax assets	1.9	2.7	1.6
<b>Total non-current assets</b>	<b>175.0</b>	<b>162.4</b>	<b>161.3</b>
Current assets			
Inventories	2.1	2.0	2.0
Trade and other receivables	27.3	33.0	26.1
Current tax assets	1.0	0.4	0.8
Cash and cash equivalents	27.0	19.4	27.5
<b>Total current assets</b>	<b>57.3</b>	<b>54.8</b>	<b>56.4</b>
<b>Total assets</b>	<b>232.4</b>	<b>217.3</b>	<b>217.7</b>
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to owners of the parent			
Share capital	0.1	0.1	0.1
Reserve for invested unrestricted equity	87.9	87.9	87.9
Retained earnings	6.6	4.1	1.7
Result for the review period	5.2	3.9	8.0
	<b>99.8</b>	<b>96.1</b>	<b>97.8</b>
<b>Non-controlling interests</b>	<b>3.7</b>	<b>2.4</b>	<b>3.2</b>
<b>Total equity</b>	<b>103.5</b>	<b>98.5</b>	<b>101.0</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	5.6	5.6	5.5
Financial liabilities	58.7	53.0	48.3
Other non-current liabilities	1.7	1.9	1.9
Non-current provisions	0.7	0.5	0.8
<b>Total non-current liabilities</b>	<b>66.7</b>	<b>61.0</b>	<b>56.7</b>
<b>Current liabilities</b>			
Trade and other payables	56.7	50.8	55.0
Current tax liabilities	1.8	1.4	1.3
Financial liabilities	3.7	5.6	3.7
<b>Total current liabilities</b>	<b>62.2</b>	<b>57.7</b>	<b>60.1</b>
<b>Total liabilities</b>	<b>128.9</b>	<b>118.7</b>	<b>116.7</b>
<b>Total equity and liabilities</b>	<b>232.4</b>	<b>217.3</b>	<b>217.7</b>

## Consolidated statement of changes in equity

EUR million	Equity attributable to owners of the parent				Non-controlling interests	Equity Total
	Share capital	Reserve for invested unrestricted equity	Retained earnings			
<b>Total equity, 1 Jan. 2016</b>	<b>0.1</b>	<b>87.9</b>	<b>4.1</b>		<b>1.3</b>	<b>93.5</b>
Profit for the period			3.9		1.4	5.3
<b>Total comprehensive income for the period</b>			<b>3.9</b>		<b>1.4</b>	<b>5.3</b>
Dividends paid					-0.3	-0.3
<b>Total transactions with owners</b>					<b>-0.3</b>	<b>-0.3</b>
<b>Total equity, 30 Jun. 2016</b>	<b>0.1</b>	<b>87.9</b>	<b>8.0</b>		<b>2.4</b>	<b>98.5</b>
<b>Total equity, 1 Jan. 2017</b>	<b>0.1</b>	<b>87.9</b>	<b>9.7</b>		<b>3.2</b>	<b>101.0</b>
Profit for the period			5.2		1.4	6.6
<b>Total comprehensive income for the period</b>			<b>5.2</b>		<b>1.4</b>	<b>6.6</b>
Dividends paid			-3.2		-1.0	-4.1
<b>Total transactions with owners</b>			<b>-3.2</b>		<b>-1.0</b>	<b>-4.1</b>
Changes in non-controlling interests that have not resulted in a change in control					0.0	0.0
<b>Total changes in subsidiary holdings</b>					<b>0.0</b>	<b>0.0</b>
<b>Total equity, 30 Jun. 2017</b>	<b>0.1</b>	<b>87.9</b>	<b>11.8</b>		<b>3.7</b>	<b>103.5</b>

## Consolidated statement of cash flows

EUR million	4– 6/2017 3 mths	4– 6/2016 3 mths	1– 6/2017 6 mths	1– 6/2016 6 mths	2016 12 mths
<b>Cash flow from operating activities</b>					
Cash receipts from sales	108.7	102.2	217.3	202.0	400.5
Cash receipts from other operating income	0.2	0.4	0.2	0.6	1.4
Operating expenses paid	-106.5	-105.9	-201.2	-191.8	-367.3
<b>Operating cash flow before financial items and taxes</b>	<b>2.4</b>	<b>-3.4</b>	<b>16.2</b>	<b>10.9</b>	<b>34.6</b>
Interest received	0.1	0.0	0.1	0.0	0.1
Taxes paid	-1.6	-1.3	-2.0	-1.6	-2.4
<b>Net cash flow from operating activities</b>	<b>0.8</b>	<b>-4.6</b>	<b>14.3</b>	<b>9.3</b>	<b>32.3</b>
<b>Cash flow from investing activities</b>					
Investments in tangible and intangible assets	-1.5	-1.2	-2.9	-2.2	-4.9
Proceeds from disposal of property, plant and equipment and intangible assets and prepayments	0.1	0.0	0.2	0.0	0.3
Changes in other investments	0.0		0.0	0.0	0.0
Changes in loan receivables		-0.1		0.0	0.0
Dividends received	0.1	0.3	0.1	0.3	0.3
Acquisition of subsidiaries less cash and cash equivalents at date of acquisition	-1.0	-5.6	-3.7	-14.7	-21.1
<b>Net cash flow from investing activities</b>	<b>-2.3</b>	<b>-6.5</b>	<b>-6.3</b>	<b>-16.7</b>	<b>-25.5</b>
<b>Cash flow from financing activities</b>					
Proceeds from issuing shares				0.0	0.0
Changes in non-controlling interests	0.0		0.0		-1.1
Proceeds from borrowings			5.0	14.5	14.9
Repayment of borrowings	-5.2	-0.6	-5.7	-1.0	-3.6
Repayment of financial lease liabilities	-0.8	-0.6	-1.6	-1.2	-2.4
Interest and other operational financial expenses	-0.4	-0.3	-0.9	-0.6	-1.4
Dividends paid and other profit distribution	-3.1	-0.3	-5.4	-0.3	-1.0
<b>Net cash flow from financing activities</b>	<b>-9.4</b>	<b>-1.8</b>	<b>-8.5</b>	<b>11.4</b>	<b>5.4</b>
Changes in cash and cash equivalents	-11.0	-13.0	-0.6	4.1	12.2
Cash at the beginning of the financial period	37.9	32.4	27.5	15.3	15.3
<b>Cash at the end of the review period</b>	<b>27.0</b>	<b>19.4</b>	<b>27.0</b>	<b>19.4</b>	<b>27.5</b>

## Operating segments

EUR million	4–6/2017 3 mths	4–6/2016 3 mths	1–6/2017 6 mths	1–6/2016 6 mths	2016 12 mths
<b>Revenue</b>					
C&S	59.0	56.1	121.7	110.2	215.6
P&S	49.6	47.0	99.1	93.8	189.8
Unallocated	0.1	0.1	0.1	0.2	0.4
Eliminations	-2.0	-1.8	-4.2	-2.8	-6.7
<b>Total consolidated revenue</b>	<b>106.7</b>	<b>101.4</b>	<b>216.7</b>	<b>201.4</b>	<b>399.1</b>
<b>Adjusted EBITDA</b>					
C&S	3.4	4.6	8.6	9.7	17.3
P&S	4.4	2.6	8.8	4.9	13.0
Unallocated	-0.4	-0.3	-0.9	-0.6	-1.4
<b>Consolidated adjusted EBITDA</b>	<b>7.4</b>	<b>7.0</b>	<b>16.5</b>	<b>14.0</b>	<b>28.9</b>
Adjustment items	-0.2	0.0	-0.5	0.0	-1.0
<b>Consolidated EBITDA</b>	<b>7.1</b>	<b>7.0</b>	<b>16.0</b>	<b>14.0</b>	<b>27.9</b>
<b>EBITDA</b>					
C&S	3.3	4.6	8.5	9.7	16.4
P&S	4.4	2.6	8.8	4.9	12.9
Unallocated	-0.6	-0.3	-1.3	-0.6	-1.4
<b>Consolidated EBITDA</b>	<b>7.1</b>	<b>7.0</b>	<b>16.0</b>	<b>14.0</b>	<b>27.9</b>
<b>Adjusted EBITDA, % of revenue</b>					
C&S	5.8%	8.2%	7.1%	8.8%	8.0%
P&S	8.9%	5.6%	8.9%	5.2%	6.9%
<b>Consolidated adjusted EBITDA, % of revenue</b>	<b>6.9%</b>	<b>6.9%</b>	<b>7.6%</b>	<b>7.0%</b>	<b>7.2%</b>
<b>Consolidated EBITDA, % of revenue</b>	<b>6.7%</b>	<b>6.9%</b>	<b>7.4%</b>	<b>7.0%</b>	<b>7.0%</b>
<b>Adjusted operating profit</b>					
C&S	1.0	2.1	3.8	5.1	7.5
P&S	3.5	2.1	7.0	3.9	11.0
Unallocated	-0.5	-0.3	-1.1	-0.9	-1.9
<b>Consolidated adjusted operating profit</b>	<b>4.0</b>	<b>3.9</b>	<b>9.7</b>	<b>8.1</b>	<b>16.6</b>
Adjustment items	-0.3	-0.4	-0.6	-0.4	-1.5
<b>Consolidated operating profit</b>	<b>3.7</b>	<b>3.5</b>	<b>9.1</b>	<b>7.7</b>	<b>15.1</b>
<b>Operating profit</b>					
C&S	0.9	1.7	3.5	4.7	6.2
P&S	3.5	2.1	7.0	3.9	10.9
Unallocated	-0.7	-0.3	-1.5	-0.9	-1.9
<b>Consolidated operating profit</b>	<b>3.7</b>	<b>3.5</b>	<b>9.1</b>	<b>7.7</b>	<b>15.1</b>
<b>Adjusted operating profit, % of revenue</b>					
C&S	1.7%	3.8%	3.1%	4.6%	3.5%
P&S	7.0%	4.5%	7.1%	4.2%	5.8%

Consolidated adjusted operating profit, % of revenue	3.7%	3.9%	4.5%	4.0%	4.2%
Consolidated operating profit, % of revenue	3.5%	3.5%	4.2%	3.8%	3.8%

## Adjusted EBITDA and operating profit

EUR million	4–6/2017 3 mths	4–6/2016 3 mths	1–6/2017 6 mths	1–6/2016 6 mths	2016 12 mths
<b>EBITDA</b>	<b>7.1</b>	<b>7.0</b>	<b>16.0</b>	<b>14.0</b>	<b>27.9</b>
<b>Adjustments to EBITDA</b>					
Closing down of dental clinics	0.0		0.1		
Conciliation agreement concerning the Group's facility expenses			0.2		
Costs arising from the integration of Care Services					0.1
Dismissal-related expenses	0.2		0.2		
Compensation related to a production agreement of the Surgical Operations service area that expired in the previous financial year					0.9
<b>Adjustments to EBITDA in total</b>	<b>0.2</b>	<b>0.0</b>	<b>0.5</b>	<b>0.0</b>	<b>1.0</b>
<b>Adjusted EBITDA</b>	<b>7.4</b>	<b>7.0</b>	<b>16.5</b>	<b>14.0</b>	<b>28.9</b>
Depreciation, amortisation and impairment	-3.4	-3.5	-6.9	-6.3	-12.8
<b>Adjustments to depreciation, amortisation and impairment</b>					
Closing down of dental clinics	0.0	0.4	0.1	0.4	0.4
Closing down of Surgical Operations clinic, Tampere					0.1
<b>Adjustments to depreciation, amortisation and impairment in total</b>	<b>0.0</b>	<b>0.4</b>	<b>0.1</b>	<b>0.4</b>	<b>0.5</b>
<b>Adjusted operating profit (EBIT)</b>	<b>4.0</b>	<b>3.9</b>	<b>9.7</b>	<b>8.1</b>	<b>16.6</b>
<b>Operating profit (EBIT)</b>	<b>3.7</b>	<b>3.5</b>	<b>9.1</b>	<b>7.7</b>	<b>15.1</b>

## Contingent liabilities and commitments

EUR million	6/2017	6/2016	12/2016
<b>Collateral given on own behalf</b>			
Pledged collateral notes	1.1	1.2	1.1
Sureties	0.3	0.3	0.3
<b>Collateral given on behalf of associates</b>			
Sureties	3.2	3.9	3.4
<b>Other contingent liabilities</b>			
Lease commitments	30.5	26.3	30.6

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

If certain criteria are met, the Group has committed to redeeming an additional 20% of the shares in Kolmostien Terveys Oy and 30% of the shares in Mäntänvuoren Terveys Oy during 2017–2018. In accordance with its commitment, Pihlajalinna increased its holding in Mäntänvuoren Terveys Oy at the beginning of July by purchasing 15 per cent of the shares in the company from the City of Mänttä-Vilppula. After the transaction, the Group owns 66 per cent of the company.

## Related party transactions

EUR million	1–6/2017	1–6/2016	12/2016
<b>Key management personnel</b>			
Rents paid	0.5	0.4	0.8
Services procured	1.0	0.5	1.6
Trade payables	0.1	0.0	0.2
Other liabilities	0.2	0.1	0.2
<b>Associated companies and joint ventures</b>			
Services sold	0.0	0.0	0.1
Services procured	0.7	0.5	1.3
Rents received	0.1	0.2	0.3
Interest and commissions received	0.0	0.0	0.0
Dividends received	0.1	0.3	0.3
Trade payables	0.0	0.1	0.1
Other liabilities			0.1
Trade receivables			0.0
Interest and provision receivables	0.1	0.1	0.1
Loan receivables	1.3	1.5	1.5

## Changes in property, plant and equipment

EUR million	1–6/2017	1–6/2016	12/2016
Cost at the beginning of the period	69.6	62.7	62.7
Additions	15.1	1.9	4.4
Business combinations	0.0	1.0	1.3
Transfers between items	0.0		2.1
Disposals	-1.5	-0.2	-0.8
Cost at the end of the period	83.3	65.3	69.6
Accumulated depreciation at the beginning of the period	-24.1	-14.0	-14.0
Depreciation and amortisation for the review period	-4.4	-4.2	-8.2
Transfers between items			-2.4
Accumulated depreciation on disposals	1.4	0.0	0.5
Accumulated depreciation at the end of the period	-27.2	-18.2	-24.1
<b>Carrying amount at the end of the period</b>	<b>56.1</b>	<b>47.2</b>	<b>45.5</b>

## Changes in intangible assets

EUR million	1–6/2017	1–6/2016	12/2016
Cost at the beginning of the period	120.7	98.7	98.7
Additions	1.3	0.8	1.3
Business combinations	4.0	17.1	20.4
Transfers between items	0.0		0.3
Disposals		0.0	0.0
Cost at the end of the period	126.0	116.6	120.7
Accumulated depreciation at the beginning of the period	-12.1	-7.5	-7.5
Depreciation and amortisation for the review period	-2.5	-2.1	-4.5
Accumulated depreciation on disposals		0.0	0.0
Accumulated depreciation at the end of the period	-14.6	-9.7	-12.1
<b>Carrying amount at the end of the period</b>	<b>111.4</b>	<b>106.9</b>	<b>108.6</b>

## Total business combinations

The acquisitions made during the review period 2017, Itä-Suomen Lääkäritalo Oy and 50 per cent of the former joint venture Insta Care Oy, are presented combined in the table below as they are not material in terms of individual review.

EUR million	1–6/2017
Consideration transferred:	
Cash	3.5
<b>Total cost of combinations</b>	<b>3.5</b>
At the date of acquisition, the values of assets acquired and liabilities assumed were as follows:	
Property, plant and equipment	0.0
Intangible assets	1.9
Inventories	0.1
Trade and other receivables	0.4
Cash and cash equivalents	0.2
<b>Total assets</b>	<b>2.6</b>
Deferred tax liabilities	-0.3
Financial liabilities	-0.3
Other liabilities	-0.6
<b>Total liabilities</b>	<b>-1.2</b>
<b>Net assets</b>	<b>1.4</b>
Goodwill generated in the acquisition:	
Consideration transferred	3.5
Previous holding measured at fair value	0.1
Net identifiable assets of acquiree	-1.4
<b>Goodwill</b>	<b>2.2</b>
Transaction price paid in cash:	3.5
Cash and cash equivalents of acquirees	-0.2
<b>Effect on cash flow*</b>	<b>3.2</b>
*The line item Acquisition of subsidiaries less cash and cash equivalents on date of acquisition in the consolidated statement of cash flows presents the following items as a net amount:	
Acquisitions in the financial year, effect on cash flow	3.2
Contingent consideration paid during the financial year	0.5
<b>Total</b>	<b>3.7</b>
The acquisition-related expenses, a total of EUR 0.1 million, have been recorded under other operating expenses.	

The revenue and results for the acquired business operations beginning from the date of acquisition (total revenue EUR 2.4 million and total operating profit of EUR 0.1 million) are included in the consolidated statement of comprehensive income. If the acquisitions of 2017 had been consolidated since the beginning of the financial year 2017, consolidated revenue would have amounted to EUR 216.7 million and operating profit for the period would have amounted to EUR 8.9 million.

## Quarterly information

EUR million	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15
<b>INCOME STATEMENT</b>								
Revenue	106.7	110.0	103.7	93.9	101.4	100.1	62.6	50.9
EBITDA	7.1	8.9	7.1	6.8	7.0	7.0	3.4	3.1
Adjusted EBITDA	7.4	9.1	7.1	7.8	7.0	7.0	3.4	2.9
Adjusted EBITDA, %	6.9	8.3	6.8	8.3	6.9	7.0	5.5	5.8
Depreciation and amortisation	-3.4	-3.5	-3.2	-3.2	-3.5	-2.9	-2.1	-2.1
Operating profit (EBIT)	3.7	5.4	3.9	3.6	3.5	4.2	1.4	1.0
Adjusted operating profit (EBIT)	4.0	5.7	3.9	4.7	3.9	4.2	1.4	0.9
Adjusted operating profit (EBIT), %	3.7	5.2	3.7	5.0	3.9	4.2	2.2	1.7
Financial income	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Financial expenses	-0.4	-0.4	-0.3	-0.4	-0.4	-0.4	-0.4	-0.6
Profit before tax	3.3	5.0	3.5	3.3	3.1	3.8	1.0	0.4
Income tax	-0.7	-1.1	-0.5	-0.9	-0.5	-1.0	-0.3	0.1
Profit for the period	2.7	3.9	3.0	2.4	2.6	2.7	0.7	0.5
Personnel at the end of the period	4,898	4,519	4,407	4,470	4,589	4,228	3,047	2,905
Change in personnel during the quarter	380	112	-63	-119	361	1,181	142	380

EUR million	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15
<b>C&amp;S segment</b>								
Revenue	59.0	62.7	56.8	48.6	56.1	54.1	32.0	26.8
EBITDA	3.3	5.2	4.2	2.5	4.6	5.1	2.6	1.6
Adjusted EBITDA	3.4	5.2	4.2	3.4	4.6	5.1	2.6	1.6
Operating profit (EBIT)	0.9	2.7	1.7	-0.2	1.7	2.9	1.0	-0.1
Adjusted operating profit (EBIT)	1.0	2.8	1.7	0.8	2.1	2.9	1.0	-0.1
<b>P&amp;S segment</b>								
Revenue	49.6	49.5	49.1	46.9	47.0	46.8	31.4	24.8
EBITDA	4.4	4.4	3.1	4.9	2.6	2.3	1.1	1.3
Adjusted EBITDA	4.4	4.4	3.1	5.1	2.6	2.3	1.1	1.3
Operating profit (EBIT)	3.5	3.5	2.5	4.4	2.1	1.8	0.7	0.8
Adjusted operating profit (EBIT)	3.5	3.5	2.5	4.6	2.1	1.8	0.7	0.8
<b>Unallocated</b>								
Revenue	0.1	0.0	0.2	0.0	0.1	0.1	0.0	0.0
EBITDA	-0.6	-0.7	-0.2	-0.6	-0.3	-0.4	-0.3	0.2
Adjusted EBITDA	-0.4	-0.5	-0.2	-0.6	-0.3	-0.4	-0.3	0.1
Operating profit (EBIT)	-0.7	-0.8	-0.3	-0.7	-0.3	-0.5	-0.3	0.3
Adjusted operating profit (EBIT)	-0.5	-0.6	-0.3	-0.7	-0.3	-0.5	-0.3	0.2

## Financial reporting in 2017

Interim report January–September: Thursday 9 November 2017

### Briefing

Pihlajalinna Plc will hold a briefing for analysts and the media on Thursday 17 August 2017 at 10:00 a.m. in the Paavo Nurmi room at Hotel Kämp, Pohjoisesplanadi 29, 00100 Helsinki, Finland.

Helsinki, 16 August 2017

Pihlajalinna Plc's Board of Directors

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#### CALCULATION OF KEY FIGURES

Return on equity (ROE), %	$\frac{\text{Profit for the period (rolling 12 mths)} \times 100}{\text{Equity (average)}}$
Return on capital employed (ROCE), %	$\frac{\text{Profit before taxes (rolling 12 mths)} + \text{interest and other financial expenses (rolling 12 mths)} \times 100}{\text{Total statement of financial position – non-interest-bearing liabilities (average)}}$
Gearing, %	$\frac{\text{Interest-bearing net debt} \times 100}{\text{Total equity}}$
Equity ratio, %	$\frac{\text{Equity} \times 100}{\text{Total statement of financial position – prepayments received}}$
Earnings per share (EPS), EUR	$\frac{\text{Profit for the period attributable to owners of the parent}}{\text{Average number of shares during the period}}$
Equity per share, EUR	$\frac{\text{Equity attributable to owners of the parent}}{\text{Number of shares at period end}}$
EBITDA	Operating profit + depreciation, amortisation and impairment

<b>EBITDA, %</b>	$\frac{\text{EBITDA} \times 100}{\text{Revenue}}$
<b>Net debt/Adjusted EBITDA (rolling 12 mths)</b>	$\frac{\text{Interest-bearing net debt}}{\text{Adjusted EBITDA (rolling 12 mths)}}$
<b>Cash flow after investments</b>	Net cash flow from operating activities + net cash flow from investing activities
<b>Adjusted EBITDA*</b>	Operating profit + depreciation, amortisation and impairment + adjustment items
<b>Adjusted operating profit (EBIT)*</b>	Operating profit + adjustment items
<b>Adjusted EBIT margin*</b>	$\frac{\text{Adjusted operating profit (EBIT)} \times 100}{\text{Revenue}}$
<b>Gross investments</b>	Increase in property, plant and equipment and intangible assets excluding finance leases

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

## Pihlajalinna in brief

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