SUPPLEMENT DOUCUMENT TO MEHILÄINEN YHTIÖT OY'S TENDER OFFER DOCUMENT DATED 8 JANUARY 2020 RELATING TO THE VOLUNTARY PUBLIC CASH TENDER OFFER FOR ALL ISSUED AND OUTSTANDING SHARES IN PIHLAJALINNA PLC

14 February 2020

THE TENDER OFFER IS NOT BEING MADE DIRECTLY OR INDIRECTLY IN ANY JURISDICTION WHERE PROHIBITED BY APPLICABLE LAW AND THE TENDER OFFER DOCUMENT AND RELATED ACCEPTANCE FORMS AND SUPPLEMENT DOCUMENTS ARE NOT AND MAY NOT BE DISTRIBUTED, FORWARDED OR TRANSMITTED INTO OR FROM ANY JURISDICTION WHERE PROHIBITED BY APPLICABLE LAW BY ANY MEANS WHATSOEVER INCLUDING, WITHOUT LIMITATION, MAIL, FACSIMILE TRANSMISSION, E-MAIL OR TELEPHONE. IN PARTICULAR, THE TENDER OFFER IS NOT MADE IN AND THE TENDER OFFER DOCUMENT AND THIS SUPPLEMENT DOCUMENT MUST UNDER NO CIRCUMSTANCES BE DISTRIBUTED INTO CANADA, JAPAN, AUSTRALIA, SOUTH AFRICA, HONG KONG SPECIAL ADMINISTRATIVE REGION OF THE PEOPLE'S REPUBLIC OF CHINA OR NEW ZEALAND OR ANY OTHER JURISDICTION WHERE PROHIBITED BY APPLICABLE LAW.

Mehiläinen Yhtiöt Oy (the "**Offeror**" or "**Mehiläinen**") supplements the tender offer document dated 8 January 2020 (the "**Tender Offer Document**") in accordance with Chapter 11, Section 11, Subsection 4 of the Finnish Securities Market Act (746/2012, as amended) with the following information of this document (the "**Supplement Document**"):

Pihlajalinna Plc ("**Pihlajalinna**") published its financial statements bulletin for the financial year ended 31 December 2019 (the "**Financial Statements Bulletin**") on 14 February 2020. The Offeror supplements Sections 5.10 and 5.11 of the Tender Offer Document with the Financial Statements Bulletin, which is added as Appendix E to the Tender Offer Document.

The Tender Offer Document and the Supplement Document will be available in Finnish from 14 February 2020 onwards at the headquarters of Mehiläinen, Pohjoinen Hesperiankatu 17 C, 6th floor, FI-00260 Helsinki, Finland, the headquarters of Nordea Bank Abp, Satamaradankatu 5, FI-00020 Nordea, Finland and at Nasdaq Helsinki, Fabianinkatu 14, FI-00130 Helsinki, Finland. The electronic versions of the Tender Offer Document and the Supplement Document will be available in Finnish from 14 February 2020 onwards online at ostotarjous.mehilainen.fi, investors.pihlajalinna.fi/public-tender-offer and nordea.fi/osakkeet, and in English from 14 February 2020 onwards online at ostotarjous.mehilainen.fi, investors.pihlajalinna.fi/public-tender-offer.aspx?sc_lang=en and nordea.fi/equities.

The Finnish Financial Supervisory Authority (the "**FFSA**") has approved the Finnish language version of this Supplement Document but the FFSA assumes no responsibility for the accuracy of the information presented therein. The decision number of such approval by the FFSA is FIVA 2/02.05.05/2020. The Supplement Document is also available as an English translation. In the event of any discrepancy between the two language versions of the Supplement Document, the Finnish language version shall prevail.

Information to Shareholders in the United States

Shareholders in the United States are advised that the shares in Pihlajalinna are not listed on a U.S. securities exchange and that Pihlajalinna is not subject to the periodic reporting requirements of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), and is not required to, and does not, file any reports with the U.S. Securities and Exchange Commission (the "**SEC**") thereunder.

The tender offer will be made for the issued and outstanding shares in Pihlajalinna, which is domiciled in Finland, and is subject to Finnish disclosure and procedural requirements. The tender offer is made in the United States in compliance with Section 14(e) of the Exchange Act and the applicable rules and regulations promulgated thereunder, including Regulation 14E (in each case, subject to any exemptions or relief therefrom, if applicable) and otherwise in accordance with the disclosure and procedural requirements of Finnish law, including with respect to the tender offer timetable, settlement procedures, withdrawal, waiver of conditions and timing of payments, which are different from those of the United States. In particular, the financial information included in the Tender Offer Document and this Supplement Document has been prepared in accordance with applicable accounting standards in Finland, which may not be comparable to the financial statements or financial information of U.S. companies. The tender offer is made to Pihlajalinna's shareholders resident in the United States on the same terms and conditions as those made to all other shareholders of Pihlajalinna to whom an offer is made. Any information documents, including the Tender Offer Document and this Supplement Document, are being disseminated to U.S. shareholders on a basis comparable to the method that such documents are provided to Pihlajalinna's other shareholders.

To the extent permissible under applicable law or regulations, including Rule 14e-5 under the Exchange Act, Mehiläinen and its affiliates or its brokers and its brokers' affiliates (acting as agents for Mehiläinen or its affiliates, as applicable) may from time to time and during the pendency of the tender offer, and other than pursuant to the tender offer and combination, directly or indirectly, purchase or arrange to purchase, the shares in Pihlajalinna or any securities that are convertible into, exchangeable for or exercisable for such shares. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices. To the extent information about such purchases or arrangements to purchase is made public in Finland, such information will be disclosed by means of a press release or other means reasonably calculated to inform U.S.

shareholders of Pihlajalinna of such information. In addition, the financial advisers to Mehiläinen may also engage in ordinary course trading activities in securities of Pihlajalinna, which may include purchases or arrangements to purchase such securities. To the extent required in Finland, any information about such purchases will be made public in Finland in the manner required by Finnish law.

Neither the SEC nor any U.S. state securities commission has approved or disapproved the tender offer, passed upon the merits or fairness of the tender offer, or passed any comment upon the adequacy, accuracy or completeness of the disclosure in the Tender Offer Document or this Supplement Document. Any representation to the contrary is a criminal offence in the United States.

The receipt of cash pursuant to the tender offer by a U.S. holder of shares in Pihlajalinna may be a taxable transaction for U.S. federal income tax purposes and under applicable U.S. state and local, as well as foreign and other, tax laws. Each holder of shares in Pihlajalinna is urged to consult its independent professional adviser immediately regarding the tax consequences of accepting the tender offer.

It may be difficult for Pihlajalinna's shareholders to enforce their rights and any claims they may have arising under the U.S. federal securities laws, since Mehiläinen and Pihlajalinna are located in non-U.S. jurisdictions, and some or all of their respective officers and directors may be residents of non-U.S. jurisdictions. Pihlajalinna's shareholders may not be able to sue Mehiläinen or Pihlajalinna or their respective officers or directors in a non-U.S. court for violations of the U.S. federal securities laws. It may be difficult to compel Mehiläinen and Pihlajalinna and their respective affiliates to subject themselves to a U.S. court's judgment.

Information to Shareholders in the United Kingdom

THE TENDER OFFER DOCUMENT, THIS SUPPLEMENT DOCUMENT OR ANY OTHER DOCUMENT OR MATERIALS RELATING TO THE TENDER OFFER IS NOT BEING MADE AND HAVE NOT BEEN APPROVED BY AN AUTHORISED PERSON FOR THE PURPOSES OF SECTION 21 OF THE UK FINANCIAL SERVICES AND MARKETS ACT 2000 (THE "**FSMA**"). ACCORDINGLY, THE TENDER OFFER DOCUMENT, THIS SUPPLEMENT DOCUMENT OR ANY OTHER DOCUMENT OR MATERIALS RELATING TO THE TENDER OFFER ARE NOT BEING DISTRIBUTED TO, AND MUST NOT BE PASSED ON TO, THE GENERAL PUBLIC IN THE UNITED KINGDOM. THE COMMUNICATION OF THE TENDER OFFER DOCUMENT, THIS SUPPLEMENT DOCUMENT OR ANY OTHER DOCUMENT OR MATERIALS RELATING TO THE TENDER OFFER IS EXEMPT FROM THE RESTRICTION ON FINANCIAL PROMOTIONS UNDER SECTION 21 OF THE FSMA ON THE BASIS THAT IT IS A COMMUNICATION BY OR ON BEHALF OF A BODY CORPORATE WHICH RELATES TO A TRANSACTION TO ACQUIRE DAY TO DAY CONTROL OF THE AFFAIRS OF A BODY CORPORATE; OR TO ACQUIRE 50 PER CENT. OR MORE OF THE VOTING SHARES IN A BODY CORPORATE, WITHIN ARTICLE 62 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005.

Forward-looking Statements

This Supplement Document contains statements that, to the extent they are not historical facts, constitute "forward-looking statements". Forward-looking statements include statements concerning plans, expectations, projections, objectives, targets, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, plans or goals relating to financial position, future operations and development, business strategy and the trends in the industries and the political and legal environment and other information that is not historical information. In some instances, they can be identified by the use of forward-looking terminology, including the terms "believes", "intends", "may", "will" or "should" or, in each case, their negative or variations on comparable terminology. By their very nature, forward-looking statements involve inherent risks, uncertainties and assumptions, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Given these risks, uncertainties and assumptions, investors are cautioned not to place undue reliance on such forward-looking statements. Any forward-looking statements contained herein speak only as at the date of this Supplement Document.

APPENDIX E – FINANCIAL STATEMENTS BULLETIN PUBLISHED BY PIHLAJALINNA ON 14 FEBRUARY 2020

FINANCIAL STATEMENTS RELEASE

1 January–31 December 2019

Pihlajalinna

Revenue and adjusted EBIT increased, Mehiläinen announced a recommended tender offer for shares in Pihlajalinna

Pihlajalinna adopted the new IFRS 16 Leases standard fully retrospectively on 1 January 2019. Restated comparable financial figures were published on 18 April 2019 for each reporting period in 2018.

The figures of this financial statements release are unaudited.

A brief look at October–December:

- Revenue amounted to EUR 133.8 (127.0) million – an increase of 5.4%, organic growth of 3.1%
- Adjusted EBITDA was EUR 14.4 (14.6) million
- Adjusted EBIT was EUR 5.6 (6.5) million
- IFRS 3 costs and amortisation related to M&A had a negative effect of EUR 1.4 (1.4) million on operating profit
- Mehiläinen announced a recommended cash tender offer for all shares in Pihlajalinna Plc on 5 November 2019
- Earnings per share (EPS) was EUR 0.16 (0.11)

A brief look at January–December:

- Revenue amounted to EUR 518.6 (487.8) million – an increase of 6.3%, organic growth of 2.8%
- Adjusted EBITDA was EUR 55.1 (45.9) million – an increase of 20.1%
- Adjusted EBIT was EUR 20.8 (14.4) million – an increase of 44.1%
- IFRS 3 costs and amortisation related to M&A had a negative effect of EUR 5.2 (6.8) million on operating profit
- The number of personnel at the end of the financial year was 5,815 (5,850)
- Earnings per share (EPS) was EUR 0.15 (0.16)

KEY FIGURES	10–12/2019 3 months	10–12/2018 3 months	2019 12 months	2018 12 months
INCOME STATEMENT				
Revenue, EUR million	133.8	127.0	518.6	487.8
EBITDA, EUR million	12.3	14.1	47.8	44.8
EBITDA, %	9.2	11.1	9.2	9.2
Adjusted EBITDA, EUR million*	14.4	14.6	55.1	45.9
Adjusted EBITDA, %*	10.8	11.5	10.6	9.4
Operating profit (EBIT), EUR million	3.7	5.9	10.2	13.2
Operating profit, %	2.7	4.7	2.0	2.7
Adjusted operating profit (EBIT), EUR million*	5.6	6.5	20.8	14.4
Adjusted operating profit, %*	4.2	5.1	4.0	3.0
Profit before tax (EBT), EUR million	2.7	4.9	6.3	9.5
SHARE-RELATED INFORMATION				
Earnings per share (EPS), EUR	0.16	0.11	0.15	0.16
Equity per share, EUR			4.47	5.36
OTHER KEY FIGURES				
Return on capital employed (ROCE), %			2.9	4.6
Return on equity (ROE), %			3.8	5.7
Equity ratio, %			24.3	29.9
Gearing, %			181.7	136.6
Interest-bearing net debt, EUR million			192.7	178.0
Net debt/adjusted EBITDA, 12 months*			3.5	3.9
Gross investments, EUR million**	13.1	16.6	44.1	160.0
Cash flow from operating activities, EUR million	19.8	24.2	36.8	41.2

Cash flow after investments, EUR million	15.4	11.9	17.4	-18.8
Average number of personnel (FTE)			4,515	4,618
Personnel at the end of the period (NOE)			5,815	5,850

* 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.

Adjustments to EBITDA totalled EUR 2.1 (0.4) million for the quarter and EUR 7.3 (1.1) million for the financial year. Adjustments to operating profit totalled EUR 1.9 (0.6) million for the quarter and EUR 10.6 (1.2) million for the financial year.

** 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

Pihlajalinna's consolidated revenue is expected to increase from the 2019 level. Adjusted EBIT is expected to increase compared to 2019.

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. The offer period commenced on 9 January 2020. In the tender offer, Pihlajalinna's shareholders are offered a cash consideration of EUR 16.00 for each issued and outstanding share in Pihlajalinna. Currently, the tender offer is expected to be completed towards the end of the second quarter of 2020 or at the latest during the third quarter of 2020.

Joni Aaltonen, CEO of Pihlajalinna:

The revenue for the fourth quarter amounted to EUR 133.8 million, an increase of EUR 6.8 million. Organic revenue growth was 3.1%. The volume and profitability of occupational healthcare services and sales to insurance companies developed favourably during the fourth quarter. Profitability was affected by the costs of public specialised care were concentrated towards the end of the year. Strong investments in ensuring the quality of residential services for senior citizens following stricter requirements imposed by the authorities increased the personnel expenses. Permanent changes in the requirements of the authorities have an impact on Pihlajalinna's agreement prices.

The year 2019 had several phases. The healthcare and social welfare reform ran aground, but the new Government again included it in its government programme. Pihlajalinna has expanded its network of clinics in recent years also with an eye to the healthcare and social welfare reform. With the efficiency improvement programme, we reassessed the network of clinics and also reviewed the resourcing of operations from the point of view of profitability. We closed a few small clinics, but also opened new clinics in provincial centres, such as Rovaniemi and Vaasa, as planned.

Municipalities have clearly become more active, and several negotiations on outsourcing projects have been started. Municipalities' will to make their own social and healthcare service decisions and safeguard their own social and healthcare services became concrete in the partial outsourcing agreement concluded with the city of Kristiinankaupunki in December. The term of the contract is at least 15 years but not more than 20 years. According to the tendering documentation, the value of the agreement is approximately EUR 90 million, not taking index adjustments into account. The service production begins on 1 January 2021.

Pihlajalinna increased its holdings in municipal joint ventures during the fourth quarter, which strengthens the earnings per share. Pihlajalinna now has a holding of 90% in Kuusiolinna Terveys Oy, with the municipalities of Alavus, Ähtäri, Kuortane and Soini having a holding of 10%. Pihlajalinna has a 91% holding in Mäntänvuoren Terveys Oy and the city of Mänttä-Vilppula a holding of 9%. Furthermore, Pihlajalinna agreed on the procurement of three social and healthcare service buildings with the city of Mänttä-Vilppula. Already earlier in the year under review, Pihlajalinna increased its holding in Kolmostien Terveys Oy. Pihlajalinna has a 96% holding in the company, the city of Parkano a 4% holding.

The government's new healthcare and social welfare reform programme has good focal points from the point of view of Pihlajalinna: the key matter is investing in rapid access to care. Pihlajalinna aims at being a partner to the public sector. Therefore, we signed cooperation agreements with the Hospital District of Pirkanmaa and Heart Hospital. The cooperation becomes concrete in a new service for investigating heart-related symptoms, which will begin in February 2020.

The revenue of occupational healthcare increased by more than 25% year-on-year. The increase in the share of fixed-price services and development of operating models improved profitability. The total number of private customers increased to almost 200,000. The growth outlook in occupational healthcare services remains good.

From the point of view of private clinic operations, partnerships with insurance companies developed favourably during 2019. Pihlajalinna signed a cooperation agreement with Pohjola Insurance Ltd in May. Based on the highly successful pilot project, Pohjola Insurance has approved Pihlajalinna as a national service provider for its multi-supplier model. We aim to further strengthen the cooperation with insurance companies and improve Pihlajalinna's market position as a nationwide partner of insurance companies.

During the fourth quarter, Mehiläinen Yhtiöt Oy announced a cash tender offer recommended by the Board of Directors of Pihlajalinna Plc for all shares in Pihlajalinna Plc. Together, these two companies are even better positioned to provide effective healthcare and high-quality residential services and develop a digital service offering.

The merger is currently under review by the Finnish Competition and Consumer Authority. Based on currently available information, the tender offeror expects to obtain the approval of the authorities and complete the tender offer towards the end of the second quarter of 2020 or at the latest during the third quarter of 2020. Even if the merger does not realise, Pihlajalinna is in a good position thanks to its good public-sector references and operating models, well-known private clinics in the provinces and extensive insurance company partnerships.

Revenue by region

Pihlajalinna reports its revenue based on the following geographical regions: 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.

October–December 2019

EUR million	10–12/2019	%	10–12/2018	%	change
Southern Finland	31.1	21	29.5	21	1.6
Mid-Finland	82.5	55	79.3	56	3.2
Ostrobothnia	30.0	20	28.6	20	1.4
Northern Finland	3.9	3	3.2	2	0.7
Other operations	1.9	1	2.0	1	-0.1
Intra-Group sales	-15.8		-15.7		-0.1
Total consolidated revenue	**133.8**	**100**	**127.0**	**100**	**6.8**

Revenue for Southern Finland for the quarter amounted to EUR 31.1 (29.5) million, an increase of EUR 1.6 million, or 5.5 per cent. Revenue increased in South West Finland and the Helsinki Metropolitan Area as a result of increasing demand and expansion of the Forever fitness centre chain.

Revenue in Mid-Finland amounted to EUR 82.5 (79.3) million, an increase of EUR 3.2 million, or 4.1 per cent. The revenue increased as a result of the acquisition of Terveyspalvelu Verso in Savo, price adjustments to the service agreements on the social and healthcare outsourcings and sales to insurance companies.

Revenue for Ostrobothnia amounted to EUR 30.0 (28.6) million, an increase of EUR 1.4 million, or 5.0%. The revenue increased mainly due to a price adjustment to the service agreement on the social and healthcare outsourcing of the Kuusiokunnat municipalities.

Revenue in Northern Finland amounted to EUR 3.9 (3.2) million, an increase of EUR 0.7 million, or 22.4%. In particular, increased demand for occupational healthcare services increased the area’s revenue.

January–December 2019

EUR million	2019	%	2018	%	change
Southern Finland	118.2	20	107.6	20	10.6
Mid-Finland	324.1	56	311.9	57	12.3
Ostrobothnia	115.7	20	108.8	20	6.9
Northern Finland	14.7	3	12.3	2	2.4
Other operations	7.7	1	4.8	1	2.9
Intra-Group sales	-61.8		-57.6		-4.2
Total consolidated revenue	**518.6**	**100**	**487.8**	**100**	**30.8**

The full-year revenue for Southern Finland amounted to EUR 118.2 (107.6) million, an increase of EUR 10.6 million, or 9.9 per cent. Revenue increased in South West Finland and the Helsinki Metropolitan Area in particular as a result of increasing demand and expansion of the Forever fitness centre chain. Sales to insurance companies also increased. The growth in fertility treatments in the Helsinki Metropolitan Area reached 13 per cent during the financial year.

Revenue in Mid-Finland amounted to EUR 324.1 (311.9) million, an increase of EUR 12.3 million, or 3.9 per cent. The acquisition of Terveyspalvelu Verso in Savo, price adjustment of social and healthcare outsourcing and growth in the offering of services for senior citizens in Pirkanmaa as well as increased demand for occupational healthcare services contributed to the increase in the revenue for the area. In addition, the volumes of special needs residential services and sales to insurance companies increased. On the other hand, terminated agreements on health centre outsourcing and reception centre operations decreased revenue.

Revenue for Ostrobothnia amounted to EUR 115.7 (108.8) million, an increase of EUR 6.9 million, or 6.3%. Revenue for the area was increased by providing residential services for the elderly and mentally disabled in Laihia and price adjustments in accordance with the social and healthcare service agreement. In addition, the expansion of the Forever fitness centre chain to Vaasa increased the volumes in the area.

Revenue in Northern Finland amounted to EUR 14.7 (12.3) million, an increase of EUR 2.4 million, or 19.5%. In particular, increased demand for occupational healthcare services increased the area's revenue.

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.

October–December 2019

EUR million	10–12/2019	%	10–12/2018	%	change
Corporate customers	32.8	22	29.6	21	3.1
of which insurance company customers	7.9	5	6.7	5	1.2
Private customers	24.9	17	24.5	17	0.4
Public sector	91.9	61	88.5	62	3.4
Intra-Group sales	-15.8		-15.7		-0.1
Total consolidated revenue	**133.8**	**100**	**127.0**	**100**	**6.8**

Revenue from corporate customers amounted to EUR 32.8 (29.6) million, an increase of EUR 3.1 million, or 10.5%. Sales to insurance company customers increased by EUR 1.2 million, or 18.1%. The revenue for the quarter was increased by the nationwide Stora Enso account, which began 1 January 2019, and the acquisition of Terveyspalvelu Verso in late 2018.

Revenue from private customers amounted to EUR 24.9 (24.5) million, an increase of EUR 0.4 million, or 1.6%. The expansion of the Forever fitness centre chain increased the revenue from private customers.

Revenue from the public sector amounted to EUR 91.9 (88.5) million, an increase of EUR 3.4 million, or 3.8%. The revenue increased as a result of the price adjustment of social and healthcare outsourcing pursuant to the service agreements and growth in the offering of services for senior citizens. The sales of occupational healthcare services to public sector customers increased following the acquisition of Terveyspalvelu Verso.

January–December 2019

EUR million	2019	%	2018	%	change
Corporate customers	122.1	21	106.3	19	15.7
of which insurance company customers	27.6	5	25.2	5	2.4

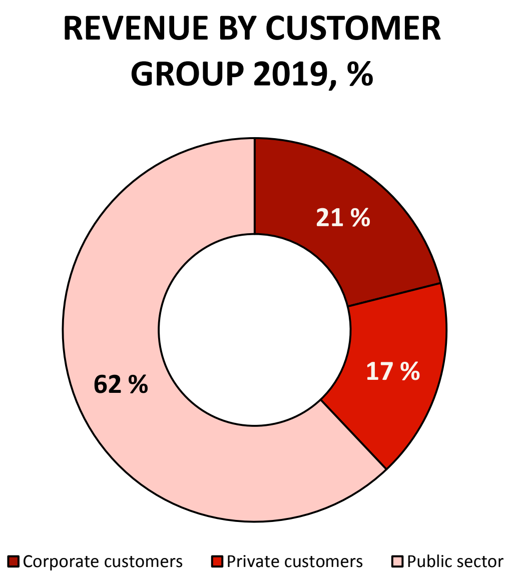
Private customers	97.8	17	93.0	17	4.8
Public sector	360.6	62	346.0	63	14.5
Intra-Group sales	-61.8		-57.6		-4.2
Total consolidated revenue	**518.6**	**100**	**487.8**	**100**	**30.8**

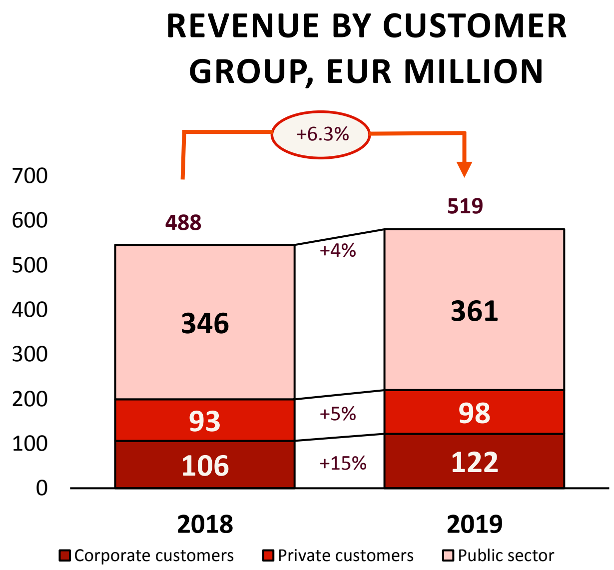
Revenue from corporate customers amounted to EUR 122.1 (106.3) million, an increase of EUR 15.7 million, or 14.8%. Sales to insurance company customers increased by EUR 2.4 million, or 9.6%. The revenue for the review period was increased by the Stora Enso account, which began 1 January 2019, the acquisition of Terveyspalvelu Verso in late 2018 and the favourable development of corporate customer accounts, particularly in the Turku region.

Revenue from private customers amounted to EUR 97.8 (93.0) million, an increase of EUR 4.8 million, or 5.1%. Revenue increased mainly following the acquisition and expansion of the Forever fitness centre chain. In addition, sales of the Turku, Oulu and Seinäjoki clinics in particular to private customers developed favourably.

Revenue from the public sector amounted to EUR 360.6 (346.0) million, an increase of EUR 14.5 million, or 4.2%. The revenue increased as a result of Pihlajalinna's responsible doctor services, price adjustments of social and healthcare outsourcing pursuant to service agreements and growth in the offering of services for senior citizens as well as the start of residential services provision in Laihia in September 2018.

Revenue by customer group 2019





Consolidated revenue and result

October–December 2019

Pihlajalinna's revenue for the quarter amounted to EUR 133.8 (127.0) million, an increase of EUR 6.8 million, or 5.4%, compared to the corresponding period last year. Organic revenue growth was EUR 3.9 million, or 3.1%. Revenue grew by EUR 2.9 million, or 2.2%, as a result of M&A transactions. The most significant of the M&A transactions was the acquisition of Terveyspalvelu Verso in late 2018.

EBITDA was EUR 12.3 (14.1) million, a decrease of EUR 1.8 million, or 12.9%. The volume and profitability of occupational healthcare services and sales to insurance companies developed favourably during the fourth quarter. Profitability was affected by the costs of public specialised care were concentrated towards the end of the year. Strong investments in ensuring the quality of residential services for senior citizens following stricter requirements imposed by the authorities increased the personnel expenses. Permanent changes in the requirements of the authorities have an impact on Pihlajalinna's agreement prices.

Adjusted EBITDA was EUR 14.4 (14.6) million, a decrease of EUR 0.1 million, or 0.8 per cent. EBITDA adjustments amounted to EUR 2.1 (0.4) million. The adjustments are associated with contingent assets pursuant to IAS 37 and costs resulting from the implementation of the tender offer.

Depreciation, amortisation and impairment amounted to EUR 8.6 (8.2) million. Depreciation of intangible assets amounted to EUR 1.9 (1.9) million, of which depreciation related to purchase price allocations amounted to EUR 1.1 (1.3) million. Depreciation of property, plant and equipment amounted to EUR 2.1 (1.8) million. For right-of-use assets, depreciation amounted to EUR 4.8 (4.4) million and impairment amounted to EUR -0.2 (0.0) million.

Pihlajalinna's EBIT was EUR 3.7 (5.9) million, a decrease of EUR 2.3 million. Adjusted EBIT amounted to EUR 5.6 (6.5) million, a decrease of EUR 0.9 million. The adjusted EBIT margin was 4.2 (5.1) per cent.

Pihlajalinna's revenue from public specialised care included in the complete outsourcing of social and healthcare services was EUR 22.3 (21.8) million. The EBITDA for public specialised care was EUR 0.6 (2.4) million with an EBIT of EUR 0.6 (2.3) million. 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, possible variable consideration 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 2.7 (4.9) million, a decrease of EUR 2.3 million. Taxes in the income statement amounted to EUR -0.6 (-1.3) million. The profit was EUR 2.1 (3.6) million. Earnings per share (EPS) was EUR 0.16 (0.11).

January–December 2019

Pihlajalinna's revenue for the financial year amounted to EUR 518.6 (487.8) million, an increase of EUR 30.8 million, or 6.3 per cent. Growth in revenue due to M&A transactions was EUR 17.4 million, or 3.6 per cent. The most significant factors contributing to the growth of revenue as a result of M&A transactions were the acquisition of Terveyspalvelu Verso in late 2018 and the acquisitions of the Forever fitness centre chain and Doctagon healthcare service company in the first quarter of 2018. Organic revenue growth was EUR 13.4 million, or 2.8%.

In June 2019, the group launched an efficiency improvement programme to achieve annual cost savings of approximately EUR 17 million. The reduction in costs for the past financial year achieved through the efficiency improvement programme were estimated to be approximately EUR 5 million. A non-recurring expense and impairment totalling EUR 7.4 million was recognised in relation to the efficiency improvement programme and reported as an adjustment item affecting comparability.

EBITDA was EUR 47.8 (44.8) million, an increase of EUR 3.0 million, or 6.7%. EBITDA was affected by a non-recurring expense of EUR 4.2 million recorded due to the efficiency improvement programme, consisting of a restructuring provision of EUR 2.4 million and a provision of EUR 1.8 million concerning onerous contracts.

Adjusted EBITDA was EUR 55.1 (45.9) million, an increase of EUR 9.2 million, or 20.1%. EBITDA adjustments amounted to EUR 7.3 (1.1) million. The volume and profitability of occupational healthcare services and sales to insurance companies developed in line with the objectives during the fourth quarter. Profitability was burdened by primary care and social care services in the complete outsourcings of social and healthcare services. Strong investments in ensuring the quality of residential services for senior citizens following stricter requirements imposed by the authorities increased the personnel expenses. Permanent changes in the requirements of the authorities have an impact on Pihlajalinna's agreement prices. Moreover, challenges in dental care and terminated agreements on health centre outsourcing and reception centre operations burdened the profitability for the financial year.

Depreciation, amortisation and impairment amounted to EUR 37.7 (31.6) million, an increase of EUR 6.1 million. Depreciation of intangible assets amounted to EUR 7.4 (7.1) million, of which depreciation related to purchase price allocations amounted to EUR 4.6 (5.1) million. Depreciation of property, plant and equipment amounted to EUR 7.7 (7.5) million. For right-of-use assets, depreciation amounted to EUR 19.3 (17.0) million and impairment amounted to EUR 3.2 (0.0) million.

Pihlajalinna's EBIT was EUR 10.2 (13.2) million, a decrease of EUR 3.0 million. EBIT was weighed down by non-recurring expenses amounting to EUR 7.4 million recognised in relation to the efficiency improvement programme and reported as an adjustment item affecting comparability. Adjusted EBIT amounted to EUR 20.8 (14.4) million, an increase of EUR 6.4 million. The adjusted EBIT margin was 4.0 (3.0) per cent.

Pihlajalinna's revenue from public specialised care included in the complete outsourcings of social and healthcare services was EUR 88.2 (86.4) million. The EBITDA for public specialised care was EUR 3.8 (2.5) million with an EBIT of EUR 3.5 (2.2) million. 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, possible variable consideration and operational economy surplus refunds may influence the costs of specialised care considerably during the financial year, and between financial periods, in Pihlajalinna's municipal companies.

The group's net financial expenses amounted to EUR -3.9 (-3.8) million. Profit before taxes amounted to EUR 6.3 (9.5) million. Taxes in the income statement amounted to EUR -1.8 (-2.7) million. The profit was EUR 4.5 (6.8) million. Earnings per share (EPS) was EUR 0.15 (0.16).

Seasonal variation

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

Market and legislative review

The Finnish social and healthcare service field is currently in a waiting state. The healthcare and social welfare reform is included in the Government programme, but municipalities taking initiative, for example, indicates that not everyone trusts in the completion of the reform during this government term any more.

In October 2019, the government issued additional information about the planned healthcare and social welfare reform. The objectives of the reform will be to reduce inequalities in health and wellbeing, safeguard equal and quality health and social services for all and improve the availability and accessibility of services, especially at the basic level. Further objectives are to ensure the availability of skilled labour, respond to the challenges of changes in society and curb the growth of costs.

The structural reform of health and social services will be based on 18 counties and five collaboration areas. The counties will be responsible for organising health and social services as well as rescue services. The structural reforms are based on the desire to ensure equal availability of services throughout Finland.

The focus of the healthcare and social welfare system will be shifted towards basic-level services and prevention to reduce the need for specialised care and demanding special services. Counties will mainly organise social and healthcare services as public services, with the private and third sectors serving as supplementary service providers.

Pihlajalinna's view is that partnerships between the public sector and private corporations are a good solution for satisfying the growing demand. During the past decade, services provided by private operators have increased strongly in care services and specialised care services. In specialised care, for example, private service providers' production increased by 15.3% annually in 2014–2017. This development has taken place without government guidance or decisions. There are major regional differences in access to specialised care, for example. A private service provider can significantly increase the speed of access to care, as every Finn has the right to quality services and high service availability.

More than 50% of municipal revenue is spent on social and healthcare services and two out of three Finnish municipalities reported a deficit in 2018. The population is ageing rapidly and the proportion of over 75-year-olds is set to grow by more than 50% by 2030. The annual margins of Pihlajalinna's partner municipalities have developed very favourably under joint venture structures compared to their peer municipalities. According to the most recent population forecast by Statistics Finland, 15 years from now there will be no counties in Finland where the birth rate exceeds the death rate if the birth rate were to remain at the current level. This presents challenges related to the organisation of social and healthcare services.

Activity has increased among municipalities, as they do not want to just wait for a potential reform but to ensure social and healthcare services and jobs. Several municipalities have commenced talks about outsourcings. The most recently announced were the plans of ten municipalities in the Päijät-Häme district to outsource their health centre operations with a joint venture model.

The private market situation remains the same and the amount of health insurance policies continues to grow. The private occupational healthcare market is expected to grow as many municipalities and other public sector entities are interested in divesting the occupational healthcare providers they currently own.

Consolidated statement of financial position and cash flow

At the end of the review period, Pihlajalinna Group's total statement of financial position amounted to EUR 438.4 (436.8) million. Consolidated cash and cash equivalents amounted to EUR 27.0 (36.3) million.

Net cash flow from operating activities in the quarter amounted to EUR 19.8 (24.2) million. Taxes paid amounted to EUR -1.1 (-1.6) million. The change in net working capital was EUR 8.6 (11.5) million.

The net cash flow from operating activities during the financial year amounted to EUR 36.8 (41.2) million. Taxes paid amounted to EUR -4.7 (-5.5) million. The change in net working capital was EUR -6.2 (1.6) million.

Net cash flow from investing activities totalled EUR -19.5 (-60.1) million for the financial year. Acquired business operations had an impact of EUR -4.9 (-40.9) million on net cash flow from investing activities. Investments in property, plant and equipment and intangible assets totalled EUR -15.4 (-19.6) million, and proceeds from the disposals of property, plant and equipment totalled EUR 0.8 (0.4) million.

The group's cash flow after investments (free cash flow) was EUR 17.4 (-18.8) million.

Net cash flow from financing activities during the financial year totalled EUR -26.7 (18.1) million. The change in financial liabilities, including changes in credit limits, amounted to EUR 7.7 (49.4) million. Payments for financial lease liabilities amounted to EUR -22.7 (-16.3) million, and interest paid and other financial expenses amounted to EUR -3.8 (-3.5) million. The net effect of the change in non-controlling interests on cash flow was EUR -1.3 (-6.4) million. In April 2019, Pihlajalinna Plc paid a total of EUR 2.3 (3.6) million in dividends. A total of EUR 4.4 (1.4) million in dividends was paid to non-controlling interests.

The group's gearing was 181.7% (136.6%). Interest-bearing net debt amounted to EUR 192.7 (178.0) million. The group paid EUR 1.5 (4.0) million in contingent considerations (earnout payments) during the financial year.

Return on capital employed was 2.9% (4.6%) and return on equity was 3.8% (5.7%).

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 adoption of IFRS 16 does not affect the calculation of financial covenants. The calculation of covenants will continue with the creditor banks in accordance with the accounting principles confirmed in the original financing arrangement (frozen GAAP). The group met the set covenants on 31 December 2019.

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 29.5 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.

Acquisitions and capital expenditure

Acquired entity	Month of acquisition	Industry	Domicile
Klaari Oy (Fit1 fitness centre chain) and its subsidiaries Fit1 Fitnessclub Länsi-Suomi Oy, 100% of the share capital	2/2019	Fitness centres	Espoo, Vaasa
Dalmed Oy, 100% of the share capital	4/2019	Occupational healthcare services	Kemiö

Kouvolan Työterveys ry (business operations)	6/2019	Occupational healthcare services	Kouvola
Aurinkoristeys, i.e. the occupational healthcare units of the town of Raisio (business operations)	9/2019	Occupational healthcare services	Raisio, Naantali

Gross investments, including acquisitions, amounted to EUR 44.1 (160.0) million. The group's gross investments in property, plant and equipment and intangible assets, which consisted of development investments, additional investments and replacement investments required for growth, amounted to EUR 12.6 (13.1) million during the financial year. Gross investments in connection with the opening of new units amounted to EUR 9.4 (9.3) million. Gross investments in relation to M&A transactions amounted to EUR 3.8 (79.3) million. Gross investments in right-of-use assets amounted to EUR 18.4 (58.4) million.

Pihlajalinna constructed a new assisted living facility for senior citizens in Laihia, under a subletting model, with capacity for 60 residents. The facility was commissioned at the end of October 2019. Pihlajalinna also acquired an assisted living facility from the municipality of Laihia in October. During the financial year, Pihlajalinna also renovated two smaller care homes that it acquired previously. The total value of the deal was approximately EUR 8.4 million.

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

At the end of the financial year, 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 deal is estimated at EUR 4-7 million depending on the planning of development of the buildings.

Acquisitions of non-controlling interests

At the end of the financial year, Pihlajalinna increased its holding in Kuusiolinna Terveys, a joint venture with the municipalities of Alavus, Ähtäri, Kuortane and Soini, and in Mäntänvuoren Terveys Oy, a joint venture with the city of Mänttä-Vilppula.

Following the share transactions in Kuusiolinna Terveys, Pihlajalinna holds 90% of Kuusiolinna Terveys Oy while the municipalities' holding is 10%. The shareholder and service agreements of Kuusiolinna Terveys Oy remain unchanged. Transactions were made with the municipalities of Alavus, Ähtäri and Soini, to which Pihlajalinna paid a total of EUR 16.3 million for the shares.

Following the share transactions in Mäntänvuoren Terveys Oy, Pihlajalinna holds 91% of Mäntänvuoren Terveys Oy while the holding of the city of Mänttä-Vilppula is 9%. The shareholder and service agreements of Mäntänvuoren Terveys Oy remain unchanged. Pihlajalinna paid EUR 2 million to the city of Mänttä-Vilppula for the shares.

In February 2019, the city of Parkano sold 15% of its shareholdings in Kolmostien Terveys to Pihlajalinna. Pihlajalinna paid EUR 1.2 million to the city of Parkano for the shares.

Company	Pihlajalinna's holding, 31 December 2018	Pihlajalinna's holding, 31 December 2019	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	51%	90%	2016	15
Mäntänvuoren Terveys Oy	81%	91%	2016	15
Kolmostien Terveys Oy	81%	96%	2015	15
Laihian Hyvinvointi Oy	81%	81%	2018	service voucher

Changes in group structure

The following changes in group structure were implemented during the financial year:

Merged company	Target company	Month of acquisition
Pihlajalinna Tampere Oy	Pihlajalinna Lääkärikeskukset Oy	1 January 2019
Doctagon Ab	Pihlajalinna Terveys Oy	1 January 2019
Anula Oy	Linnan Klinikka Oy	1 January 2019
Hammaslääkäripalvelu Savodent Oy, HammasPirta Oy, Paimion Hammaslääkäripalvelu Oy and Salon Hammaslääkärikeskus Oy	Tampereen Hammaspiste Oy (currently Pihlajalinna Hammasklinikat Oy)	1 January 2019
Hammaslääkärikeskus Mandibula Oy	Mandibula Raisio Oy	28 February 2019
Mandibula Raisio Oy	Pihlajalinna Hammasklinikat Oy	1 March 2019
Pihlajalinna Kymijoki Oy	Pihlajalinna Lääkärikeskukset Oy	3 June 2019
Ala-Malmin Hammaslääkärit Oy, Salon Lääkintälaboratorio Oy and Someron Lääkäriasema Oy	Pihlajalinna Lääkärikeskukset Oy	1 September 2019
Pihlajalinna Oulu Oy	Pihlajalinna Madetojanpuisto Oy (currently Pihlajalinna Oulu Oy)	1 September 2019
Etelä-Pohjanmaan Sydäntutkimuspalvelu Oy	Kompassi Lääkärikeskus Oy	1 September 2019
Pihlajalinna Parainen Oy	Pihlajalinna Turku Oy	3 September 2019
Fit1 Fitnessclub LänsiSuomi Oy	Klaari Oy	30 November 2019
Dalmed Oy	Pihlajalinna Turku Oy	31 December 2019

Research and development

Development costs that fulfilled the criteria for capitalisation amounted to EUR 0.5 (1.3) million during the financial year.

In the financial year 2019, development operations focused on a remote service model for municipal residents for use in social and healthcare outsourcing and mobile solutions, 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 financial year, the number of personnel was 5,815 (5,850), a decrease of 35 persons or 1%. The group's personnel averaged 4,515 (4,618) persons as full-time equivalents, a decrease of 103 persons or 2%. The group's employee benefit expenses totaled EUR 222.0 (208.4) million, an increase of EUR 13.6 million or 6%.

During the financial year, the number of personnel of Pihlajalinna increased by 150 persons due to expansion of operations. On 15 August 2019, Pihlajalinna announced that the co-operation negotiations that commenced in June had been completed. The negotiations resulted in the termination of some 180 positions, mainly through dismissals. Some of these redundancies took the form of retirement and other staffing reductions not offset through reorganising operations.

Management Team

At its meeting on 14 August 2019, Pihlajalinna Plc's Board of Directors appointed a new Management Team as part of the company's efficiency improvement programme. 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 and Head of Service Development and CIO Sanna Määttänen.

The Management Team positions of the following persons were discontinued on 15 August 2019: Minna Elomaa (Head of Business Operations, Southern Finland), Tero Järvinen (Head of Business Operations, Ostrobothnia), Ville Lehtonen (CFO), Stefan Wentjärvi (Sales Director and Head of Business Operations, Northern Finland) and Pauli Waroma (Head of Marketing and Communications).

Board of Directors

The Annual General Meeting on 4 April 2019 confirmed the number of the members of the Board of Directors as seven. Leena Niemistö, Kati Sulin, Seija Turunen and Mikko Wirén were re-elected and Matti Jaakola, Hannu Juvonen and Mika Manninen were elected as new members of 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

At its organising meeting on 4 April 2019, Pihlajalinna Plc's Board of Directors elected the following members to its committees:

Audit Committee: Seija Turunen (chairman), Matti Jaakola, Mika Manninen and Hannu Juvonen
Remuneration Committee: Mikko Wirén (chairman), Leena Niemistö and Kati Sulin

Remuneration of the members of the Board of Directors

The Annual General Meeting held on 4 April 2019 decided that the remuneration of the Board of Directors be kept unchanged, except for a reduction in the remuneration of the Vice-Chairman, and that the following annual remuneration be paid to the members of the Board of Directors to be elected at the General Meeting for the term of office ending at the close of the Annual General Meeting 2020: 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 the other members of the Board of Directors 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 4 April 2019 authorised the Board of Directors to decide on the acquisition of a maximum of 2,061,314 shares, which is approximately 9% 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 2020 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 2020 at the latest.

Auditors and auditing

At Pihlajalinna's Annual General Meeting held on 4 April 2019, KPMG Oy Ab, a firm of authorised public accountants was elected as the company's auditor for the financial year 1 January–31 December 2019. 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 outstanding was 22,620,135. The company has one share series, with each share entitling its holder to one vote at the Annual General Meeting. All shares bestow their holders with equal rights to dividends and other distribution of the company's assets. At the end of the financial year, the company had 11,752 (13,372) shareholders. The company does not hold any treasury shares. A list of the largest shareholders is available on the company's investor website at investors.pihlajalinna.fi.

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

Share-related information	10–12/2019	10–12/2018	2019	2018
No. of shares outstanding at the end of the period	22,620,135	22,620,135	22,620,135	22,620,135
Average no. of shares outstanding during the period	22,620,135	22,620,135	22,620,135	22,224,236
Highest price, EUR	15.88	11.06	15.88	15.28
Lowest price, EUR	10.40	8.56	8.70	8.56
Average price, EUR*	14.68	9.56	12.77	12.18
Closing price, EUR	15.28	8.62	15.28	8.62
Share turnover, 1,000 shares	2,127	830	4,062	6,182
Share turnover, %	9.4	3.7	18.0	27.8
Market capitalisation at the end of the period, EUR million	345.6	195.0	345.6	195.0

* 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 offer price represents a premium of approximately 46.0 % compared to the closing price of the Pihlajalinna share on Nasdaq Helsinki on 4 November 2019. The non-conflicted members of the Board of Directors of Pihlajalinna unanimously decided to recommend that the shareholders of Pihlajalinna accept the tender offer.

The Finnish Financial Supervisory Authority approved the tender offer document on 8 January 2020. The offer period commenced on 9 January 2020 at 9:30 a.m. (Finnish time) and it will expire on 19 March 2020 at 4:00 p.m. (Finnish time) at the earliest, unless extended or discontinued in accordance with, and subject to, the terms and conditions of the tender offer and applicable laws and regulations. Currently, the tender offer is expected to be completed towards the end of the second quarter of 2020 or at the latest during the third quarter of 2020. Any extension of the offer period will be announced by a stock exchange release as soon as practically possible.

Risk management

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

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

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 refer 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

The most essential risks and uncertainties affecting the group's operations are connected to the complete outsourcing agreements on social and healthcare services, material changes in 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.

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 additionally include variable consideration. 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 become accurate with a delay concerning complete outsourcing agreements according to management's estimate:

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 totalled approximately EUR 1.8 million at the time of the financial statements. Moreover, the balance sheet of Jämsän Terveys Oy includes other receivables amounting to a total of EUR 3.1 million from the city of Jämsä, associated with the increased costs of specialised care and increased regulatory requirements for services for senior citizens. According to the management's estimate, the customer will pay the receivables in full.

Kuusiolinna Terveys Oy has trade and other receivables totalling EUR 4.5 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 charging principles of variable consideration. The outstanding receivables are associated with increased regulatory requirements for services for senior citizens, costs of specialised care 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 1.2 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. The social and healthcare service property transaction agreed with the client will be implemented by 31 December 2020. According to the management's estimate, the customer will pay the receivables in full in conjuction with the implementation of the property transaction.

Kolmostien Terveys Oy has trade and other receivables of EUR 0.4 million from a client relating to the increased regulatory requirements for services for senior citizens. According to the management's estimate, the customer will pay the receivables in full.

On the date of the financial statements, the group's receivables include a total of EUR 1.6 million (EUR 2.8 million at the end of 2018) 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. In addition, the group has a total of EUR 0.2 million of overdue receivables from Kihniö and Juupajoki.

Goodwill impairment:

At the end of the financial year, goodwill on Pihlajalinna's statement of financial position amounted to EUR 173.6 (169.9) million. Pihlajalinna checks annually and, if necessary, quarterly, that the carrying amount of goodwill does not exceed the fair value. During the financial year, Pihlajalinna observed no indications of the carrying amount of goodwill being greater than its estimated recoverable amount. If negative changes were to occur in the development of Pihlajalinna's profit and growth, this could lead to an impairment of goodwill. This could have an unfavourable impact on Pihlajalinna's operating result and equity.

Segment reporting

Pihlajalinna reformed its management system and the structure of its Management Team as part of its efficiency improvement programme. In conjunction with the reform, some of the Management Team positions were discontinued. In addition, the company also established an operations management team as a new management team level directed by the COO Teija Kulmala. The changes took effect on 15 August 2019.

Pihlajalinna's previous operating structure had four geographical business areas: Mid-Finland, Southern Finland, Ostrobothnia and Northern Finland. Each business area was managed by a Head of Business Operations responsible for its performance, who is in charge of their area's business operations and service offering for both the private and the public sector. In the revised operating structure, COO Teija Kulmala is in charge of the profitability and resources of business operations and the group has one operating segment.

Flagging notifications

The company did not receive any flagging notifications under Chapter 9, Section 5 of the Securities Markets Act during the financial 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 investment period, i.e. 2019, 24 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 plan includes terms and conditions relating to change in control. According to them, 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.

The terms and conditions of the incentive scheme include special provisions for any change in control. Based on Mehiläinen's public tender offer, the above-mentioned provisions on change in control apply.

According to the fixed matching share plan, a total of 108,000 matching shares fall due to the 24 key employees who met the investment requirement if the change in control takes place. The fair value of the matching shares is EUR 1.7 million in accordance with the cash tender offer. An expense of EUR 0.3 million has been allocated to the financial year 2019 due to the share-based reward paid due to the change in control.

The Board of Directors' proposal for profit distribution

Due to the tender offer by Mehiläinen, the Board of Directors proposes no dividends to be paid for the financial year that ended on 31 December 2019. If the public tender offer does not realise, the Board of Directors will reconsider the matter.

Calculation of the parent company's distributable funds:

EUR	31 December 2019
Reserve for invested unrestricted equity	183,190,483.50
Retained earnings	21,915,498.62
Profit for the period	2,328,952.90
Capitalised development costs	-1,017,078.36
Total	**206,417,856.66**

Pihlajalinna Plc's Annual General Meeting is scheduled for Wednesday, 15 April 2020 in Tampere, Finland. The Board of Directors will decide on the notice of the General Meeting and the included proposals at a later date.

The annual report for 2019, including the Board of Directors' report and the financial statements, will be published on the company's investor website at investors.pihlajalinna.fi in week 12.

Events after the financial year

Mehiläinen Yhtiöt Oy commenced the recommended public cash tender offer for all shares in Pihlajalinna Plc on 9 January 2020

Mehiläinen Yhtiöt Oy and Pihlajalinna Plc announced on 5 November 2019 that they had entered into a combination agreement pursuant to which Mehiläinen undertook to make a voluntary recommended public cash tender offer for all issued and outstanding shares in Pihlajalinna.

The Finnish Financial Supervisory Authority has on 8 January 2020 approved the tender offer document relating to the tender offer. The acceptance period for the tender offer commenced on 9 January 2020 at 9:30 a.m. (Finnish time) and it will expire on 19 March 2020 at 4:00 p.m. (Finnish time) at the earliest, unless extended or discontinued in accordance with, and subject to, the terms and conditions of the tender offer and applicable laws and regulations. The tender offer is currently expected to be completed towards the end of the second quarter of 2020 or at the latest during the third quarter of 2020. The offeror will extend the offer period in accordance with, and subject to, the terms and conditions of the tender offer and applicable laws, to the extent necessary in order to satisfy the conditions to completion of the tender offer, including obtaining merger control clearance. Any possible extension of the offer period will be announced by way of a stock exchange release as soon as practically possible.

The Tender Offer Document has been available in Finnish from 9 January 2020 onwards at the headquarters of Mehiläinen, Pohjoinen Hesperiankatu 17 C, 6th floor, FI-00260 Helsinki, Finland, the headquarters of Nordea Bank Abp, Satamaradankatu 5, FI-00020 Nordea, Finland and at Nasdaq Helsinki, Fabianinkatu 14, FI-00130 Helsinki, Finland. The electronic version of the Tender Offer Document has been available in Finnish from 9 January 2020 onwards online at ostotarjous.mehilainen.fi, investors.pihlajalinna.fi/public-tender-offer and nordea.fi/osakkeet, and in English from 9 January 2020 onwards online at ostotarjous.mehilainen.fi, investors.pihlajalinna.fi/public-tender-offer.aspx?sc_lang=en and nordea.fi/equities.

Statement of the Board of Directors of Pihlajalinna Plc on the voluntary public cash tender offer of Mehiläinen Yhtiöt Oy

The Board of Directors of Pihlajalinna issued a statement on the tender offer as required by chapter 11, section 13 of the Finnish Securities Markets Act (746/2012, as amended) on 3 January 2020.

TENDER OFFER IN BRIEF
The cash consideration offered is EUR 16.00 for each share in Pihlajalinna. The consideration includes a premium of approximately

- 46 per cent compared to the closing price of the Pihlajalinna share on the official list of Nasdaq Helsinki Ltd (hereinafter referred to as "Nasdaq Helsinki") on 4 November 2019, being the last trading day before the announcement of the Tender Offer;
- 50.1 per cent compared to the volume-weighted average trading price of the Pihlajalinna share on the official list of Nasdaq Helsinki during the 3 months immediately preceding the announcement of the Tender Offer; and
- 52.7 per cent compared to the volume-weighted average trading price of the Pihlajalinna share on Nasdaq Helsinki during the 12 months immediately preceding the announcement of the Tender Offer.

The consideration offered is subject to the terms and conditions of the tender offer. According to the terms and conditions of the tender offer, should the number of issued and outstanding shares in Pihlajalinna change as a result of a share issue, reclassification, stock split or any other similar transaction with dilutive effect, or should Pihlajalinna distribute a dividend or otherwise distribute funds or any other assets to its shareholders, or should a record date with respect to any of the foregoing occur prior to the completion of the tender offer, the offered consideration will be reduced accordingly on a euro-for-euro basis.

It is the intention of Mehiläinen, subject to Mehiläinen acquiring more than ninety per cent (90%) of the issued and outstanding shares and voting rights in Pihlajalinna, to initiate mandatory redemption proceedings in accordance with the Finnish Limited Liability Companies Act (624/2006, as amended) to acquire the remaining shares in Pihlajalinna, and thereafter to cause Pihlajalinna's shares to be delisted from Nasdaq Helsinki as soon as reasonably practicable.

As required under applicable laws, Mehiläinen has, and will have at the completion of the tender offer, access to debt and equity funding in sufficient amounts to finance the payment of the aggregate offer price for all of the issued and outstanding shares in Pihlajalinna in connection with the Tender Offer (including in any mandatory redemption proceedings in accordance with the Limited Liability Companies Act). The debt financing is subject to customary certain funds financing conditions.

LocalTapiola General Mutual Insurance Company, MWW Yhtiö Oy, Fennia Mutual Insurance Company, LocalTapiola Mutual Life Insurance Company, Elo Mutual Pension Insurance Company, Leena Niemistö, funds advised by Fondita Fund Management Company Ltd., Ilmarinen Mutual Pension Insurance Company, Fennia Life Insurance Company Ltd. as well as certain other major shareholders of Pihlajalinna, have irrevocably undertaken to accept the Tender Offer, subject to certain customary conditions. Such undertakings concern approximately 63.2 per cent of the shares and votes in Pihlajalinna in the aggregate.

The completion of the Tender Offer is conditional on the fulfillment or waiver of certain conditions on or by the date on which offeror announces the final result of the tender offer. These conditions include the receipt of all necessary regulatory approvals and that the tender offer has been approved with regard to shares representing, together with any other shares otherwise acquired by the offeror prior to or during the offer period, more than ninety per cent of the issued and outstanding shares and voting rights in Pihlajalinna.

STATEMENT OF THE BOARD OF DIRECTORS
The Board of Directors believes that the offer price offered to the shareholders of Pihlajalinna is fair based on an assessment of the issues and factors that the Board of Directors has concluded to be material in evaluating the tender offer. The Board of Directors of Pihlajalinna recommends that the shareholders of Pihlajalinna accept the tender offer.

The Board of Directors further notes that according to offeror's notice, the offer period of the tender offer is intended to be extended so that the offeror expects that the tender offer would be completed towards the end of second quarter of 2020 or at the latest during the third quarter of 2020. The offer period may therefore be somewhat long. Pursuant to the Securities Market Act, the offer period may for special reasons be more than ten (10) weeks, provided that the business operations of the target company are not hindered for longer than reasonable. A notice of closing of the offer period shall be disclosed at least two (2) weeks prior to the closure of the offer period.

The Board of Directors notes that shareholders of Pihlajalinna should also consider the risks related to not accepting the tender offer. In case the condition of completion regarding reaching at least 90 % of shares and votes would be waived, the completion of the tender offer would reduce the number of shareholders in Pihlajalinna and the number of shares that would otherwise be publicly traded. Depending on the number of shares validly tendered in the tender offer, this could have an adverse effect on the liquidity and value of the shares.

The European Commission has referred the handling of the combination between Mehiläinen Yhtiöt Oy and Pihlajalinna Plc to the Finnish Competition and Consumer Authority

The European Commission decided on 28 January 2020 to refer the handling of the authority approval of Mehiläinen's tender offer to the Finnish Competition and Consumer Authority.

Mehiläinen Yhtiöt Oy has submitted a formal merger control notification regarding the public tender offer by Mehiläinen Yhtiöt Oy for the shares in Pihlajalinna Plc

Mehiläinen Yhtiöt Oy announced on 10 February 2020 that it has submitted the formal merger control notification concerning the authority approval to the Finnish Competition and Consumer Authority (FCCA).

According to the Finnish Competition Act, the first phase of the notification proceedings may not take more than 23 working days. The first phase will thus be completed no later than on 12 March 2020. The offeror believes, according to information currently available to the offeror, that it is more likely than not that the FCCA will, after the first phase Investigation, initiate continued second phase proceedings before the authority approval is obtained. According to the Finnish Competition Act, the second phase may not take more than 69 working days, unless the Finnish Market Court grants, upon application, an extension to the FCCA for investigating the case.

If the FCCA initiates the second phase investigation, the offeror will extend the offer period in accordance with, and subject to, the terms and conditions of the tender offer and applicable laws, in order to satisfy the conditions to completion of the tender offer, including obtaining the authority approval, provided that the business operations of Pihlajalinna are not hindered for longer than is reasonable, as referred to in Chapter 11, Section 12, Subsection 2 of the Finnish Securities Market Act. The offeror will decide on a possible extension of the offer period once the first phase investigation has progressed to a stage where the offeror is better placed to estimate the overall duration of the handling of the authority approval. Any possible extension of the offer period will be announced by the offeror through a stock exchange release as soon as practically possible.

Pihlajalinna Plc's Shareholders' Nomination Board submitted its proposals to the company's Board of Directors, to be presented to the Annual General Meeting of 2020.

The number of members and composition of the Board of Directors:
The Nomination Board proposes to the Annual General Meeting of Pihlajalinna Plc, scheduled to be held on 15 April 2020, that the number of the members of the Board be confirmed to be seven. The Nomination Board proposes that all of the current members of the Board of Directors, Matti Jaakola, Hannu Juvonen, Mika Manninen, Leena Niemistö, Kati Sulin, Seija Turunen and Mikko Wirén, be re-elected as members of the Board of Directors for a new term of office.

The personal details of the current members of the Board and the details of their positions of trust are available at investors.pihlajalinna.fi/corporate-governance/board-of-directors.

The Nomination Board further proposes that the Annual General Meeting elect Mikko Wirén as the Chairman of the Board and Leena Niemistö as the Vice-Chairman.

Remuneration of the Board of Directors
The Shareholders' Nomination Board proposes that the remuneration of the Board of Directors be kept unchanged, and that the following annual remuneration be paid to the members of the Board of Directors to be elected at the Annual General Meeting for the term of office ending at the close of the Annual General Meeting 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.

Additionally, the Nomination Board proposes that each member of the Board of Directors be paid an attendance fee of EUR 500 per Board or Committee meeting. Reasonable travel expenses will also be reimbursed to the members of the Board in accordance with the company's travel rules.

The above-mentioned proposals will also be included in the notice of the Annual General Meeting which is to be published at a later date.

Accounting policies

This financial statements release has been prepared in compliance with IFRS standards and the provisions of IAS 34 (Interim Financial Reporting). The information published in this financial statements release is unaudited. 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 the financial statements 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 financial statements release has been prepared in compliance with the IFRS standards currently endorsed for application in the European Union. The financial statements release 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 2019.

New or amended standards and interpretations effective in upcoming financial periods are not expected to have a significant impact on Pihlajalinna's financial statements.

Impacts of new and revised IFRS standards

IFRS 16 Leases

Pihlajalinna adopted IFRS 16 fully retrospectively by adjusting the financial figures for 2018 in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Pihlajalinna issued a release on 18 April 2019 to present restated comparable financial figures for each reporting period in 2018.

The IFRS 16 Leases standards covers the definitions, recording and measurement of leases as well as other financial statements provided regarding leases. According to the standard, the tenant records the asset item based on the right of use and the corresponding financial liability in the statement of financial position. The group adopted the new standard fully retrospectively. The effects of the date of transition 1 January 2018 are calculated as if the standard has always been valid.

The IFRS 16 Leases standard had a significant impact on the income statement, balance sheet and key figures of Pihlajalinna. The adoption of the standard considerably increased the EBITDA and adjusted EBITDA when the renting expense recorded in the income statement was replaced with depreciations of the right-of-use-asset as well as the interest costs of liability recorded in the financial items. In addition, the change in deferred taxes was recorded in the income tax. The adoption of the standard has not significantly changed Pihlajalinna's operating profit, adjusted operating profit, profit for the financial year or earnings per share.

The assets on the consolidated balance sheet were increased by the right-of-use asset calculated for the start of each lease and depreciated during the lease period. The amount of interest-bearing debt on the consolidated balance sheet increased with the discounted amount of lease liability. In addition, the transition to the new lease standard impacted the consolidated cash flow from operating activities as well as the cash flow from financing activities once the realised payments of rent are targeted at the cash flow from financing activities to the extent corresponding to the financial expenses and the partial payment of debt. Overall, the consolidated cash flow remains unchanged, but there are changes in the manner of representation between the different parts of the statement of cash flows. An entry in equity was created regarding the retroactive deployment of the new standard on the date of transition on 1 January 2018 when the values of assets and liabilities recorded in the statement of financial position differed on the date of transition.

Most of the Pihlajalinna rental arrangements in line with the IFRS 16 are leases for business premises. The other lease arrangements in line with the standard concern land areas, machinery and equipment (exercise equipment, clinical equipment, cars and other equipment). Pihlajalinna applies the IFRS 16 exemption that allows lessees to elect not to recognise a right-of-use asset and corresponding lease liability for assets with a lease term of 12 months or less as well as assets of low value. Assets of low value include, for example, IT equipment and office furniture. Furthermore, to make the accounting of leases easier, Pihlajalinna elects not to separate service components from leases, instead treating the entire agreement as a lease in its consolidated financial statements. For lease arrangements valid until further notice, with a short notice period, Pihlajalinna will estimate the probable lease term.

Key impacts of the IFRS 16 changes

- On the opening balance sheet of 1 January 2018, the group's right-of-use assets increased by EUR 41.5 million to EUR 73.1 million and the interest-bearing debt under liabilities increased by EUR 42.2 million to EUR 74.7 million.
- On the consolidated balance sheet of 31 December 2018, the group's right-of-use assets increased by EUR 86.7 million to EUR 116.0 million and the interest-bearing debt under liabilities increased by EUR 88.0 million to EUR 118.5 million.
- With the adoption of the standard, the operating profit for the financial year 2018 increased by EUR 0.4 million to EUR 13.2 million.

- Earnings per share for the financial year 2018 decreased by EUR 0.02. The comparable earnings per share for the financial year 2018 was EUR 0.16.
- The equity ratio of 31 December 2018 decreased by 7.7 percentage points to 29.9 per cent.
- Net gearing of 31 December 2018 increased by 67.9 percentage points to 136.6 per cent.
- The comparable indicator of net debt/adjusted EBITDA for the financial year 2018 was 3.9.

Pihlajalinna revised the presentation manner of the main calculations by adding rows in line with the IFRS 16 to the calculations. In addition, Pihlajalinna's statement of cash flows complies with an indirect calculation model.

The adoption of the standard does not affect the covenant calculations of the group's external financing arrangement. The calculation of covenants will continue with the creditor banks in accordance with the accounting principles confirmed in the original financing arrangement.

Pihlajalinna

Tables
1 January–31 December 2019

Consolidated statement of comprehensive income

EUR million	10–12/2019 3 months	10–12/2018 3 months	2019	2018
Revenue	**133.8**	**127.0**	**518.6**	**487.8**
Other operating income	0.7	1.9	1.6	4.2
Materials and services	-53.9	-48.1	-200.2	-189.2
Employee benefit expenses	-55.0	-53.3	-222.0	-208.4
Other operating expenses	-13.3	-13.3	-50.2	-49.5
Share of profit in associated companies and joint ventures	0.0	0.0	0.0	0.0
EBITDA	**12.3**	**14.1**	**47.8**	**44.8**
Depreciation, amortisation and impairment	-8.6	-8.2	-37.7	-31.6
Operating profit (EBIT)	**3.7**	**5.9**	**10.2**	**13.2**
Financial income	0.0	0.0	0.1	0.1
Financial expenses	-1.0	-1.0	-4.0	-3.9
Profit before taxes	**2.7**	**4.9**	**6.3**	**9.5**
Income tax	-0.6	-1.3	-1.8	-2.7
Profit for the period*	2.1	3.6	4.5	6.8
Total comprehensive income for the period	**2.1**	**3.6**	**4.5**	**6.8**
Total comprehensive income for the period attributable:				
To the owners of the parent company	3.7	2.5	3.4	3.5
To non-controlling interests	-1.6	1.1	1.1	3.3
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	0.16	0.11	0.15	0.16

* The group has no other comprehensive income items

Consolidated statement of financial position

EUR million	31 December 2019	31 December 2018
ASSETS		
Non-current assets		
Property, plant and equipment	53.2	43.3
Goodwill	173.6	169.9
Other intangible assets	19.1	22.9
Right-of-use assets	108.1	116.0
Interests in associates	0.0	0.0
Other investments	0.1	0.1
Other receivables	2.0	1.8
Deferred tax assets	6.0	4.1
Total non-current assets	**362.2**	**358.1**
Current assets		
Inventories	2.3	2.5
Trade and other receivables	46.1	38.1
Current tax assets	0.9	1.7
Cash and cash equivalents	27.0	36.3
Total current assets	**76.3**	**78.6**
Total assets	**438.4**	**436.8**
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	0.1	0.1
Reserve for invested unrestricted equity	116.5	116.5
Retained earnings	-18.8	1.1
Profit for the period	3.4	3.5
	101.1	**121.2**
Non-controlling interests	5.0	9.2
Total equity	**106.1**	**130.3**
Non-current liabilities		
Deferred tax liabilities	5.7	6.1
Provisions	0.2	0.3
Lease liabilities	96.4	102.0
Financial liabilities	103.9	95.7
Other non-current liabilities	1.3	1.5
Total non-current liabilities	**207.5**	**205.6**
Current liabilities		
Trade and other payables	102.0	79.5
Current tax liabilities	0.4	1.9
Provisions	1.6	0.0
Lease liabilities	17.7	16.5
Financial liabilities	3.1	3.0
Total current liabilities	**124.9**	**100.8**
Total liabilities	**332.4**	**306.4**
Total equity and liabilities	**438.4**	**436.8**

Pihlajalinna

Consolidated statement of changes in equity

	Equity attributable to owners of the parent				
EUR million	**Share capital**	**Reserve for invested unrestricted equity**	**Retained earnings**	**Non-controlling interests**	**Equity Total**
Total equity, 31 Dec. 2017	**0.1**	**87.9**	**12.3**	**5.6**	**105.9**
IFRS 15 adoption			0.0		0.0
IFRS 9 adoption			0.0		0.0
IFRS 16 adoption			-0.3	-0.1	-0.4
Total equity, 1 Jan. 2018	**0.1**	**87.9**	**12.0**	**5.4**	**105.4**
Profit for the period			3.5	3.3	6.8
Total comprehensive income for the period			**3.5**	**3.3**	**6.8**
Directed share issue		28.6			28.6
Dividends paid			-3.6	-1.2	-4.8
Investments in group subsidiaries			-0.1	2.5	2.4
Total transactions with owners		**28.6**	**-3.7**	**1.2**	**26.1**
Changes in NCI without a change in control			-7.2	-0.8	-8.0
Total changes in subsidiary shareholdings			**-7.2**	**-0.8**	**-8.0**
Total equity, 31 Dec. 2018	**0.1**	**116.5**	**4.6**	**9.2**	**130.3**

	Equity attributable to owners of the parent				
EUR million	**Share capital**	**Reserve for invested unrestricted equity**	**Retained earnings**	**Non-controlling interests**	**Equity Total**
Total equity, 1 Jan. 2019	**0.1**	**116.5**	**4.6**	**9.2**	**130.3**
Profit for the period			3.4	1.1	4.5
Total comprehensive income for the period			**3.4**	**1.1**	**4.5**
Dividends paid			-2.3	-4.9	-7.2
Investments in group subsidiaries			0.1	-0.1	0.0
Total transactions with owners			**-2.2**	**-5.0**	**-7.2**
Changes in NCI without a change in control		0.0	-21.2	-0.3	-21.5
Total changes in subsidiary shareholdings		**0.0**	-21.2	-0.3	-21.5
Total equity, 31 Dec. 2019	**0.1**	**116.5**	**-15.5**	**5.0**	**106.1**

Consolidated statement of cash flows

EUR million	10–12/2019 3 months	10–12/2018 3 months	2019	2018
Cash flow from operating activities				
Profit for the period	3.7	2.5	3.4	3.5
Cash flow adjustments for business operations:				
Taxes	0.6	1.3	1.8	2.7
Depreciation, amortisation and impairment	8.6	8.2	37.7	31.6
Financial income and expenses	1.0	1.0	3.9	3.7
Other	-1.6	1.2	1.0	3.4
Net cash generated from operating activities before change in working capital	12.2	14.2	47.7	**45.0**
Change in working capital	8.6	11.5	-6.2	1.6
Interest received	0.0	0.0	0.1	0.1
Taxes paid	-1.1	-1.6	-4.7	-5.5
Net cash flow from operating activities	**19.8**	**24.2**	**36.8**	**41.2**
Cash flows from investing activities				
Investments in tangible and intangible assets	-4.6	-5.1	-15.4	-19.6
Proceeds from disposal of property, plant and equipment and intangible assets and prepayments	0.3	0.0	0.8	0.4
Changes in other receivables and investments	0.0	0.0	0.0	0.0
Dividends received	0.0	0.0	0.0	0.0
Acquisition of subsidiaries less cash and cash equivalents at date of acquisition, net	0.0	-7.2	-4.9	-40.9
Net cash flow from investing activities	**-4.3**	**-12.3**	**-19.5**	**-60.1**
Cash flows from financing activities				
Changes in non-controlling interests			-1.3	-6.4
Proceeds from and repayment of borrowings	-1.5	2.9	7.7	49.4
Repayment of lease liabilities	-6.1	-4.2	-22.7	-16.3
Interest and other operational financial expenses	-0.8	-1.0	-3.8	-3.5
Dividends paid and other profit distribution	-4.4	-0.9	-6.7	-5.0
Net cash flow from financing activities	**-12.9**	**-3.2**	**-26.7**	**18.1**
Changes in cash and cash equivalents	2.6	8.7	-9.3	-0.8
Cash at beginning of period	24.4	27.6	36.3	37.1
Cash at end of review period	27.0	36.3	27.0	**36.3**

Contingent liabilities and commitments

EUR million	31 December 2019	31 December 2018
Collateral given on own behalf		
Pledged collateral notes		1.3
Sureties	1.4	0.4
Property VAT refund liability	1.7	
Lease commitments for off-balance sheet leases	1.0	1.3
Lease deposits	1.8	1.8

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, 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.

Related party transactions

EUR million	2019	2018
Key management personnel		
Rents paid	0.9	1.0
Services procured	1.0	1.2
Trade payables	0.0	0.1
Associated companies and joint ventures		
Services procured		0.0
Rents received		0.0

Changes in intangible assets

EUR million	31 December 2019	31 December 2018
Acquisition cost at beginning of period	217.4	137.8
Additions	3.6	5.4
Business combinations	3.7	74.2
Transfers between items	0.2	0.1
Disposals	-0.1	
Acquisition cost at end of period	224.7	217.4
Accumulated depreciation at beginning of period	-24.5	-17.3
Depreciation and amortisation for the period	-7.4	-7.1
Transfers between items	-0.2	-0.1
Accumulated depreciation on disposals	0.1	
Accumulated depreciation at end of period	-32.1	-24.5
Carrying amount at end of period	**192.7**	**192.8**

Changes in property, plant and equipment

EUR million	31 December 2019	31 De-cember 2018
Acquisition cost at beginning of period	79.7	60.0
Additions	18.4	17.0
Business combinations	0.0	3.8
Transfers between items	1.5	0.4
Disposals	-2.3	-1.5
Acquisition cost at end of period	97.4	79.7
Accumulated depreciation at beginning of period	-36.4	-29.8
Depreciation and amortisation for the period	-7.7	-7.5
Transfers between items	-1.5	-0.3
Accumulated depreciation on disposals	1.5	1.2
Accumulated depreciation at end of period	-44.1	-36.4
Carrying amount at end of period	**53.2**	**43.3**

Changes in right-of-use assets

EUR million	31 December 2019	31 December 2018
Acquisition cost at beginning of period	162.5	102.7
Additions	14.5	25.3
Disposals	-8.1	0.0
Business combinations	3.8	34.5
Acquisition cost at end of period	172.7	162.5
Accumulated depreciation at beginning of period	-46.5	-29.5
Depreciation and amortisation for the period	-22.5	-17.0
Accumulated depreciation on disposals	4.5	
Accumulated depreciation at end of period	-64.6	-46.5
Carrying amount at end of period	**108.1**	**116.0**

Acquired business operations, total

The acquisitions for the 2019 review period (Klaari Oy, Fit1 Fitnessclub LänsiSuomi Oy, Dalmed Oy, the business operations of Kouvola työterveys ry and the advance payment for the business operations of Aurinkoristeys) and the update of acquisition costs previously presented as preliminary are presented in total in the table below as they are not material in terms of individual review.

EUR million	2019
Consideration transferred:	
Cash	3.7
Total acquisition cost	**3.7**
The preliminary values of the assets and liabilities acquired for consideration at the time of acquisition were as follows:	
Property, plant and equipment	0.0
Intangible assets	0.1
Right-of-use assets	3.8
Available-for-sale financial assets	0.0
Deferred tax assets	0.0
Inventories	0.0
Trade and other receivables	0.2
Cash and cash equivalents	0.3
Total assets	**4.4**
Deferred tax liabilities	0.0
Interest-bearing financial liabilities	-4.0
Other liabilities	-0.3
Total liabilities	**-4.4**
Preliminary net assets	**0.1**
Goodwill generated in the acquisition:	
Consideration transferred	3.7
Share of the acquisition allocated to non-controlling interests	0.0
Net identifiable assets of acquirees	-0.1
Preliminary goodwill	**3.7**
Transaction price paid in cash:	3.7

Cash and cash equivalents of acquirees	-0.3
Preliminary effect on cash flow*	**3.4**
*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	3.4
Contingent consideration paid during the period	1.5
Total	**4.9**

EUR 0.1 million of the costs related to the foregoing acquisitions have been recorded under other operating expenses (IFRS 3 costs).

Revenue and profits from acquired business operations from the date of acquisition, revenue totalling EUR 2.9 million, and operating profit totalling EUR 0.0 million are included in the group's comprehensive income statement.

Pro forma
Had the acquisitions of 2019 been consolidated since the beginning of the financial year 2018, the consolidated revenue for the financial year would have amounted to EUR 520.1 million and operating profit would have totalled EUR 10.3 million.

Quarterly information

EUR million	Q4/19	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18
INCOME STATEMENT								
Revenue	133.8	122.7	129.7	132.5	127.0	116.3	125.3	119.2
EBITDA	12.3	12.9	10.4	12.2	14.1	14.3	9.1	7.3
EBITDA, %	9.2	10.5	8.1	9.2	11.1	12.3	7.3	6.1
Adjusted EBITDA	14.4	17.4	10.8	12.6	14.6	14.2	10.2	6.9
Adjusted EBITDA, %	10.8	14.2	8.3	9.5	11.5	12.3	8.1	5.8
Depreciation and amortisation	-8.6	-11.5	-8.8	-8.6	-8.2	-8.2	-8.1	-7.0
Operating profit (EBIT)	3.7	1.4	1.6	3.5	5.9	6.0	1.0	0.3
Operating profit, %	2.7	1.1	1.2	2.7	4.7	5.2	0.8	0.2
Adjusted EBIT	5.6	9.3	2.1	3.9	6.5	6.0	2.0	-0.1
Adjusted EBIT, %	4.2	7.5	1.6	3.0	5.1	5.2	1.6	-0.1
Financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial expenses	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-0.9	-0.9
Profit before taxes	2.7	0.4	0.6	2.5	4.9	5.1	0.1	-0.6
Income tax	-0.6	-0.3	-0.3	-0.7	-1.3	-1.2	-0.2	0.0
Profit for the period	2.1	0.1	0.4	1.9	3.6	3.9	-0.1	-0.7
Share of the result for the period attributable to owners of the parent company	3.7	-1.3	-0.5	1.4	2.5	2.2	0.0	-1.3
Share of the result for the period attributable to non-controlling interests	-1.6	1.4	0.9	0.4	1.1	1.7	-0.1	0.6
EPS	0.16	-0.06	-0.02	0.06	0.11	0.10	0.00	-0.06
Personnel at the end of the period (NOE)	5 815	5,936	6,100	5,871	5,850	5,867	5,918	5,638
Change in personnel during the quarter	-121	-164	230	21	-17	-51	280	885

Tax footprint

EUR million	2019	2018
Direct tax payable for the period		
Income tax (business income tax)	4.1	5.1
Employer’s pension contributions	31.0	29.4
Social security contributions	2.1	1.5
Employer’s unemployment insurance contributions	2.6	4.3
Contribution to accident insurance and group life insurance	0.8	0.9
Employer contributions, total	36.4	36.1
Property taxes	0.1	0.1
Transfer taxes	0.2	1.2
Direct tax payable for the period, total	**40.8**	**42.4**
Value added tax of acquisitions payable by the company		
Value added taxes, estimate	**12.3**	**12.4**
Tax for the period		
Withholding taxes	45.1	44.7
Employee pension contributions, deferred	13.0	11.7
Employee unemployment insurance contributions, notional	2.7	3.3
Payroll tax, total	60.8	59.7
Net value-added tax	0.9	0.6
Total tax for the period	**61.7**	**60.3**
Revenue	**518.6**	**487.8**
Profit before taxes	**6.3**	**9.5**
Average number of personnel (FTE)	**4 515**	**4,618**
Public subsidies	**0.7**	**1.3**

Calculation of key financial figures and alternative performance measures

Key figures

Earnings per share (EPS) = $\frac{\text{Profit for the financial period attributable to owners of the parent company}}{\text{Average number of shares during the financial year}}$

Alternative performance measures

Equity per share = $\frac{\text{Equity attributable to owners of the parent company}}{\text{Number of shares at the end of the financial period}}$

Dividend per share = $\frac{\text{Dividend distribution for the financial year (or proposal)}}{\text{Number of shares at the end of the financial period}}$

Dividend/result, % = $\frac{\text{Dividend per share}}{\text{Earnings per share (EPS)}} \times 100$

Effective dividend yield, % = $\frac{\text{Dividend per share}}{\text{Closing price for the financial year}} \times 100$

P/E ratio = $\frac{\text{Closing price for the financial year}}{\text{Earnings per share (EPS)}}$

Share turnover, % = Number of shares traded during the period x 100

	Average number of shares	
Return on equity (ROE), %	Profit for the period (rolling 12 months) / Equity (average)	x 100
Return on capital employed, % (ROCE)	Profit before taxes (rolling 12 months) + financial expenses (rolling 12 months) / Total statement of financial position – non-interest-bearing liabilities (average)	x 100
Equity ratio, %	Equity / Total statement of financial position – prepayments received	x 100
Gearing, %	Interest-bearing net debt - cash and cash equivalents / Equity	x 100
EBITDA	Operating profit + depreciation, amortisation and impairment	
EBITDA, %	Operating profit + depreciation, amortisation and impairment / Revenue	x 100
Adjusted EBITDA*	Operating profit + depreciation, amortisation and impairment + adjustment items	
Adjusted EBITDA, %*	Operating profit + depreciation, amortisation and impairment + adjustment items / Revenue	x 100
Net debt/Adjusted EBITDA*, rolling 12 months	Interest-bearing net debt - cash and cash equivalents / 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, %*	Adjusted operating profit (EBIT) / Revenue	x 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, %	Revenue for the period - revenue from M&A transactions for the period - revenue for the previous period / Revenue for the previous period	x 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	10–12/2019 3 months	10–12/2018 3 months	2019	2018
Return on equity (ROE), %				
Profit for the period (rolling 12 months)/			4.5	6.8
Equity at beginning of period			130.3	105.4
Equity at end of period			106.1	130.3
Equity (average) x 100			118.2	117.9
Return on equity (ROE), %			**3.8**	**5.7**

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.

EUR million, unless otherwise stated	10–12/2019 3 months	10–12/2018 3 months	2019	2018
Return on capital employed (ROCE), %				
Profit before taxes (rolling 12 months) +			6.3	9.5
Financial expenses (rolling 12 months)			4.0	3.9
/			10.3	13.4
Total statement of financial position at beginning of period -			436.8	295.6
non-interest-bearing liabilities at beginning of period			78.2	76.7
			358.6	218.8
Total statement of financial position at end of period -			438.4	436.8
Non-interest-bearing liabilities at end of period			97.2	78.2
			341.3	358.6
Average x 100			349.9	288.7
Return on capital employed (ROCE), %			**2.9**	**4.6**

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.

EUR million, unless otherwise stated	10–12/2019 3 months	10–12/2018 3 months	2019	2018
Equity ratio, %				
Equity/			106.1	130.3
Total statement of financial position -			438.4	436.8
Advances received x 100			1.1	0.9
Equity ratio, %			**24.3**	**29.9**

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

Gearing, %				
Interest-bearing financial liabilities -			219.7	214.3
Cash and cash equivalents/			27.0	36.3
Equity x 100			106.1	130.3
Gearing, %			**181.7**	**136.6**

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

Net debt/adjusted EBITDA, rolling 12 months				
Interest-bearing financial liabilities -			219.7	214.3
Cash and cash equivalents			27.0	36.3
Net debt/			192.7	178.0
Adjusted EBITDA (rolling 12 months)			55.1	45.9
Net debt/adjusted EBITDA, rolling 12 months			**3.5**	**3.9**

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.

	10–12/2019 3 months	**10–12/2018 3 months**	**2019**	**2018**
EBITDA and adjusted EBITDA				
Profit for the period	2.1	3.6	4.5	6.8
Income tax	-0.6	-1.3	-1.8	-2.7
Financial expenses	-1.0	-1.0	-4.0	-3.9
Financial income	0.0	0.0	0.1	0.1
Depreciation, amortisation and impairment	-8.6	-8.2	-37.7	-31.6
EBITDA	**12.3**	**14.1**	**47.8**	**44.8**
Total EBITDA adjustments	2.1	0.4	7.3	1.1
Adjusted EBITDA	**14.4**	**14.6**	**55.1**	**45.9**

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

EBITDA, %				
EBITDA/	12.3	14.1	47.8	44.8
Revenue x 100	133.8	127.0	518.6	487.8
EBITDA, %	**9.2**	**11.1**	**9.2**	**9.2**
Adjusted EBITDA, %				

Adjusted EBITDA/	14.4	14.6	55.1	45.9
Revenue x 100	133.8	127.0	518.6	487.8
Adjusted EBITDA, %	**10.8**	**11.5**	**10.6**	**9.4**
Operating profit (EBIT) and Adjusted operating profit (EBIT)				
Profit for the period	2.1	3.6	4.5	6.8
Income tax	-0.6	-1.3	-1.8	-2.7
Financial expenses	-1.0	-1.0	-4.0	-3.9
Financial income	0.0	0.0	0.1	0.1
Operating profit (EBIT)	**3.7**	**5.9**	**10.2**	**13.2**
Total adjustments to depreciation, amortisation and impairment	-0.2	0.1	3.3	0.1
Total EBITDA adjustments	2.1	0.4	7.3	1.1
Total operating profit (EBIT) adjustments	1.9	0.6	10.6	1.2
Adjusted operating profit (EBIT)	**5.6**	**6.5**	**20.8**	**14.4**

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

Operating profit (EBIT), %				
Operating profit/	3.7	5.9	10.2	13.2
Revenue x 100	133.8	127.0	518.6	487.8
Operating profit (EBIT), %	**2.7**	**4.7**	**2.0**	**2.7**
Adjusted operating profit (EBIT), %				
Adjusted operating profit (EBIT)/	5.6	6.5	20.8	14.4
Revenue x 100	133.8	127.0	518.6	487.8
Adjusted operating profit (EBIT), %	**4.2**	**5.1**	**4.0**	**3.0**
Cash flow after investments				
Net cash flow from operating activities	19.8	24.2	36.8	41.2
Net cash flow from investing activities	-4.3	-12.3	-19.5	-60.1
Cash flow after investments	**15.4**	**11.9**	**17.4**	**-18.8**

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

Profit before taxes				
Profit for the period	2.1	3.6	4.5	6.8
Income tax	-0.6	-1.3	-1.8	-2.7
Profit before taxes	**2.7**	**4.9**	**6.3**	**9.5**
Gross investments				
Property, plant and equipment at the end of the period	53.2	43.3	53.2	43.3
Right-of-use assets at the end of the period	108.1	116.0	108.1	116.0

Other intangible assets at end of period	19.1	22.9	19.1	22.9
Goodwill at end of period	173.6	169.9	173.6	169.9
Depreciation, amortisation and impairment for the period are added	8.6	8.2	37.7	31.6
-				
Property, plant and equipment at the start of the period	47.6	41.0	43.3	30.3
Right-of-use assets at the start of the period	110.5	117.6	116.0	73.1
Other intangible assets at beginning of pe-riod	19.9	22.1	22.9	16.6
Goodwill at beginning of period	173.6	163.0	169.9	103.9
Proceeds from the sale of property, plant and equipment during the period	-2.1	0.1	-4.5	-0.3
Gross investments	**13.1**	**16.6**	**44.1**	**160.0**
Organic revenue growth, %				
Revenue for the period -	133.8	127.0	518.6	487.8
Revenue from M&A transactions during the period (rolling 12 months) -	2.9	**17.6**	17.4	**65.7**
Revenue for the previous period	127.0	107.9	487.8	424.0
Organic revenue growth/	**3.9**	**1.4**	**13.4**	**-2.0**
Revenue for the previous period x 100	127.0	107.9	487.8	424.0
Organic revenue growth, %	**3.1**	**1.3**	**2.8**	**-0.5**
Revenue growth due to M&A transactions, %	**2.2**	**16.3**	**3.6**	**15.5**
Revenue growth	**6.8**	19.0	**30.8**	63.8
Revenue growth, %	**5.4**	17.6	**6.3**	15.0

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	10–12/2019 3 months	10–12/2018 3 months	2019	2018
EBITDA	**12.3**	**14.1**	**47.8**	**44.8**
Adjustments to EBITDA				
Closure of operating locations		0.0		0.0
Previous holding of subsidiary at fair value				-1.0
Dismissal-related expenses	0.0		3.0	0.6
Profit from divestment of business operations		0.0		0.0
Change in fair value of contingent consideration		0.1	0.3	1.2
IAS 37, contingent assets			1.8	
Onerous contracts	1.8		1.8	
Other	0.3	0.3	0.3	0.3
Adjustments to EBITDA in total	**2.1**	**0.4**	**7.3**	**1.1**

Adjusted EBITDA	**14.4**	**14.6**	**55.1**	**45.9**
Depreciation, amortisation and impairment	-8.6	-8.2	-37.7	-31.6
Adjustments to depreciation, amortisation and impairment				
Closure of operating locations	-0.2	0.1	3.3	0.1
Adjustments to depreciation, amortisation and impairment in total	**-0.2**	**0.1**	**3.3**	**0.1**
Adjusted operating profit (EBIT)	**5.6**	**6.5**	**20.8**	**14.4**
Operating profit (EBIT)	**3.7**	**5.9**	**10.2**	**13.2**

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

EUR million	**10–12/2019 3 months**	**10–12/2018 3 months**	**2019**	**2018**
Revenue	1.8		1.8	
Other operating income		0.0		-1.0
Employee benefit expenses	0.3		3.6	0.6
Other operating expenses		0.4	1.9	1.5
EBITDA adjustment items total	**2.1**	**0.4**	**7.3**	**1.1**
Depreciation, amortisation and impairment	-0.2	0.1	3.3	0.1
Operating profit adjustment items total	**1.9**	**0.6**	**10.6**	**1.2**

Pihlajalinna's financial reporting and Annual General Meeting in 2020

Interim report January–March: Friday, 8 May 2020
Half-year financial report January–June: Friday, 14 August 2020
Interim report January–September: Wednesday, 4 November 2020

Pihlajalinna Plc's Annual General Meeting is scheduled for Wednesday, 15 April 2020 in Tampere, Finland.

Briefing

Pihlajalinna Plc will hold a briefing for analysts and the media on Friday, 14 February 2019 at 10:00 a.m. in the Paavo Nurmi room at Hotel Kämp, Pohjoisesplanadi 29, 00100 Helsinki, Finland.

Helsinki, 13 February 2020
The Board of Directors of Pihlajalinna Plc

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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.