

TERVEYSTALO PLC ANNUAL REVIEW

2017



Terveystalo

WE PROMOTE THE HEALTH OF FINNS



Private healthcare has a vital role in society, supplementing public services. Terveystalo actively cooperates with other social operators to promote the wellbeing of Finns and to resolve healthcare-related challenges. Our customer-oriented high-quality services promote the health of Finns and, thereby, the wellbeing of Finnish society as a whole. We introduce new, cost-effective practices to the sector, aiming to shift the emphasis from treatment of illnesses to preventive healthcare and promotion of health. We aim to identify health risks as early as possible and help our customers to make choices that promote their wellbeing.

Our values – know-how and caring – steer our operations at all levels. Clinical quality, customer-oriented and proactive treatment, as well as continuous improvement of operational efficiency are at the core of our strategy.

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THE ABILITY TO CHANGE
AND EVOLVE IS OUR
STRENGTH.



A STRONG POSITION IN PRIVATE HEALTHCARE BOOSTS GROWTH

The year 2017 was remarkable for us at Terveystalo: Terveystalo was listed on the main list of the Helsinki Stock Exchange, and Diacor and Porin Lääkäritalo were incorporated as part of Terveystalo. At the same time, we continued our systematic work to enhance our business and clinical quality.

Every year, Terveystalo attends to over five million patients, and every single one of these encounters is important for us and the patient alike. We want to make sure that healthcare services are available to everyone in Finland, either physically or, in the future and as applicable, digitally. In addition, we want our customers to feel that they always get value for their money in terms of the availability, quality, and effectiveness of the services. Our objective is to be a long-term partner to our customer. A partner that not only treats illnesses but, increasingly, helps to prevent illnesses and to promote health and wellbeing. Terveystalo's occupational healthcare services are a pioneer example of preventive healthcare.

We promote the health of Finns

Terveystalo's services cover the entire country, constituting a significant contributor to the national economy. Keeping Finns fit for work ensures the competitiveness of companies, as well as society's ability to secure basic services for the rest of the population, such as children and the elderly. We want to actively challenge and develop Finnish healthcare services – its comparability, transparency, and quality – and promote a customer-oriented approach in the healthcare sector.

Terveystalo's Initial Public Offering (IPO) in October 2017 was the largest IPO in the Nordic countries in 2017. It was great to see how much interest the IPO attracted, both in Finland and internationally. Terveystalo's IPO was multiple times oversubscribed, and it received strong support from Finnish and international institutional investors and 12,000 new private investors. After the IPO, ownership of Terveystalo is strongly Finnish, which we are particularly proud of. In January 2018, Terveystalo was awarded the Key Flag symbol in recognition of domestic service production and employment effect in Finland.

The IPO means also increased transparency of reporting in the company. In April 2018, Terveystalo will publish a Quality and Corporate Responsibility Book in continuation to the Quality Book published last year. In this book, we will describe Terveystalo's corporate responsibility work and quality development in more detail, using real-life examples.

The healthcare revolution

Today, the healthcare industry is progressing by leaps and bounds. Digitalization, globalization, and the transition seen in work and consumer behavior are also visible in healthcare. The ageing of the population, the sustainability deficit, the dependency ratio, and major public health problems increase demand for high-quality healthcare services. At the same time, the intensifying competition speeds up the transformation in the sector through means such as new innovations. The objective of the social and health service reform has been to reduce differences in wellbeing and health between people, improve equal availability of services and restrain costs. In this area, too, steps were taken in the right direction.

In this operating environment, Terveystalo must be able to respond to the challenges presented to it. Reform of healthcare services requires an open-minded attitude to challenging both ourselves and the processes. Development of online services and the quality of treatment are good examples of our systematic customer-oriented and quality-focused work. As proof of this, our Oma Terveys service had over 658,000 users at the end of 2017, and nearly 321,000 customers had downloaded the mobile application. We want to create value for our customers and society, value that is not created solely by carrying out discussions on structures. It is created by developing the ways we operate, and we want to be forerunners in this.

Finally, I would like to thank the entire Terveystalo personnel for the great year 2017. I am very proud that we successfully finished demanding projects, such as the acquisitions and the IPO, while increasing our market share. Yet, everything we do is based on genuine encounters with people every day. An open and curious mind is an important element of our culture; the ability to change and evolve is our strength.

It is good to continue from here.



Yrjö Närhinen
Chief Executive Officer



TERVEYSTALO'S HIGHLIGHTS IN 2017

JANUARY

Costs of work not carried out were made visible through the Polku service. Sick leaves and disability pensions constitute a great item of expenditure in Finland, both in the private and public sectors. Their efficient prevention is based on close collaboration between employers, occupational healthcare services, and employment pension insurers in work ability management. The new Polku service for joint customers of Terveystalo and the pension insurance company Varma was launched in January 2017. It makes costs of work not carried out visible to the company management. The service helps companies to efficiently manage personnel productivity and work ability risks.

At the beginning of 2017, Terveystalo took over the responsibility for providing occupational healthcare services for the municipalities of Pori, Merikarvia, Pomarkku and Ulvila in the Satakunta region, and Akaa, Ikaalinen, Sastamala, Punkalaidun, Urjala, Pirkkala, Lempäälä, Ylöjärvi, Nokia, Vesilahti and Kangasala in the Pirkanmaa region. These outsourcing arrangements for municipal occupational healthcare saw 30,000 new occupational healthcare customers transferred to Terveystalo, along with approximately 100 employees who previously worked in occupational healthcare services for the municipalities.

Porin Lääkäritalo became part of Terveystalo at the beginning of January. Terveystalo became the market leader in Pori.

MARCH

In November 2016, Terveystalo and Helsinki Deaconess Institute Foundation sr entered into an agreement for sale of Diacor to Terveystalo. The acquisition was cleared on 23 March 2017 by the Finnish Competition and Consumer Authority and the transaction was completed on 24 March 2017. With the acquisition, Helsinki Deaconess Institute became a large owner of Terveystalo.

Terveystalo expanded its dental care network during the year. At the end of 2017, Terveystalo had dental clinics in approximately 20 municipalities.

The following dental care operators were acquired by Terveystalo: Kymppihammas Oy in Lahti, Forssan Erikoishammaslääkärit Oy in Forssa, Läkkitorin Hammaslääkäriasema in Espoo, Crossdental Oy in Iisalmi and Hämeenlinna, and Hammas Jaarli Oy in Turenki. Terveystalo also established new dental clinics during the year in the Iso Omena shopping mall in Espoo, as well as in Kamppi in Helsinki and in the Dixi shopping mall in Vantaa's Tikkurila district.

Terveystalo participated in freedom of choice pilot projects in Ylä-Savo, Hämeenlinna and Central Uusimaa during the year.

FEBRUARY

Terveystalo was granted the new ISO 9001:2015 quality certificate. Terveystalo was the first nationwide company in the industry to be granted the new ISO 9001:2015 quality certificate on February 17, 2017. As a forerunner in quality improvement work, Terveystalo has undertaken to foster and promote high quality.

APRIL

Terveystalo was honored as an international forerunner in digital healthcare. Terveystalo's systematic work to improve the quality and effectiveness of healthcare was rewarded in the international Healthcare Business Model Innovation Awards 2017 gala. Terveystalo was recognized for its in-house developed digital tool, "Etydi", for the monitoring of the effectiveness of treatment. It helps to identify risk groups and target preventive measures at them. Good results have been achieved with the tool in the treatment of type 2 diabetes, for example.

MAY

Terveystalo continued spurring Finnish healthcare services by publishing the first Quality Book in the industry. In Finland, no comprehensive data are published on the quality of the medical treatment provided by the players in the field. However, the freedom of choice and quality comparisons require transparency of information for patients. In the first Quality Book in the healthcare industry, Terveystalo discloses its results to everyone.

JUNE

Diacor's units in the Helsinki metropolitan area began to operate under Terveystalo brand since June, bringing the number of Terveystalo clinics in the Helsinki metropolitan area to 25.

OCTOBER

The 2017 annual review of work left undone was published – billions of savings can be achieved through management of work ability. The 2017 annual review of work left undone reveals that the total cost of incapacity for work has continued to decrease in Finland. On average, companies that participated in the annual survey between 2008 and 2016 have managed to cut the cost of the work left undone by 1.32 percentage points in relation to wages and salaries. If all Finnish employers achieved the same result, the total savings would amount to approximately EUR 1.3 billion in just one year. However, there is still a lot of room for improvement: in spite of decreased total costs, the annual review data reveal that average work disability pension contributions and workplace accident insurance contributions started to grow again between 2015 and 2016.

Terveystalo Plc went public on the main list of Nasdaq Helsinki October 13, 2017. Terveystalo's IPO was the largest IPO of the year on Nasdaq Nordic stock exchanges. The IPO was oversubscribed, and after the IPO, Terveystalo had over 12,000 shareholders.

SEPTEMBER

Terveystalo challenged Finns to beat major public health problems. Major public health problems still have a considerable impact on Finnish citizens' quality of life, and they increase healthcare costs. The treatment costs of diabetes and its complications alone amount to nearly three billion euros a year. Early retirement and sick leaves caused by major public health problems increase the costs by approximately one billion euros. In order to beat these public health problems, Terveystalo wants to draw attention to the quality of healthcare and promote discussion on preventive work. The objective of the campaign is to find a target for a donation of EUR 50,000 to support the prevention or treatment of a chosen public health problem.

DECEMBER

The Strong Bones campaign offered free-of-charge osteoporosis screening tests to over 6,300 Finnish women. The purpose of the Finland 100 project was to increase awareness of osteoporosis and its treatment and prevention. The campaign attracted over 63,000 people to do an online test for osteoporosis risk. During the campaign, Terveystalo and Bone Index offered free-of-charge osteoporosis screening tests to over 6,300 Finnish women.

CASE:

TERVEYSTALO ADDRESSES THE TREATMENT AND PREVENTION OF DEPRESSION IN YOUNG ADULTS

Terveystalo's quality team has chosen depression in young adults as a major public health problem to receive a donation of EUR 50,000 from Terveystalo for the prevention or treatment of the problem. Depression is a significant public health problem, with five percent of Finns suffering from it.^(*) Approximately 20 percent of young people present depression symptoms and 5-10 percent have depression.^(**)

The donation is part of Terveystalo's campaign to promote the quality of healthcare and stimulate discussion on its significance. The donation target was chosen by the quality team consisting of Deputy Director General Marina Erhola from the National Institute for Health and Welfare, Professor Pekka Mattila from Aalto University, theologian and writer Jaakko Heinimäki, Research and Service Center Director Jorma Mäkitalo from the Finnish Institute of Occupational Health, brain researcher Katri Saarikivi from the University of Helsinki, and Medical Director of Psychiatric Hospital for Prisoners, psychiatrist and forensic psychiatrist, Associate Professor of Psychiatry Hannu Lauerma.

DEPRESSION CAN LEAD TO EXCLUSION FROM JOB MARKET

Depression is an increasing national health problem. It causes disability for work, burdens healthcare services, and causes considerable suffering for those affected. Depression reduces an individual's quality of life and ability to function and exposes to

other health problems. What the quality team considered particularly alarming on the basis of the statistics was the increase in the number of young people affected by depression, when we look at sick leaves, healthcare costs, and the number of diagnoses.

The quality team also emphasized the fact that, from the perspective of society, more efficient intervention is necessary in order to prevent young people with depression from being excluded from the job market while they are still only starting their careers. According to the Finnish Center for Pensions, depression is the single most important reason for disability pension in Finland. In 2016, approximately 3,300 Finns were granted disability pension because of depression, approximately 630 of them under 30 years of age.^(***)

THE RECIPIENT OF TERVEYSTALO'S QUALITY AWARD TO BE PUBLISHED IN APRIL 2018

Terveystalo's quality award (EUR 50,000) will be granted to an organization or research team that significantly promotes the prevention or treatment of depression in young adults aged 16 to 26 in Finland. This can mean, for example, development of new operating models and innovations, or carrying out work to prevent depression in young adults and enhance the quality of treatment. The open application process for donation targets continues until March 30, 2018.

Terveystalo will make the decision on the recipient of the award in April 2018.

^(*) Depression Current Care Guidelines

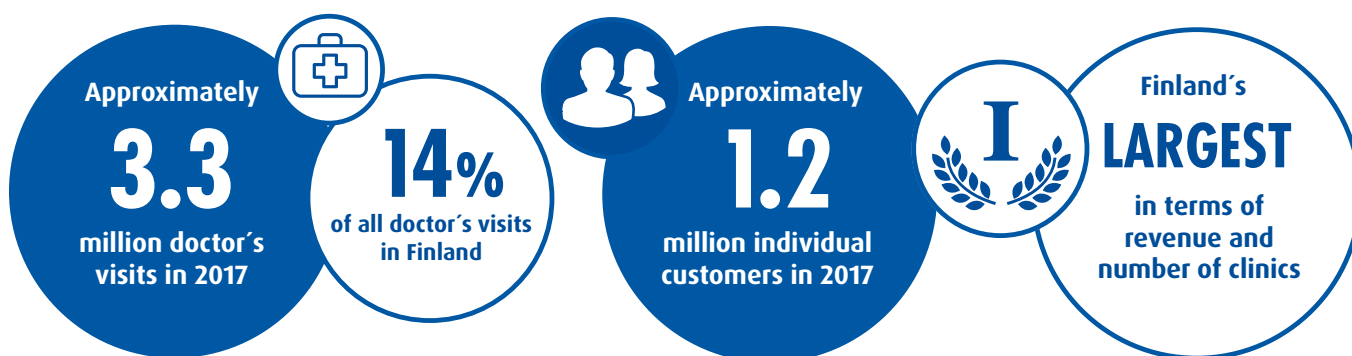
^(**) National Institute for Health and Welfare: Nuorten masennusoireilu ja masennustilat (in Finnish)

^(***) Finnish Center for Pensions: Earnings-related pension recipients in Finland 2016





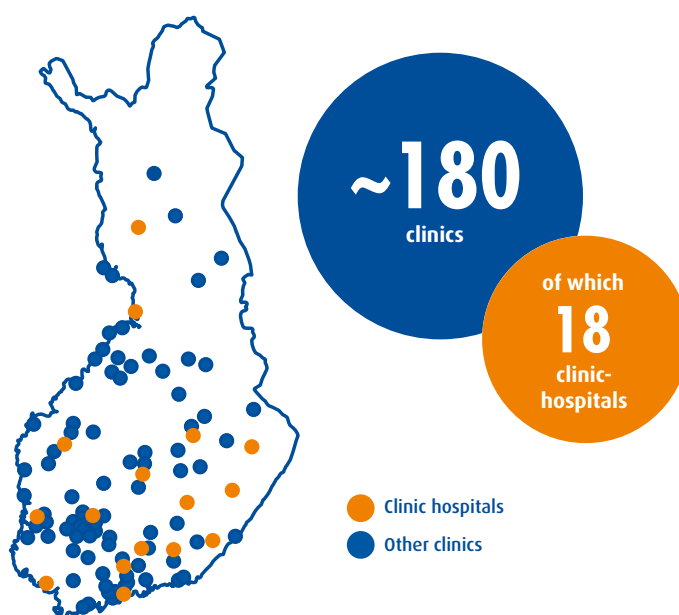
TERVEYSTALO IS THE LARGEST PRIVATE HEALTHCARE SERVICE PROVIDER IN FINLAND



Terveystalo is the largest private healthcare service provider in Finland in terms of revenue and the number of clinics. We offer primary and specialized healthcare services to corporate, private, and public sector customers. Our healthcare service offering includes general practice and specialist medical care, diagnostic services, outpatient surgery, dental services, and other adjacent services, which cover the entire integrated treatment chain of healthcare. Our customers include companies and organizations, private individuals, insurance companies, and the public sector. Nearly 9,000 healthcare professionals work at Terveystalo, approximately half of them as independent practitioners.

Terveystalo serves its customers through a nationwide network of approximately 180 clinics. The clinic network is supplemented by digital services that are available 24/7. Our customer-oriented high-quality services promote the health of Finns and, thereby, the wellbeing of Finnish society as a whole. In 2017, we served approximately 1.2 million individual customers. We had 3.3 million doctor's visits, accounting for 14 percent of all doctor's visits in Finland.

TERVEYSTALO'S CLINICS AT THE END OF 2017



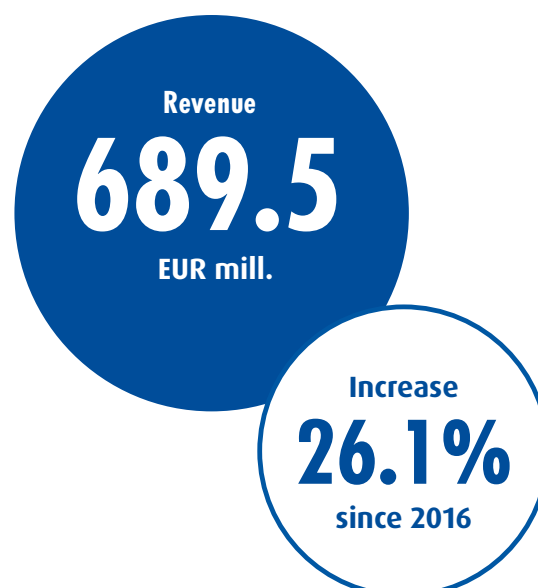
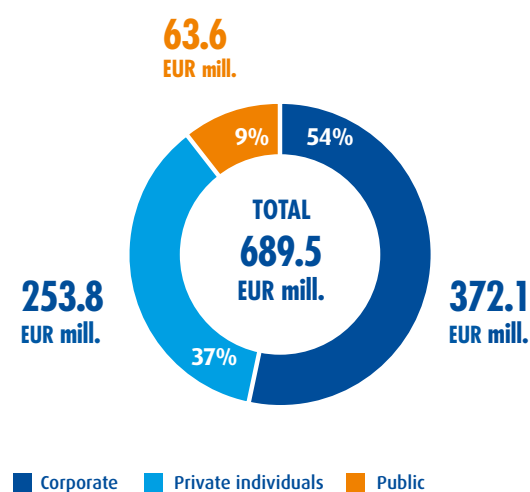
KEY INDICATORS

Terveystalo Group (EUR million unless otherwise stated)	2017	2016	Change, %
Revenue	689.5	547	26.1
Adjusted EBITDA *	92.4	72.9	26.7
Adjusted EBITDA margin, % *	13.4	13.3	-
Adjusted EBITA *	73	56.8	28.5
Adjusted EBITA margin, % *	10.6	10.4	-
Net profit	7.2	12.7	-43.2
Net debt	256.4	308.1	-16.8
Net debt / adjusted EBITDA (last 12 months) *	2.8	4.2	-34.3
Return on equity (ROE), % *	2.1	5.6	-
Equity ratio, % *	50.7	31.7	-
Gearing, % *	56.1	132.6	-
Earnings per share, € **	0.06	0.11	-
Operating cash flow	70	64.7	8.3
Personnel (end of period)	4,265	3,463	23.2
Private practitioners (end of period)	4,431	3,448	28.5

* Alternative performance measure. Terveystalo presents alternative performance measures as additional information to financial measures defined in IFRS. Those are performance measures that the company monitors internally and they provide management, investors, securities analysts and other parties with significant additional information related to the company's results of operations, financial position and cash flows. These should not be considered in isolation or as substitute to the measures under IFRS. Adjustments are material items outside the ordinary course of business associated with acquisition-related expenses, restructuring-related expenses, gain on sale of assets, strategic projects including the IPO, new business operations, and other items affecting comparability.

** The weighted average number of shares takes into account the effect of the consolidation of shares and the share split. The reference data have been adjusted accordingly.

REVENUE BY CUSTOMER GROUP 2017



OUR SERVICES

Terveystalo's service range covers nearly all medical specialties. Our service range consists of services representing different medical specialties and related comprehensive, integrated treatment chains.

Customers

Terveystalo has three customer groups: corporate, private, and public.

Corporate customers constitute Terveystalo's largest customer group in terms of revenue. Terveystalo is the largest provider of occupational healthcare services in Finland in terms of revenue and the number of end-users. We provide our corporate customers with occupational healthcare services and tools for the measurement and management of wellbeing at work.

The Finnish occupational healthcare system is unique in the world; the pension insurance system is tied to the level of care provided for the employees. The pension insurance premium payable by the employer depends on the employees' work ability. Companies benefit from investing in occupational healthcare more than required by law; according to a study, occupational healthcare services yield a six-fold return on investment for companies on average.

Private customers are Terveystalo's second-largest customer group. Private customers include private individuals and families who pay for the services themselves, and private insurance customers. Easy and quick access to treatment, a broad service range, long and flexible opening hours, and digital services provide Terveystalo with a competitive edge compared with public healthcare services, encouraging customers to invest in their health.

Public customers include Finnish public sector organizations, such as municipalities, municipal federations, hospital districts, and municipal occupational healthcare customers. Terveystalo's extensive network of clinics, digital services, and healthcare expertise and experience covering the entire treatment chain provide Terveystalo with a competitive edge for winning customers in the public sector. Terveystalo's services for the public sector are mainly financed by municipalities and government budgets.

Digital services

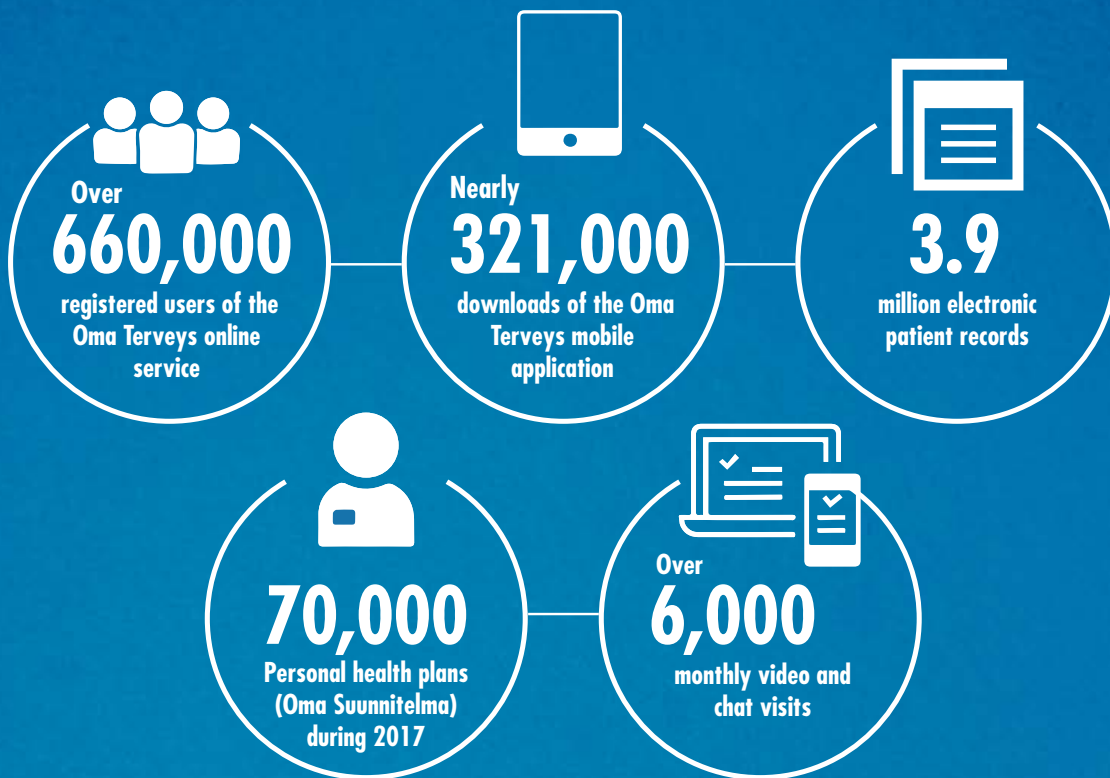
Digitalization is an essential element of Terveystalo's strategy. Our size has enabled us to invest in IT systems, digital tools, and artificial intelligence and to develop digital services and processes of our own. In addition, we are one of the first players in the Finnish healthcare sector to implement an operating model that is based on a centralized ERP system.

Terveytalo's digital services include tools for the development of a joint business plan for a corporate customer and Terveystalo, the scheduling of health examinations and follow-up, and collection of data through surveys. Digital tools help healthcare professionals to assess health risk and prepare preventive treatment plans. An example of such tools is Etydi, the most important service platform designed for doctors, which helps to improve the medical effectiveness and quality of treatment through data analysis.

Digital tools are also an efficient promoter of customer commitment and customer loyalty. The Oma Terveys service platform can be used for the monitoring and reviewing of the medical history, the personal health plan, laboratory results, and wellbeing targets. Users of the service can book appointments and view their lab results on the mobile application or the internet. In addition, we offer a 24/7 doctor chat service, regardless of time and place, and specialist chat services. We aim to continuously develop new, innovative services to serve our customers even better.



USERS OF TERVEYSTALO'S DIGITAL SERVICES ON DECEMBER 31, 2017



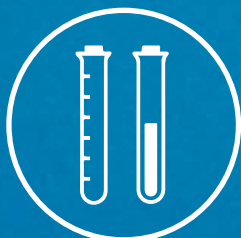
OUR SERVICES

DOCTOR'S VISITS:



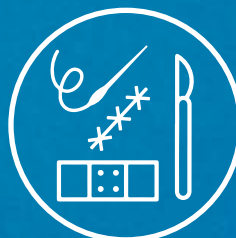
We offer appointments with general practitioners and specialists for customers of all ages.

DIAGNOSTICS SERVICES:



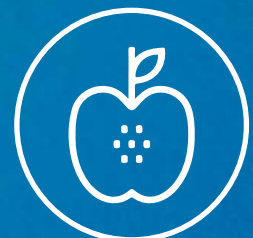
Imaging and diagnostics services include, among others, laboratory services, X-ray, CT, and MRI services.

HOSPITAL SERVICES:



Our 18 clinic-hospitals offer outpatient surgery services, short-term postoperative treatment, and recovery services. Hospital services include, among others, general surgery, orthopedic surgery, and eye surgery.

OTHER SERVICES:



We provide our customers with services across the entire treatment chain, such as physical therapy, psychologists' services, vaccinations, wellbeing services, and dental services, such as specialist dental care and dental hygienists' services.



CASE: THE STORY OF FINNISH ILLNESSES

According to Terveystalo's patient data^{*}, musculoskeletal diseases and mental health problems alone were responsible for more than EUR 1.2 billion in costs incurred by employers last year. Relative to the size of the entire Finnish workforce, this corresponds to nearly EUR 4 billion in annual sickness absence costs for employers.

In 2017, there were approximately 3.3 million appointments to see physicians at Terveystalo. The most common causes of long-term sickness absences and the major factors behind the related costs were musculoskeletal diseases and mental health problems.^{*} The most common musculoskeletal disorder that caused sickness absences was back pain. Knee and shoulder problems also caused long-term sickness absences. For the employers of patients who used Terveystalo's services in 2017, the total cost of musculoskeletal diseases and mental health problems exceeded EUR 1.2 billion.

"The high prevalence of back problems, for example, is due to increasingly sedentary lifestyles and repetitive working postures that cause the wrong kind of strain on the back. They are common among office workers as well as those whose work is physically very demanding," says Anna Gustafsson, Head of Occupational Health Physiotherapy at Terveystalo.

"Mental health problems are common these days. Examples of the underlying issues behind their prevalence include lacking a sense of security as well as crises related to relationships and working life. Increased short-term employment, social exclusion and financial difficulties are examples of contributing factors," says Unto Palonen, Occupational Healthcare Specialist and Service Director at Terveystalo.

TERVEYSTALO ACHIEVED A SIGNIFICANT REDUCTION IN SICKNESS ABSENCES COMPARED TO 2016

"It's a positive signal that, relative to the total number of appointments to see physicians, sickness absences caused by back problems and mental health problems decreased in Terveystalo compared to 2016. This reflects our success in working with employers to prevent sickness absences or reduce their duration," Palonen explains.

Sickness absences caused by knee and shoulder problems, for example, have been significantly reduced by enhancing and harmonizing the treatment chain for accident and surgical patients. Compared to 2016, sickness absences caused by knee problems decreased by nearly five percent, with the average duration of sickness absence falling from 19.4 to 18.4 days. This corresponds to more than EUR 5 million in savings, or nearly 60 person-years.

The average duration of sickness absences related to mental health problems was reduced from 16.4 to 16.0 days in 2017. This means that sickness absences were reduced by almost 2 percent, which corresponds to nearly EUR 7 million and 80 person-years.

LOOKING AFTER THE HEALTH OF THE WORKING-AGE POPULATION IS IMPORTANT TO SOCIETY

Palonen emphasizes that looking after the health of the working-age population is of major significance to society, as the workforce is needed to finance the public services required by other population groups.

Terveystalo has developed tools for use by its care personnel to help them with the identification of risk groups and the targeting of measures as well as to facilitate comparisons of the quality of medical care. For occupational healthcare customers, Terveystalo has introduced Oma Suunnitelma, a personal well-being plan based on individual goals. In 2017, Oma Suunnitelma plans were made for more than 70,000 people.

^{*}The information is based on data from the approximately 1.2 million Finns that used Terveystalo's services in 2017. Terveystalo's patient data register is Finland's largest single patient information system, with data on the health of more than 3.6 million Finns. Terveystalo is responsible for providing occupational healthcare services to approximately 30 percent of Finland's working-age population.





The most common diagnoses made by physicians:

Upper respiratory tract infection
Lower back pain
Sinus infection
Hypertension
Shoulder impingement syndrome

The most common causes of sickness absence:

Mental health problems
Back problems
Other musculoskeletal problems
The common cold and other respiratory tract infections
Shoulder problems

The most common mental health problems

Anxiety
Depression
Insomnia

The most common musculoskeletal diseases:

Back pain
Shoulder pain
Pain in the limbs

The most common cardiovascular diseases:

Hypertension
Hemorrhoids
Irregular heartbeat



STRATEGIC CHOICES

OUR GROWTH IS BASED ON SIX STRATEGIC CHOICES:

1. Superior customer experience

A positive customer experience promotes customers' commitment and loyalty. We aim to provide a superior customer experience, starting from the first encounter with the customer. It is based on active identification and fulfilment of the customer's individual expectations and needs. Our digital tools that support customer-oriented service are an integral part of the treatment experience.

2. The preferred partner to our customers

Our objective is to be the preferred provider of healthcare services for all customer groups. We continuously develop our extensive service range and network, in order to meet customers' individual needs. We contact our customers proactively. This includes, for example, sending various individual reminders of prescriptions or vaccinations that are about to expire.

3. The most desirable workplace for professionals

Our ability to attract and retain competent, motivated healthcare professionals and private practitioners is important in order to achieve the operational efficiency, superior customer experience, and clinical quality that form the core of our strategy. We believe that satisfied employees provide a better customer experience, which in turn enhances customer satisfaction in this way. We have steadily improved job satisfaction, and according to Mediutiset and Universum, we have been chosen as the most attractive employer among doctors and healthcare students for four consecutive years. Our corporate culture is encouraging and rewards successful performance.

4. Local quality leader with nationwide scale benefits

Our comprehensive network and extensive service range form a platform for providing efficient, individual, and local services for

customers. At the same time, they cater for the needs of large corporate and public-sector customers in Finland. We believe that the extent of our operations enables us to continue investing in state-of-the-art technology, to develop new services, to enhance the efficiency of processes, and to increase reliability of service through the volume of our business. Centralized, nationwide digital services enable us to provide doctor's services in sparsely populated areas, in which the availability of healthcare services is generally low.

5. Measurable medical outcomes

Clinical quality generates tangible value for each customer group through the medical expertise of healthcare professionals, excellent premises, and efficient training processes. We want to stay on the front line of development in terms of measuring the quality, transparency, and effectiveness of treatment and disclosing the results of clinical quality in Finland. For Terveystalo's customers, effectiveness means shorter treatment chains, fewer sick leave days, and better patient safety. The enhancement of clinical quality means correct timing and effectiveness of treatment, better customer experience, and improved cost-efficiency.

6. Responsible social innovator

We participate actively in the development of healthcare services in Finland and the promotion of the wellbeing and health of Finns. We use our extensive patient information system in real-time, producing and publishing health data for ourselves and society. We emphasize the development of customer-oriented cooperation models with the public sector and commitment to active public dialogue with decision-makers and leaders of the healthcare sector. We are going to develop new ways to improve and increase investment in preventive care, particularly in respect to lifestyle diseases that have a significant effect on national economy. In terms of revenue and the number of clinics, we are the largest provider of healthcare services in Finland, with a solid position in both cities and rural areas around the country. In 2017, our share of all doctor's visits in Finland was approximately 14 percent, and approximately one third of all employed people in Finland are covered by Terveystalo's occupational healthcare services. This scale of operations enables us to really improve the results of healthcare at the national level, particularly in respect to the early diagnosis and prevention of chronic lifestyle diseases, such as type 2 diabetes.





OUR STRATEGIC OBJECTIVES

Clinical quality at the core of strategy and operations

Maintaining high clinical quality is a key driver of Terveystalo's growth and profitability. We believe that high clinical quality not only contributes to the general wellbeing of individuals, but also to the positive care experience of individual customers, which in turn creates and maintains customer loyalty. Knowledge management is at the center of medical quality development – digitalization enables the transformation from measuring medical data to efficiently managing clinical quality.

Capitalizing on Finnish market growth opportunities

The Finnish healthcare market is substantial in size, and it is expected to grow at a brisk pace across all customer groups. Over the long term and excluding the effect of acquisitions, we aim to grow at least in line with the market with respect to the corporate customer market, to further exceed historical market growth in the private customer market, and to exceed market growth in the public customer market.

Providing customer-centric proactive care with the aid of digital tools and new channels for interaction

We focus on continuously developing the customer experience and service quality through digital tools. We develop digital tools tailored to benefit physicians and various customer groups to enable customer-oriented care and dialogue between the customer and Terveystalo.

Continuous improvement of operational excellence to increase profitability and cash generation

We continue to focus on the continuous improvement of operational efficiency at each organizational level in order to increase profitability. We create new, more efficient ways of working, and execute best practices in all of the company's clinics.

Continuing to grow in existing and complementary services through organic initiatives and value-adding acquisitions

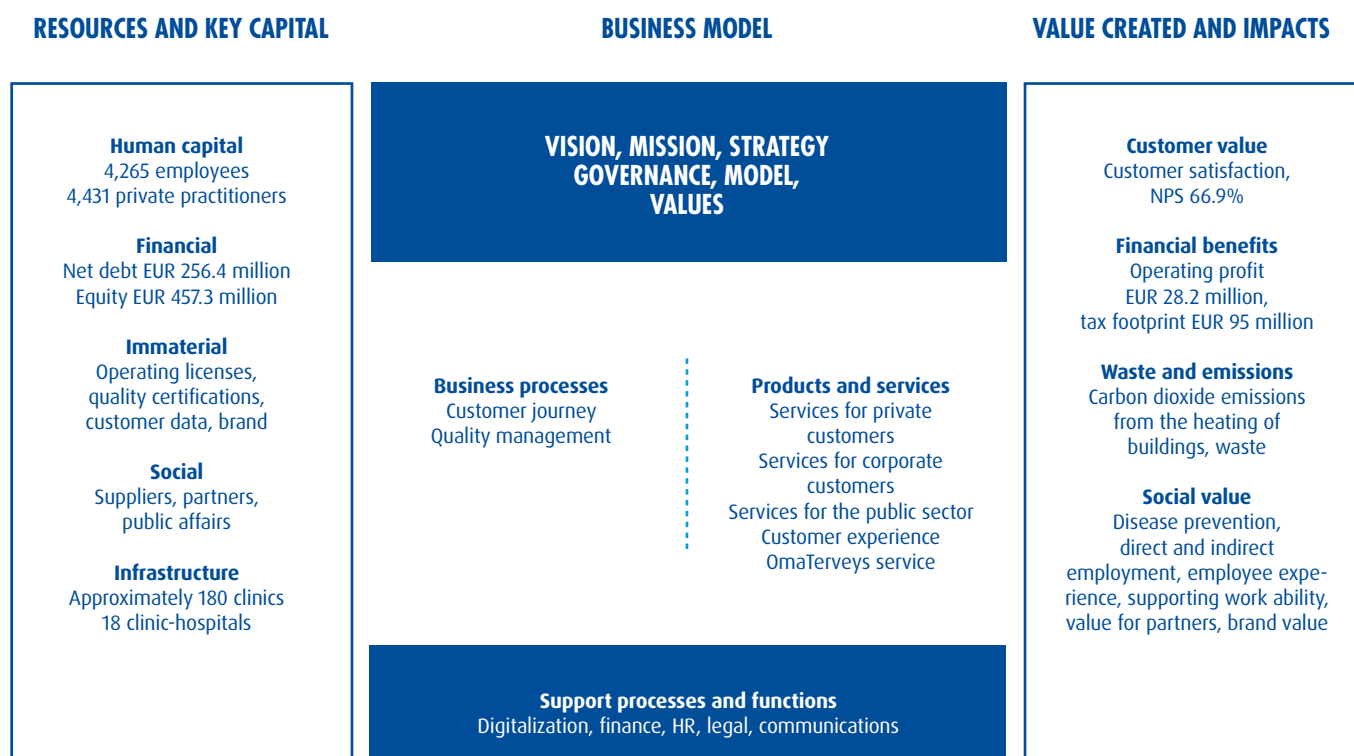
Our growth strategy is founded on serving the needs of our broad and varied customer base. We aim to develop further our wide offering of services along the care chain. Through growth initiatives and acquisitions that supplement our business, we aim to strengthen Terveystalo's existing geographic network and service coverage along the care chain.



CREATING VALUE AT TERVEYSTALO

Terveystalo creates value for shareholders and other stakeholder groups by providing services that meet the individual needs of customers, and by operating and expanding its clinic network in a resource-efficient and profitable manner. In addition, the creation of value is based on the way we treat and engage customers,

employees, and other stakeholders, and on our ability to take into account the environmental and other external effects of our operations. In the end, the creation of value is based on the efficiency of the company's processes and the ability to improve the company and manage business risks.



TERVEYSTALO AS AN INVESTMENT

Terveystalo is Finland's leading private healthcare service provider in Finland in terms of revenue and the extent of its network. We operate in a growing and structurally attractive market. Our customer-oriented business model and strong corporate culture produce excellent service for all customer groups. Because of our strengths, we see many opportunities for growth.

1. GROWING AND STRUCTURALLY ATTRACTIVE MARKET

The Finnish healthcare market is large and attractive, and it is constantly growing. The growth of the market is promoted by the ageing of population, lifestyle diseases, increasing popularity of various health and wellbeing trends, and increased demand for preventive care in all age groups. This has led to the development of new, innovative business models. In addition to other factors, urbanization and changes in population have created capacity pressure on public healthcare services. In addition, the burdens of public economy and the development of new, innovative, and flexible business models in the healthcare industry have also increased the volume of privately produced healthcare services.

Estimated healthcare costs in Finland in 2016 totalled EUR 14.2 billion. This includes publicly financed and produced, publicly financed and privately produced, and privately financed and produced healthcare services. The estimated annual growth rate of healthcare costs from 2000 to 2016 is 5.1 percent.

Social and health care

The Finnish social and health care reform is a reform project of the public sector, aiming to improve the availability of social and healthcare services, ensure equal access to the services and equal opportunities for providing the services, enhance the efficiency of public administration, and provide citizens with opportunities to have a direct influence on which social and healthcare services are provided for them and how.

Despite the changing political compositions of the Finnish Parliament and Government, the Finnish market for privately financed healthcare services has been growing for a long time. Thus, the political environment has been favorable for private services, and the social and health care reform may significantly expand the market accessible to providers of private healthcare services. The government's proposal on the social welfare and healthcare reform would, therefore, improve the position of private healthcare service providers by increasing customers' possibilities to choose their healthcare service provider under the freedom of choice legislation.

However, the social welfare and health care reform is still at the proposal stage, and its realization still involves uncertainties. The market size estimates do not take into account the possible effects of the social welfare and health care reform.

Structure of the Finnish healthcare market

The Finnish healthcare market can be divided into the publicly financed and the privately financed market. However, some publicly financed healthcare services have been outsourced to external service providers. Privately financed and provided healthcare services include private clinics, occupational healthcare, and privately financed dental health services.

Within the financing system of the Finnish healthcare system, the payer for the treatment of a patient may be the public sector, the employer, an insurance company, or the individual patient. Even though the Finnish healthcare system includes features of both a tax-based and an insurance-based system, employers and individuals are important sources of financing, which has enabled the development of privately financed consumer and corporate markets in the healthcare industry.



Terveystalo's market

The total size of Terveystalo's target market in 2016 was estimated to be EUR 3,303 million, of which occupational healthcare accounted for EUR 536 million. Private healthcare services, including dental health services, accounted for EUR 2,199 million, and services financed publicly and produced privately accounted for EUR 568 million. The target market is estimated to grow at an average rate of five percent a year from 2016 to 2022.

The trends of the healthcare market

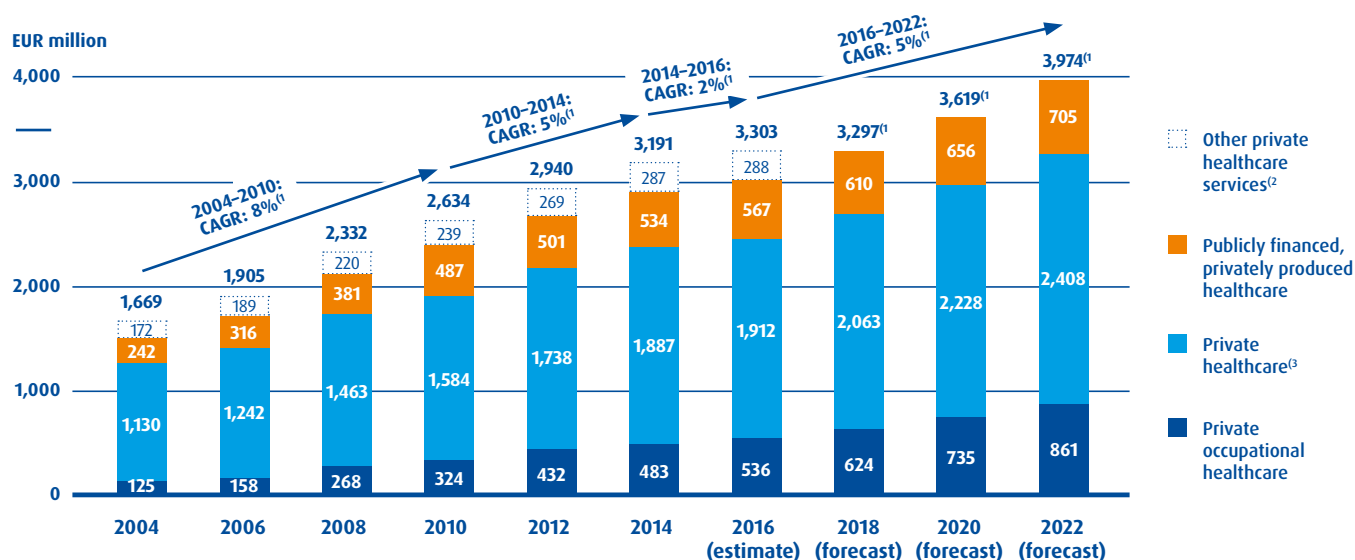
Terveystalo's healthcare target market is influenced by the same factors as Finland's overall healthcare market in general. These factors include changes in the population structure and ageing of the population, lifestyle diseases, the progress of medicine, awareness of health and wellbeing, increased need for preventive care, and digitalization.

2. THE COMPANY'S SIZE AND EXTENSIVE NETWORK PROVIDE ECONOMIES OF SCALE AND SYNERGIES

A nationwide network and integrated care chain enable Terveystalo's comprehensive service for customers. As a nationwide player, Terveystalo is a reliable partner for the public sector and nationwide companies, always close to the customer. The company's large size also enables the use of technology and big data as well as the development of a targeted service range, and offers synergies through centralized organization. Specializing in healthcare also involves many benefits; the continuous development of expertise, practices, and quality in the organization focuses clearly on healthcare. In addition, specializing in healthcare enables us to provide our customers with high added value services and to attract and retain skilled healthcare personnel.

Terveystalo applies a network model, feeding customers of smaller clinics to larger clinic-hospital units as necessary. The existing infrastructure and a considerable proportion of fixed and half-fixed costs provide a leverage that helps to keep the marginal costs of add-on-sales at a low level. Therefore, utilizing this leverage has a central role in the improvement of profitability.

TERVEYSTALO'S HEALTHCARE TARGET MARKET IN FINLAND FROM 2004 TO 2022 (ESTIMATE, WITHOUT TAKING INTO ACCOUNT THE IMPACTS OF THE SOCIAL AND HEALTH CARE REFORM)



Source: NHG Report: commissioned by the Company and EQT Partners from Nordic Healthcare Group Oy ("NHG") in spring 2017. The NHG report dated June 13, 2017 was updated on August 11, 2017 by NHG (together, the "NHG Report"). The historical market data of the NHG Report are based on public statistical data produced by different parties, such as the Finnish National Institute for Health and Welfare, the Social Insurance Institute of Finland, and Statistics Finland. The estimates and forecasts of the NHG Report are based on NHG's analysis of the factors affecting market growth and their estimated development.

1) Excluding other private healthcare services due to lack of estimates (highlighted in dash line in the figure).

2) Figures on other private healthcare services are based on estimates on the levels of provision of services not covered by Kela reimbursements, for example, plastic surgery and physiotherapy.

3) Containing Kela-reimbursed rehabilitation (approximately EUR 422 million in 2016) and services covered by the statutory insurances (approximately EUR 221 million in 2016) and dental health services (estimated EUR 670 million in 2016). Part of the services covered by the statutory insurances are provided by public provision of healthcare. The data from 2004 to 2010 are based on the increased level of Kela reimbursements.

CUSTOMER-ORIENTED BUSINESS MODEL DELIVERS QUALITY SERVICE FOR ALL CUSTOMER GROUPS

CORPORATE CUSTOMERS

54%

PRIVATE CUSTOMERS

37%

PUBLIC CUSTOMERS

9%

NATIONWIDE NETWORK



HIGH QUALITY



DIGITAL SERVICES



PREVENTIVE CARE



Capable partner

Workforce productivity & employee satisfaction

Data driven preventive care and tools for managing ability to work

Aims to minimize absences due to sickness and costs of early retirements

Proximity of care and extensive service offering

Customer experience & brand

Customer engagement

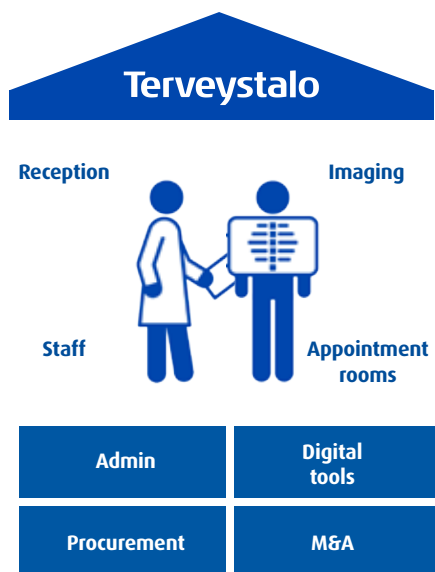
Aim to increase visits per customer

Ability to support public sector healthcare

Cost savings and competitive solutions

Long-term savings

CAPACITY IN EXISTING INFRASTRUCTURE AND LARGE PROPORTION OF FIXED AND SEMI-FIXED COSTS CREATE SIGNIFICANT SCALE BENEFITS

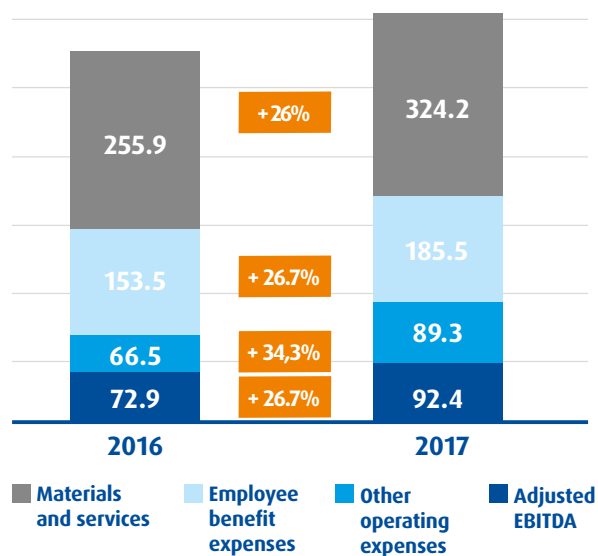


Variable costs

Semi-fixed costs

Fixed costs

Adjusted operating costs, change, % year-on-year



3. CUSTOMER-ORIENTED BUSINESS MODEL AND CORPORATE CULTURE PRODUCE EXCELLENT SERVICES FOR ALL CUSTOMER GROUPS

Terveystalo's business model resembles a retail store: customers pay for the services they use, which is why they must feel they are getting value for their money. Terveystalo tailors its services to the needs of each customer group.

Digital tools enable efficient, customer-oriented, and preventive care, as well as continuous dialogue, promoting the commitment of customers.

Terveystalo works on the front line of its industry, developing and utilizing digital technologies in order to enhance the quality and effectiveness of treatment, the additional value produced for customers, and the operational efficiency. As an acknowledgement of this, Terveystalo came first in the "Best use of digital health" category of the European Healthcare Business Model Innovation contest in 2017. In recent years, Terveystalo has invested in advanced digital systems.

In 2017, demand for digital services increased steadily among customers, which was seen in the quick deployment of tools and an increasing number of users. During the year, Terveystalo continued to develop digital solutions by launching services such as Finland's first 24/7 doctor chat service and specialist chat services.

4. STRONG EVIDENCE OF INCREASING REVENUE

Terveystalo can present strong evidence of increased revenue since 2014, achieved through organic growth and acquisitions. Terveystalo revenue grew on average by 13.6 percent year-on-year from 2014 to 2017. Terveystalo's organic growth factors have historically been influenced particularly by the general economic development and increase in occupational healthcare services and services for public sector customers. In addition, Terveystalo has made a number of investments in new units and made over 150 acquisitions since 2001, which have significantly contributed to the company's revenue growth. In 2017, Terveystalo's full year revenue increased by 26.1% year-on-year to EUR 689.5 million (547.0).

5. SOLID EXPERIENCE IN EXPANDING SERVICES AND NETWORK THROUGH ACQUISITIONS

Since 2014, Terveystalo has carried out 19 acquisitions, and over 150 acquisitions since 2001. The acquisitions have typically resulted in considerable synergies. The acquisitions have expanded Terveystalo's network and enhanced its care chain. Over the

years, Terveystalo has implemented standardized internal processes in order to identify targets for acquisitions and ensure the efficiency of the acquisition process. In particular, the company has improved its integration process in order to ensure successful integration of the acquired business and the achievement of the pursued synergies.

In 2017, Terveystalo carried out two significant acquisitions and a number of smaller ones that enhanced the care chain. The acquisitions of Porin Lääkäritalo in January 2017 and Diacor in March 2017 contributed significantly to growth, and the integrations were carried out swiftly.

6. STRONG CORPORATE CULTURE CREATES AN ATTRACTIVE OPERATING ENVIRONMENT FOR HEALTHCARE PROFESSIONALS

A strong corporate culture improves quality and performance, provides an attractive operating environment for healthcare professionals and reflects Terveystalo's leading position in clinical quality. According to Mediutiset and Universum, Terveystalo has been chosen as the most attractive employer among doctors and healthcare students for the past four years.

Terveystalo's financial targets and dividend policy

The Board of Directors has adopted the following long-term financial targets for Terveystalo:

- Growth: 6–8% annual growth in revenue in the long term through a combination of organic growth and bolt-on acquisitions;
- Profitability: An adjusted EBITA margin ^{*)} 12–13% of revenue in the medium to long term;
- Capital structure: Interest-bearing net debt/adjusted EBITDA not to exceed 3 times. However, indebtedness may temporarily exceed the target level, for example, in conjunction with acquisitions; and
- Dividend policy: The objective is to distribute a minimum of 30 percent of net profit as dividends annually. However, the dividend proposal must take into account Terveystalo's long-term development potential and financial position.

Any dividends payable in future years, their amount, and the time of payment will depend on the company's future earnings, financial condition, cash flows, investment needs, solvency, and other factors.

^{*)} Earnings Before Interest, Taxes, Depreciation and Amortization

Terveystalo's full year revenue increased by 26.1 percent year-on-year to EUR 689.5 million (547.0), and the adjusted* EBITA was 10.6 percent (10.4 percent) of revenue. The net debt/adjusted EBITDA ratio decreased to 2.8 (4.2).



CASE:

VTT – LEADING PROMOTER OF WELLBEING AT WORK IN FINLAND

VTT Technical Research Centre of Finland always wants to be one step ahead – whether we are talking about international research or wellbeing at work. The organization, which employs top researchers representing various industries, understands the importance of personnel's wellbeing for competitiveness. Most VTT employees are researchers. Stress and mental load are typical for the work of such experts, as well as the blending of work and leisure. Their mind may be focused on research any day or hour.

"People are our most important resource, and wellbeing at work is one of the strategic areas of focus at VTT. Our employees are the best experts in their respective fields, and their expertise would be difficult to replace. Therefore, we find that promotion of their comprehensive wellbeing is very important," says Kirsi Nuotto, SVP, Human Resources, from VTT.

BOOSTING WORK ABILITY MANAGEMENT

VTT has made considerable investments in work ability management and preventive occupational healthcare, and

cooperation with Terveystalo has continued for a long time. The objective is early identification and addressing of work ability problems. In 2016, for example, VTT expanded the use of the Terveystalo TyöOptimi survey, which measures the load caused by information-intensive work, and initiated resource coaching for people whose work ability was found to be at risk in an occupational health examination.

"The TyöOptimi survey can help to identify a burnout that is only just starting to develop, so the person affected has not even noticed it," says occupational health physician Tarja Rentto from Terveystalo.

WELLBEING AT WORK EMPHASIZED AS A COMPETITIVE FACTOR

Kirsi Nuotto emphasizes that even though the development work has been active all the time, the purpose is not to settle for the results achieved so far.

"In general, I think that we will be able to increasingly cooperate with Terveystalo and plan what we can create together. I believe that the wellbeing and health of people will be an increasingly important competitive factor: being able to attract the best talent will also improve the productivity of work. It is VTT's duty to be a forerunner in research. However, at the same time, with our own example we can also be leaders of wellbeing at work in Finland," Ms Nuotto summarizes.





CORPORATE GOVERNANCE STATEMENT 2017

TERVEYSTALO GROUP CORPORATE GOVERNANCE STATEMENT

I. INTRODUCTION

Governance at Terveystalo Plc ("Terveystalo" or the "Company") is based on applicable law, the rules and recommendations of Nasdaq Helsinki Ltd (the Helsinki Stock Exchange), and the Company's Articles of Association. Terveystalo was listed on the Helsinki Stock Exchange in October 2017.

In addition, the Company applies the Finnish Corporate Governance Code 2015 (Corporate Governance Code), issued by the Securities Market Association and available on its website at www.cgfinland.fi. Since going public, the Company complies with all the recommendations in the Corporate Governance Code.

Terveystalo's Corporate Governance Statement has been prepared in accordance with the Corporate Governance Reporting section of the Corporate Governance Code. This statement has been reviewed and approved by Terveystalo's Audit Committee and Board of Directors, and it has been prepared separately from the Report of the Board of Directors. The statement is available on the company website at <https://www.terveystalo.com/en/investors/Corporate-governance/>.

II. DESCRIPTIONS CONCERNING CORPORATE GOVERNANCE

Terveystalo is a Finnish limited liability company domiciled in Helsinki. The parent company, Terveystalo Plc, and its subsidiaries form the Terveystalo Group. The responsibility for the administration and operations of Terveystalo Group lies with the governing bodies of the parent company, Terveystalo Plc. These governing bodies include the General Meeting of Shareholders, the Board of Directors, and the CEO. The General Meeting of Shareholders elects the members of the Board of Directors, and the Board appoints the company's CEO. The Board of Directors

is aided by two committees. The Board elects the committee members from among its members. The Executive Team assists the CEO with the management of Terveystalo Group's operations. The work of the Board of Directors, its committees, the CEO, and the Executive Team is governed by the Company's corporate governance principles, adopted by the Board of Directors. These principles include the Charters of the Board and its committees, the division of responsibilities between the decision-making bodies, and the principles concerning the arrangement of internal control and risk management. The Company's governance structure is described on the next page.

General Meeting of Shareholders

The General Meeting of Shareholders is Terveystalo's highest decision-making body. The Annual General Meeting of Shareholders is held annually on a date determined by the Board of Directors, within six (6) months of the end of the financial year. The Annual General Meeting deals with matters falling within its competence pursuant to the Finnish Limited Liability Companies Act and Terveystalo's Articles of Association, and possible other matters requested to be handled by the Annual General Meeting. An Extraordinary General Meeting is convened when necessary.

Pursuant to the Limited Liability Companies Act, shareholders have the right to have a matter falling within the competence of the General Meeting dealt with by the General Meeting, provided that the shareholder requests this in writing from the Board of Directors by the date announced on Terveystalo's website.

The Board of Directors convenes the General Meeting of Shareholders by issuing the notice to the General Meeting no earlier than three (3) months and no later than three (3) weeks before the date of the General Meeting, and in any event no later than nine days prior to the Record Date of the General Meeting of Shareholders. The notice to the General Meeting of Shareholders is issued in a stock exchange release and on the company website.



Shareholders of Terveystalo who are included in the Company's shareholders' register, maintained by Euroclear Finland Ltd, on the Record Date specified by the Company have the right to attend the General Meeting of Shareholders. In order to attend the General Meeting, a shareholder must register for the meeting in the manner specified in the notice to the Meeting by the date specified in the notice. The final date of registration may not be earlier than ten days before the General Meeting.

According to the Corporate Governance Code, the Chairman of the Board of Directors, members of the Board of Directors, and the CEO shall be present at the General Meeting. In addition, the auditor shall be present at the Annual General Meeting. Candidates for members of the Board of Directors shall be present at the General Meeting deciding on their election.

The Annual General Meeting for 2017 was held on April 20, 2017. In addition, an Extraordinary General Meeting was held on September 26, 2017.

Shareholders' Nomination Board

The Company's Extraordinary General Meeting, held on September 26, 2017, resolved to establish a Shareholders' Nomination Board, consisting of Company shareholders or persons appointed by shareholders. The Nomination Board prepares annual proposals to the next Annual General Meeting concerning the number of Directors and their election and remuneration.

The Shareholders' Nomination Board consists of the Chairman of the Company's Board of Directors and representatives of the Company's four largest shareholders. However, if the holding of the fifth largest shareholder exceeds 10) percent of all the shares and votes in the Company, the five largest shareholders shall be represented on the Shareholders' Nomination Board. The Nomination Board consists of representatives of the four

(or five) largest shareholders and the Chairman of the Board of Directors, as determined by the situation on September 1 in each calendar year. The Chairman of the Board of Directors convenes the first meeting of the Shareholders' Nomination Board, and the Shareholders' Nomination Board elects a Chairman from among its number. Subsequent meetings of the Nomination Board are convened by the elected Chairman. If more than half of the members of the Shareholders' Nomination Board are present, they constitute a quorum. The Nomination Board has a written Charter which includes a more detailed description of the election process and the duties of the Nomination Board members, as well as the procedures of the Nomination Board's meetings.

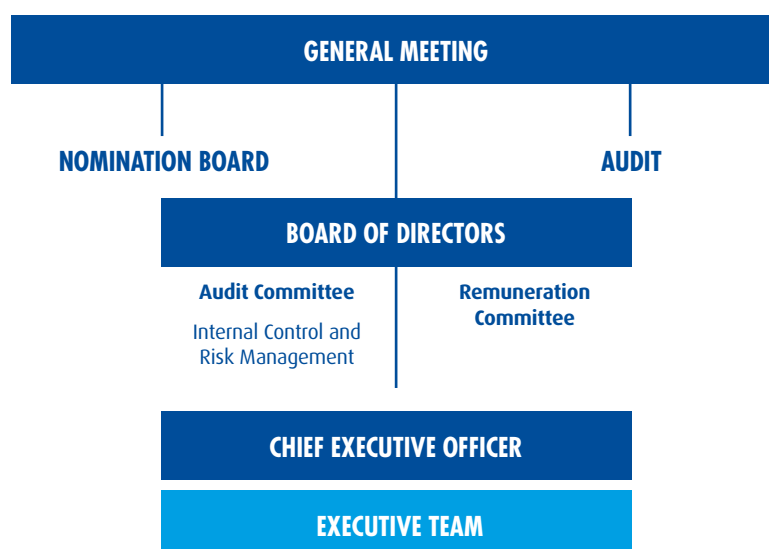
In 2017, in deviation of the above and in accordance with the Charter of the Nomination Board, because the Company went public in October 2017, the shareholdings establishing the right to nominate representatives to the Shareholders' Nomination Board were determined on the first banking day of November 2017.

In accordance with shareholdings on November 1, 2017, Terveystalo's Nomination Board consists of the Company's five largest shareholders and the Chairman of the Board of Directors.

Accordingly, the members of Terveystalo's Nomination Board in 2017 are:

- Risto Murto, Varma Mutual Pension Insurance Company
- Vesa Koskinen, Lotta Holding I S.à r.l. (EQT VI)
- Maija-Liisa Friman, Helsinki Deaconess Institute Foundation
- Ole Johansson, Hartwall Capital
- Tomas von Rettig, Rettig Group Ltd
- Fredrik Cappelen, Chairman of the Board of Directors at Terveystalo Plc

TERVEYSTALO'S GOVERNANCE STRUCTURE



In its organization meeting held on November 2, 2017, the Nomination Board elected Risto Murto as its chairman.

In 2017, the Nomination Board convened three times. The attendance rate of members was 100%.

Name	Meetings attended	Attendance rate
Risto Murto	3/3	100%
Vesa Koskinen	3/3	100%
Maija-Liisa Friman	3/3	100%
Ole Johansson	3/3	100%
Tomas von Rettig	3/3	100%
Fredrik Cappelen	3/3	100%

Board of Directors

According to Terveystalo's Articles of Association, the Board of Directors has a minimum of five (5) and a maximum of eight (8) ordinary members. The term of the members of the Board of Directors expires at the closing of the Annual General Meeting following the election. The Annual General Meeting of Shareholders elects the members of the Board of Directors. The Board of Directors elects the Chairman from among its members.

In 2017, the Board of Directors had seven members. Fredrik Cappelen was the Chairman of the Board. The other members were Olli Holmström (from April 20, 2017), Vesa Koskinen, Åse Aulie Michelet, Ralf Michels, Matti Rihko, and Åsa Riisberg. All the members of the Board are independent of the Company. Ralf Michels, Åse Aulie Michelet, and Matti Rihko are independent of major shareholders of the Company, while Fredrik Cappelen, Olli Holmström, Åsa Riisberg, and Vesa Koskinen cannot be considered to be independent of major shareholders of the Company. Olli Holmström is the CEO of the Helsinki Deaconess Institute Foundation. Åsa Riisberg and Vesa Koskinen are employed by EQT. Fredrik Cappelen serves as an Industrial Advisor for EQT.

Ownership of the Board members and their controlled entities in the Group, December 31, 2017^(*)

Fredrik Cappelen ¹⁾	267,795
Åse Aulie Michelet ²⁾	22,624
Ralf Michels	120,132
Matti Rihko ³⁾	129,132
(Others 0 shares)	

Biographical details of the Board members are provided below under Group Management.

¹⁾ Shareholdings are in Terveystalo Plc. The Board members have no holdings in other Terveystalo Group companies.

1) Fredrik Cappelen's ownership consists of 267,795 shares held by Baskina AB, which he controls.

2) Åse Aulie Michelet's ownership consists of 22,624 shares held by Michelet Consult AS, which she controls.

3) Matti Rihko's ownership consists of 120,132 shares held by Mandatum Life Insurance Company Limited, Mr. Rihko being the ultimate beneficiary. In addition, Matti Rihko directly holds 9,000 shares.

Diversity of the Board of Directors

The Company adopted the principles concerning the diversity of the Board of Directors, and they came into effect on September 27, 2017.

The Company regards the diversity of the Board of Directors as a material contributor to the achievement of the Company's strategic targets. The work of the Board of Directors requires an understanding of cultures, values, and business practices. Diversity is assessed from different perspectives, including age, gender, education, and professional background. Both genders shall be represented on the Board of Directors.

The Shareholders' Nomination Board plans the composition of the Board of Directors from the perspective of the Company's current and future business needs, taking into account the diversity of the Board.

In 2017, the Company's Board of Directors met the diversity criteria. The age span of Board members is 38–65 years. Two of the Board members are women and five are men.

Description of the work of the Board of Directors

The Board of Directors has prepared and adopted a written Charter of the Board. It supplements the provisions of the Articles of Association and the applicable laws and regulations. The Charter of the Board of Directors describes the Board's composition, the election process of the members of the Board of Directors, the responsibilities of the Board, meeting arrangements, division of responsibilities among the Board members, and reporting to the Board of Directors.

The CEO attends Board meetings. The CFO and other members of the Executive Team attend Board meetings only upon invitation by the Board of Directors.

The Board of Directors has general competence to decide and act in matters that do not fall within the competence of any other corporate governing body under law or the Company's Articles of Association. The Board of Directors is responsible for the Company's administration and the appropriate arrangement of its functions. In addition, the Board of Directors is responsible for ensuring appropriate supervision of the Company's accounting and asset management. The Board of Directors decides on matters of principle and on any issues that could have broad-ranging implications for the Company. It decides on major corporate plans and transactions, as well as establishes limits for capital expenditure, investments, divestments, and financial commitments.

The Board of Directors' responsibilities include reviewing and approving the strategic objectives and strategic plans of the Company and its business areas, as well as monitoring their implementation. The Board of Directors also reviews and approves the Company's financial targets. In addition, the Board of Directors monitors and assesses the Company's financial reporting system, approves the Company's financial reports, and monitors the Company's external audit process. It also ensures that the Company has defined the operating principles of internal control, internal auditing, and risk management, and monitors compliance with these principles. In all situations, the Board of Directors must act in the best interest of the Company and its shareholders.



The Board of Directors appoints and dismisses the CEO, supervises the CEO's actions, and approves the CEO's service contract and remuneration upon the recommendation of the Remuneration Committee. Upon the proposal of the CEO, the Board of Directors appoints the Executive Team reporting directly to the CEO and approves the service contracts and remuneration of the Executive Team members upon the recommendation of the Remuneration Committee. In addition, the CEO must consult the Chairman of the Board of Directors on dismissal of members of the Executive Team reporting directly to the CEO.

The number of terms or the age of Board members is not limited. The Board of Directors may establish committees to assist the Board with the preparation and performance of its duties and responsibilities. The Board of Directors may determine the size and composition of such committees and approve their charters.

In 2017, the Board of Directors convened 12 times. The average attendance rate at Board meetings was 96.23 percent. The attendance rates of the Board members at meetings were as follows:

Name	Meetings attended	Attendance rate
Fredrik Cappelen	12/12	100%
Olli Holmström	10/10 ⁴	100%
Vesa Koskinen	12/12	100%
Åse Aulie Michelet	11/12	91.67%
Ralf Michels	11/12	91.67%
Matti Rihko	12/12	100%
Åsa Riisberg	11/12	91.67%

Committees of the Board of Directors

The Company's Board of Directors has established two committees: the Audit Committee and the Remuneration Committee.

Audit Committee

The Audit Committee carries out its responsibilities under its Charter adopted by the Board of Directors. The Charter of the Audit Committee came into effect on July 1, 2017.

The Audit Committee assists the Board of Directors in performing the supervisory duties related to its financial reporting process and in monitoring the audit of the Company. In addition, the Audit Committee assists the Board of Directors in supervising matters related to financial reporting, internal control, internal auditing, and risk management.

The Audit Committee monitors the financial reporting processes, the quality and integrity of the financial statements and other financial reports, and the Company's financial performance. In

addition, the Audit Committee monitors the statutory audit of the financial statements, consolidated financial statements, and the annual, half-year, and interim reports. The Audit Committee also monitors the efficiency of the Company's internal control, internal auditing, and risk management systems and assesses the performance of internal auditing. Furthermore, the Audit Committee evaluates the qualifications and independence of the external auditor and, in particular, the provision of non-audit services to the Company, prepares the proposal for the election of the external auditor, and monitors compliance with laws and regulations. The Audit Committee prepares the proposal for the remuneration and election or re-election of the external auditor and submits its recommendation for the appointment of the external auditor to the Board of Directors. In addition, the Audit Committee shall ensure that the Board of Directors is aware of matters which may significantly impact the Company's financial condition or business affairs. The Audit Committee consists of at least three members appointed by the Board of Directors. The Audit Committee has a Chairman, elected by the Board of Directors. The members of the Audit Committee must meet the independence and expertise criteria and other criteria applicable to Audit Committee members of publicly listed companies in Finland. Matti Rihko serves as the Chairman of the Audit Committee, and Vesa Koskinen and Olli Holmström serve as members of the Audit Committee. The Audit Committee convened four times after July 1, 2017. The attendance rate of the Committee members was 100%.

Name	Meetings attended	Attendance rate
Olli Holmström	4/4	100%
Vesa Koskinen	4/4	100%
Matti Rihko	4/4	100%

Remuneration Committee

The Remuneration Committee carries out its responsibilities under its Charter adopted by the Board of Directors. The Charter of the Remuneration Committee came into effect on July 1, 2017.

The Remuneration Committee of the Board of Directors identifies individuals qualified to serve as the CEO of the Company and gives its recommendation on the appointment of the CEO to the Board of Directors. It also assists the Board of Directors with any major management reorganizations on the basis of preparation and proposals by the CEO. The Remuneration Committee assists the Board of Directors with the evaluation and remuneration of the CEO and the members of the Executive Team reporting directly to the CEO, oversees the Company's remuneration policies, schemes, and plans, as well as defines appropriate succession planning procedures for the Executive Team.

The Remuneration Committee consists of a minimum of three members appointed by the Board of Directors. The members of the Remuneration Committee must meet the independence criteria applicable to such committee members of publicly listed companies in Finland, including that the majority of the members of the committee must be independent of the Company. Remuneration Committee members must possess

⁴ Olli Holmström was elected as a member of the Board of Directors as of April 20, 2017.

the expertise and experience required for the performance of the duties and responsibilities of the Remuneration Committee. Desirable qualifications for members of the Remuneration Committee include experience in business management, corporate governance, human resources management, and executive remuneration.

The Remuneration Committee establishes its own schedule and meets as frequently as necessary to carry out its responsibilities under its Charter, and in any event at least twice a year.

Fredrik Cappelen serves as the Chairman of the Remuneration Committee, and Åse Aulie Michelet and Åsa Riisberg serve as members of the Remuneration Committee. The Remuneration Committee convened twice after July 1, 2017. The attendance rate of the Committee members was 66.67%.

Name	Meetings attended	Attendance rate
Fredrik Cappelen	2/2	100%
Åse Aulie Michelet	0/2 ⁵⁾	0%
Åsa Riisberg	2/2	100%

Chief Executive Officer

The CEO is responsible for the day-to-day management of the Company and for implementing the Company strategy in accordance with the instructions and orders issued by the Board of Directors. The CEO undertakes the execution of measures approved by the Board of Directors and oversees preparations for any strategically important measures. The CEO ensures that the management of the Company is appropriately arranged and the Company's accounting complies with legislation. The CEO also ensures the appropriate arrangement of the Company's administration and asset management. Yrjö Närhinen has served as the CEO for Terveystalo since 2010. Biographical details of the CEO are provided in the Group Management section.

Executive Team and management system

The Company's CEO serves as the Chairman of the Executive Team. The Executive Team consist of the Chief Medical Officer and the Officers and Senior Vice Presidents responsible for operational and commercial activities, digitalization, finances, HR and legal matters, communications, brand, and business operations. The holdings of the members of the Executive Team and controlled entities on December 31, 2017 in Terveystalo Plc.⁶⁾

⁵⁾ Shareholdings are in Terveystalo Plc. The Executive Team members have no holdings in other Terveystalo Group companies.

⁶⁾ Due to a misunderstanding meeting invitations weren't received by Åse Aulie Michelet.

⁷⁾ Yrjö Närhinen's ownership consists of 556,353 shares held by Närhinen pesä Oy, which he controls, and 760,106 shares held by Mandatum Life Insurance Company Limited, Mr. Närhinen being the ultimate beneficiary.

⁸⁾ Laura Rätty's ownership consists of 9,078 shares held by Groundhog Ltd, which she controls.

⁹⁾ Juha Tuominen's ownership consists of 160,625 shares held by Mandatum Life Insurance Company Limited, Mr. Tuominen being the ultimate beneficiary. In addition, Juha Tuominen's spouse controlled entities hold 5,820 shares.

¹⁰⁾ CEO Yrjö Närhinen, CFO Ilkka Laurila, Director for Investor Relations and Financial Communications Kati Kaksonen, and Executive Assistant to the CEO Paula Rainio-Päivinen

¹¹⁾ The Chairman Fredrik Cappelen, and other members of the Board of Directors Olli Holmström, Vesa Koskinen, Åse Aulie Michelet, Ralf Michels, Matti Rihko, and Åsa Riisberg.

Chief Executive Yrjö Närhinen ⁶⁾	1,316,459
Senior Vice President, Commercial Jens Jensen	119,476
Chief Digital Officer Juha Juosila	94,323
Senior Vice President, HR and Legal Johanna Karppi	10,112
Senior Vice President, Communications, Marketing and Brand Susanna Laine	18,668
Chief Financial Officer Ilkka Laurila	314,923
Senior Vice President, Public Partnership Laura Rätty ⁷⁾	9,078
Chief Operating Officer, Clinic Network Siina Saksi	50,559
Johtava ylläääkäri Juha Tuominen ⁸⁾	160,625
Chief Operating Officer, Centralized Businesses and Capital Region Pia Westman	23,594

Biographical details of the Executive Team members are provided in the Group Management section.

The Executive Team meets once or twice a month or as needed. It assists the CEO with tasks such as the preparation and execution of the Company strategy, business plans, matters of principle, and any other important matters. In addition, the Executive Team assists the CEO in ensuring the flow of information and sound internal co-operation. The Company's Board of Directors decides on the nomination and remuneration of Executive Team members.

Group organization

Terveystalo Plc employs four persons. The same members of the Board of Directors than in Terveystalo Plc serve as Board members also at Terveystalo Healthcare Holding Oy, which includes the financing of the Group. At the other subsidiaries, the CEO, CFO, and SVP, HR and Legal usually serve as members of the subsidiary's Board of Directors. From the perspective of business operations, the Group subsidiaries operate in accordance with the Group's management system. The Group's operations involve Suomen Terveystalo Oy, and Terveystalo Healthcare Oy is the Group's centralized procurement company.

TERVEYSTALO PLC – THE PARENT COMPANY OF THE GROUP

TERVEYSTALO HEALTHCARE HOLDING OY – financing

STAR HEALTHCARE OY – the Group's administrative services

TERVEYSTALO HEALTHCARE OY – the Group's centralized procurement

SUOMEN TERVEYSTALO OY AND OTHER OPERATIVE COMPANIES – the operative business

III. DESCRIPTIONS OF INTERNAL CONTROL PROCEDURES AND THE MAIN FEATURES OF RISK MANAGEMENT SYSTEMS

Risk management

Risk is part of Terveystalo's management system. The Company applies a risk management policy adopted by the Board of Directors. The purpose of risk management is to ensure fulfilment of the customer promise, patient and occupational safety, quality of services, financial performance, business continuity, a good company image, and corporate social responsibility.

Risk management is an integral part of the planning processes and as monitoring and reporting routines of Terveystalo Group. It is implemented in the day-to-day management and activities at all levels of the organization. Risk management must be consistent and commensurable. It is important to understand the causes and consequences of risks and to ensure that the risk management measures are correct and properly targeted.

Goals of the risk management:

- Ensuring business continuity
- Ensuring the achievement of strategic and operative objectives
- Managing risks associated with financial transactions
- Supporting decision-making
- Ensuring top quality care and patient safety
- Ensuring employees' expertise and occupational safety
- Avoiding operational risks and risks of damage and minimizing damage if a risk is realized
- Improving risk awareness within the organization
- Identifying the opportunities associated with risk-taking, improving risk tolerance
- Identifying development opportunities within the organization
- Gaining the trust of external and internal stakeholders

Terveystalo strives to proactively identify, analyze, and manage major risks. Risk management is an integral part of management. It contributes to strategic development, helps managers make informed choices, puts measures in priority order, takes into account opportunities, uncertainties, and their effects, and distinguishes between alternative approaches.

Risk management responsibilities

Responsible party	Range of responsibility
Board of Directors	Is responsible for risk management and its adequacy, and adopts the risk management policy.
CEO	Is responsible for organizing risk management in the Group.
Executive Team	Operational risks, assessing risks, and implementing measures related to risks.

Risks are assessed on all levels of Terveystalo Group's organization. Terveystalo identifies risks using performance indicators, market statistics, effectiveness information, customer feedback, register data, inspection reports and inquiries from the authorities, occupational safety risk surveys, incident information, audit results, and competitor information.

Internal control

Terveystalo has defined the principles of internal control in accordance with the Finnish Limited Liability Companies Act and the Corporate Governance Code. Internal control aims to ensure that the Company's operations comply with applicable laws and regulations, as well as the Company's principles. In its operations, the Company applies a risk management and internal control policy, adopted by the Board of Directors and defined in accordance with the Finnish Limited Liability Companies Act and the Corporate Governance Code. The objectives of internal control related to the financial reporting process are to ensure that Terveystalo's financial reporting is reliable; interim reports and financial statements are prepared in accordance with the accounting principles and policies applied by Terveystalo and give a fair view in all material respect of the Company's finances; and that regulations and principles are complied with. Internal control is based on Terveystalo's risk management system, business culture, and respective practices. The Company values, Code of Conduct, and Group policies and principles, such as the risk management policy, financial policy, procurement policy, credit policy, disclosure policy, and approval authorizations, guide the internal control of Terveystalo's financial reporting process. The party that owns and approves the financial reporting-related policies is usually the CFO. Internal control is carried out by the Board of Directors, the Audit Committee, the operational management and, in respect of the financial reporting process, employees in financial administration. Terveystalo's Board of Directors bears overall responsibility for internal control and risk management in the Company. The Board of Directors has delegated the practical implementation of an efficient control environment and control measures related to the reliability of financial reporting to the CEO. The CFO is responsible for the control environment of financial reporting. The CFO acts as the owner of reporting risks and reports to the Audit Committee and the Board of Directors on risk management and internal control. Control involves various measures, such as the review of financial reports, reconciliation of accounts, subledgers, and data transfers between systems, logical analyses of reported figures, and comparison analyses of forecasted and realized figures. Monitoring of realized monthly performance compared to targets is an essential factor. These control measures are carried out at different organization levels.

Terveystalo's financial reporting is prepared in accordance with the International Financial Reporting Standards (IFRS). In its financial reporting, Terveystalo also complies with the rules and regulations issued by the Financial Supervisory Authority, the Helsinki Stock Exchange, and the European Securities and Markets Authority (ESMA). The Group's financial performance is reviewed monthly by the Executive Team and the management teams of geographical areas and client groups. The Business Controller



function prepares the financial reports and analyses and budget comparisons and compiles forecasts for the management teams. Terveystalo Group's financial department is responsible for the Group's external reporting and the related guidance.

IV. OTHER INFORMATION PROVIDED IN THE STATEMENT

Internal audit

The Company has obtained quality certification (ISO 9001:2015) for its operations. Activities of internal auditing are also carried out through the processes of the certificate.

The Company's internal quality function ensures compliance with the applied quality standards (including the agreements to be complied with and the decision-making levels) in procurement and sales. The Terveystalo Group has a centralized legal and compliance department, which is responsible for regulation-related matters important for the Company.

In 2018, the Company will establish an internal audit function in cooperation with an external service provider. The internal audit function will prepare an annual plan and report the audits performed under the plan to the Audit Committee.

Related party transactions

The company has specified the Group companies, the CEO, the Executive Team, and the members of the Board of Directors as related parties as well as their close family members and entities in which they have control, joint control or significant influence.

The company's financial administration monitors related party transaction as part of the Company's normal reporting and control procedures and submits quarterly reports on related party transactions to the Audit Committee. Material transactions between the Company and its related parties are presented annually in Notes to the Consolidated Financial Statements.

Main procedures of insider management

Terveystalo complies with the EU's Market Abuse Regulation (MAR), the Finnish Securities Markets Act, the guidelines and regulations issued by the European Securities and Markets Authority (ESMA) and the Finnish Financial Supervisory Authority (FIVA), and the Guidelines for Insiders published by Nasdaq Helsinki Oy. The insider guidelines adopted by the Company's Board of Directors supplement the applicable insider regulation and specify the procedures of the Company's insider management.

The Company has specified the persons responsible for insider management duties and substitutes for these persons. Insider duties include ensuring general compliance, deciding on disclosure of insider information and postponement of

disclosure, maintaining insider lists, supervising compliance with trading restrictions, and notifying transactions relating to Terveystalo shares and other financial instruments carried out by persons in managerial positions and their related parties. The Company does not have a permanent, company-specific insider list. Instead, it has project-specific insider lists.

The Company has specified the members of the Board of Directors, the CEO, the CFO, and the SVP for HR and Legal Affairs as executives. The executives must specify the persons and communities closely associated with them and disclose them to Terveystalo as their related parties. Terveystalo's executives and their related parties must report their transactions with Terveystalo's financial instruments to the Company and the Finnish Financial Supervisory Authority. Terveystalo publishes such transactions in stock exchange releases.

The executives and persons involved in the preparation of the Company's financial reviews, that is, those who participate in the preparation or publication of interim reports and annual financial statements/financial statement releases and receive unpublished Group-level financial information, must not, directly or indirectly, carry out transactions with the Company's financial instruments themselves or on behalf of a third party, or advise anyone to do so, during a closed window of 30 calendar days preceding the publication of the Company's each interim report and annual financial statements release and on the date of publication of such a report.

Auditor

The Company's auditor in 2017 was Authorised Public Accountants KPMG Oy Ab, which appointed Authorized Public Accountant Jari Härmälä as the auditor-in-charge. Auditor's fees paid in 2017 totaled EUR 318.1 thousand and fees paid for other services totaled EUR 612.9 thousand.





GROUP MANAGEMENT BOARD OF DIRECTORS



ULF FREDRIK CAPPELEN

Born 1957, BBA, Swedish citizen
Chairman of the Board of
Directors since 2013
Independent of the company

Committee memberships:
Chairman of the Remuneration
Committee, Member of the
Shareholders' Nomination Board

Main occupation:
Board professional

Relevant work history:

Nobia AB's Managing Director

Key positions of trust:

Chairman of the Board of Directors of Dustin Group
AB (until 13 December 2017), Transcom Worldwide AB
and Dometic Group AB (publ), Member of the Board of
Securitas AB.

Past key positions of trust:

Chairman of the Board of Directors of Svenska ICC
Service AB, Sanitec Europe Oy, Byggmax Group AB,
Granngården AB and Carnegie Investment Bank AB,
Chairman, Vice Chairman and Member of the Board of
Munksjö AB, and Member of the Board of Munksjö Plc,
Cramo Plc, Carnegie AB and WPO Service AB. Svedbergs
i Dalstorp AB's Chairman and Member of the Board.



OLLI HOLMSTRÖM

Born 1960, MTh., Finnish citizen
Member of the Board of
Directors since 2017
Independent of the company

Committee memberships:
Member of the Audit Committee

Main occupation:
Managing Director of the Helsinki
Deaconess Institute Foundation

Relevant work history:
Director HR, Nokia Corporation CTO Units.

Several senior positions in human resources
management at Nokia Plc.

Key positions of trust:

Chairman of the Board of Directors of the Finnish Diakonia
School - SDO Oy, Diakonia Polytechnic Oy, Rinnekoti
Foundation and the Helsinki Deaconess Institute Hoiva
Oy, a Member of the Boards of Medix Laboratoriot Oy,
Joint Medix Laboratoriot Oy and the Finnish Association
of Private Care providers. Member of the Executive
Committee of the Association for Finnish Work.

Past key positions of trust:

Chairman of the boards of Diacor Terveyspalvelut
Oy, Cecilia Hoiva Oy and the Finnish Association of
Private Care providers. Member of the Board of the
Confederation of Finnish Industries.



VESA KOSKINEN

Born 1979, MSc (Econ), Finnish citizen
Member of the Board of
Directors since 2013
Independent of the company

Committees:
Member of the Audit Committee,
Member of the Shareholders' Nomination
Board

Main occupation:
Partner at EQT Partners, Head of Finland and
Head of Services sector

Relevant work history:

EQT Partners

Key positions of trust:

Member of the Boards of Finnish VAKA Services II Oy
(Touhula) and Kfzteile24 GmbH. Chairman of the Board
of EQT Partners Oy.

Past key positions of trust:

Member of the Board of Directors of Roeser Group
GmbH, Swiss Smile AG, Vertu Ltd and Norrwin AB



ÅSE AULIE MICHELET

Born 1952, M.Sc. Pharm., Norwegian citizen
Member of the Board of Directors
since 2016
Independent of the company and
its largest shareholders

Committees:

Member of the Compensation Committee

Main occupation:

Board Professional

Relevant work history:

Managing Director of Teres Medical Group
AS, CEO of Marine Harvest ASA and Senior
Management at GE Healthcare.

Key positions of trust:

Chairman of the Board of Directors at Inven2 AS and
Spin Chip Diagnostics AS, Member of the Board of
Directors of Odfjell SE and Royal Greenland AS.

Past key positions of trust:

Chairman of the Board of Directors of Photocure ASA,
Member of the Board of Directors of Orkla ASA, Yara
ASA, Cermaq ASA and Norske Skog ASA.



RALF MICHELS

Born 1963, MBA, German citizen
Member of the Board of Directors
since 2013
Independent of the company
and its largest shareholders

Committees:

-

Main occupation:

Board Professional

Relevant work history:

Managing Director of Helios
Kliniken GmbH

Key positions of trust:

Member of the Board of Directors of Consus
clinicmanagement GmbH and Deutsche Fachpflege
Gruppe GmbH.

Past key positions of trust:

Chairman of the Board of Roeser Medical GmbH and
Median Kliniken GmbH & Co. KG. Chairman of the
Supervisory Board of W.O.M. World of Medicine AG.



MATTI RIHKO

Born 1962, MSc (Econ), M.A.
(psychology), Finnish citizen
Member of the Board of Directors
since 2012
Independent of the company
and its largest shareholders

Committees:

Chairman of the Audit Committee

Main occupation:

Private investor

Relevant work history:

President and CEO of Raisio Plc

Key positions of trust:

Chairman of the Board of Directors of the Turku
Chamber of Commerce and the University of Turku,
Member of the Board of Directors of the Central
Chamber of Commerce and Turku Science Park Oy
Ab and Member of the Supervisory Board of Kaleva
Mutual Insurance Company.

Past key positions of trust:

Member of the Board of Directors of the Turku
Chamber of Commerce, Oriola Corporation, Turun
Viestintäkamari Oy, Reso Management Oy and Turku
University, Member of the Supervisory Board of Varma
Mutual Pension Insurance Company and member of
the Finnish Delegation of the International Chamber
of Commerce (ICC).



ÅSA RIISBERG

Born 1974, MSc (Econ),
Swedish citizen
Member of the Board of
Directors since 2013
Independent of the company

Committees:

Member of the Compensation
Committee

Main occupation:

Partner at EQT Partners, Head of
the Healthcare Sector and Member
the Partners Committee of EQT Partners

Relevant work history:

Texas Pacific Group and Morgan Stanley

Past key positions of trust:

Member of the Board of Directors at
Atos Medical, BTX Group A / S, Cimbria Bulk
Technology A / S, HTL Strefa S.A., Aleris, SSP and
Svenska Riskkapitalföreningen

EXECUTIVE TEAM



YRJÖ NÄRHINEN

Born 1969, BSc (Econ), Finnish citizen
CEO since 2010, member of the Executive Team since 2010

Relevant work history:

Managing Director of Hartwall Ltd, various managerial positions at Procter & Gamble, including Country Manager for Norway and Finland.

Key positions of trust:

Chairman of the Board of Directors of Lääkäripalveluyritykset ry, the Vice Chairman of the Board of Directors of Finnish Association of Private Care providers, Member of the Boards of Directors of Martela Corporation, rehabilitation center Kuntoutumis- ja liikuntasäätiö Peurunka sr and Confederation of Finnish Industries (EK) (EK as of 1 Jan 2018)

Past key positions of trust:

Chairman of the Board of Directors of Terveyspalvelualan Liitto ry.



JUHA TUOMINEN

Born 1963, MD, PhD, Finnish citizen
Chief Medical Officer since 2010 and a member of the Executive Team since 2010

Relevant work history:

Medical Director and EVP, deputy for the CEO and several operational management and leadership positions at the Helsinki and Uusimaa Hospital District

Key positions of trust:

Member of the Business and Health Service Committees at Finnish Asso-

ciation of Private Care providers, member of the Board of Directors of Lääkärikompassi Oy, member of the Board of Directors of Ensihoidon tukisäätiö and Expert of the National Supervisory Authority for Welfare and Health

Past key positions of trust:

Chairman of the Board of Directors of Novamass Ltd, Member of the Boards of Directors of Lääkäri Mediat Oy and Systems Biology Worldwide Ltd



JENS JENSEN

Born 1973, MSc (Econ), Finnish citizen
Senior Vice President, Commercial since 2016, Member of the Executive Team since 2016.

Relevant work history:

SVP, Head of Sales and Service, Commercial Finland of If P&C Insurance Company Ltd. various managerial positions at If P&C Insurance Company Ltd.

Past key positions of trust:

Member of the Board of Directors of the Finnish Workers' Compensation Center (Tapaturmavakuutuskeskus)





JUHA JUOSILA

Born 1972, MSc (Econ), Finnish citizen
Chief Digital Officer since 2016, Member of
the Executive Team since 2016

Relevant work history:

Director of Business Development
and Strategy of Sanoma Pro Ltd, Chief
Marketing and Technology Officer of Realia
Group Oy, several managerial positions at
MTV Sisällöt Oy (MTV 3) and Sonera Plc.

Past key positions of trust:

Member of the Boards of Directors of Realia Isännöinti
Oy, Huoneistokeskus Oy, Huoneistomarkkinointi
Oy, Realia Management Oy, SKV Kiinteistönvälitys
Oy, Sentraali Oy and Jokakoti Oy (currently Oikotie
Asunnot Oy), a deputy Member of the Board of
Directors of Oy Suomen Uutisradio Ab



JOHANNA KARPPI

Born 1968, LL.M., Finnish citizen
Senior Vice President, HR and Legal
since 2007, Member of the Executive
Team since 2007

Relevant work history:

Rautaruukki Corporation, HRM Director
and several HR positions at Orion
Corporation and at the Confederation of
Finnish Construction Industries

Key positions of trust:

Member of the Board of Directors of Finnpilot
Pilotage Ltd, Chairman of the Työmarkkina
Committee of Finnish Association of Private Care
providers and member of the Osaava työvoima
committee of Confederation of Finnish Industries



SUSANNA LAINE

Born 1967, M.Soc.Sci, Finnish citizen
Senior Vice President, Communications,
Marketing and Brand since 2015, Member of
the Executive Team since 2010

Relevant work history:

Terveystalo Head of Communications,
Marketing, Customer Experience and Private
Customers, several communication positions
at ISS Palvelut Oy (part of ISS Group), Infor
Consulting Oy, Oy SRG Finland Ab (Töölön
Matkatoimisto) and Oy AC-tiedotus Ab



ILKKA LAURILA

Born 1977, MSc (Econ), MSc (Forestry),
Finnish citizen
Chief Financial Officer since 2015, Member of
the Executive Team since 2015

Relevant work history:

Terveystalo Head of Treasury and Finance
and Head of Procurement, Associate Director
of Rahoituksen neuvontapalvelut Inspira Oy,
managerial positions at Ernst & Young Oy





LAURA RÄTTY

Born 1977, MD, EMBA, Finnish citizen
Senior Vice President, Public Partnerships
since 2016, Member of the Executive Team
since 2016

Relevant work history:

Deputy Mayor for Social Affairs and Public Health of the City of Helsinki, the Minister of Social Affairs and Health, a member of the Finnish Government and Chairperson of the Party Council of the National Coalition Party of Finland, several positions in health care sector entities

Past key positions of trust:

Chairperson of the Board of Directors of Oy Apotti Ab and Keva, Member of the Board of Directors of Helsingin Kansallismedia Oy, Member of the Council of Representatives of Helsinki Cooperative Society HOK-Elanto



SIINA SAKSI

Born 1966, MSc (Econ), EMBA,
Finnish citizen
Chief Operating Officer, Clinic Network since
2017, Member of the Executive Team since 2016

Relevant work history:

Business Director, Western and Central Finland at Terveystalo, Senior Vice President, HR Specialist Sales at Pohjola Insurance Ltd, Country Manager of Tryg Finland at Tryg Forsikring A/S, Finnish Branch, and a member of Tryg's Sweden-Finland Executive team at Tryg A/S, several managerial positions at Tryg A/S, If P&C Insurance Company Ltd, Merita Bank Plc and Kansallis-Osake-Pankki



PIA WESTMAN

Born 1965, PhD, MSc (Genetics),
Finnish citizen
Chief Operating Officer, Centralized
Businesses and Capital Region since 2017,
Member of the Executive Team since 2016

Relevant work history:

Business Director, Capital Region and Uusimaa, Business Director for Southern and South-Eastern Finland, the Regional Business Director, South, Unit Director of Terveystalo Kampi, the Director of Hospital and Healthcare Services and Director of Hospital Services of Terveystalo, several managerial positions at Eira hospital Ltd and the Finnish Red Cross Blood Transfusion Service



REMUNERATION STATEMENT 2017

This remuneration statement of Terveystalo Plc (“Terveystalo” or the “Company”) is the statement referred to in reporting requirements of the Finnish Corporate Governance Code (the “CG Code”) for listed companies issued by the Securities Market Association on October 1, 2015. In accordance with the CG Code, the Company publishes its remuneration statement on the Company’s website.

A. DECISION-MAKING PROCEDURE CONCERNING REMUNERATION

The remuneration of the members of the Board of Directors is decided annually by the Annual General Meeting (the “AGM”) of the Company based on the recommendation of the Shareholders’ Nomination Board.

The Remuneration Committee of the Board of Directors assists the Board with its responsibilities relating to the remuneration of the CEO and the other members of the Executive Team reporting directly to the CEO and oversees the Company’s remuneration policies, schemes and plans. The Board of Directors approves the remuneration of the CEO and the other Executive Team members, including salaries, incentives and pension plans, upon the recommendation of the Remuneration Committee.

The Company’s Extraordinary General Meeting of Shareholders held on September 26, 2017 authorized the Board of Directors to resolve on the issuance of shares or special rights entitling to shares, either against payment or without payment, for general corporate purposes. The Extraordinary General Meeting of Share-

holders also authorized the Board of Directors to resolve on the repurchase of the Company’s own shares using the Company’s unrestricted shareholders’ equity. These authorizations are effective until the end of the next AGM, but not for later than June 30, 2018. The Board of Directors may also use the authorizations for remuneration purposes.

B. MAIN PRINCIPLES OF REMUNERATION

Remuneration of the Board of Directors

The Company has established a Shareholders’ Nomination Board, which annually prepares proposals to the AGM with regard to the election and remuneration of the members of the Board of Directors. The Shareholders’ Nomination Board was established as from the listing of the Company on the Helsinki stock exchange.

The AGM held on April 20, 2017 resolved that the Chairman of the Board of Directors would be paid an annual remuneration of EUR 50,000, other external members of the Board of Directors EUR 25,000, and that no remuneration would be paid to the members of the Board of Directors employed by EQT.

Remuneration of the CEO and other Executive Team members

When making recommendations to the Board of Directors regarding the remuneration of the CEO, the Remuneration Committee evaluates the CEO’s performance in light of set targets and considers the Company’s performance, the relative shareholder return, the compensation of chief executive officers in peer companies, previous rewards given to the CEO and the CEO’s overall performance, among others.

Recommendations regarding the remuneration of the other members of the Executive Team are made by the Remuneration Committee based on the evaluation and proposals of the CEO.



When reviewing the CEO's proposals, the Remuneration Committee considers the individual's reported performance in the light of set targets, his or her overall performance as well as compensation paid to executives in similar positions in peer companies.

The remuneration of the CEO consists of a monthly fixed salary, customary fringe benefits and bonuses according to the Company's bonus policy. Moreover, the CEO had insurance for disability until the end of 2017, of which Terveystalo compensated up to EUR 5,000 per year. The remuneration of the other members of the Executive Team consists of a monthly fixed salary that includes the customary fringe benefits inherent in the Company's policy, and bonuses according to the Company's bonus policy.

The CEO's contract may be terminated by either the CEO or Terveystalo with six months' notice. If Terveystalo terminates the CEO's contract without grounds equal to those under the Finnish Employment Contracts Act (55/2001, as amended) that entitle an employer to terminate employment on grounds relating to the employee, the CEO is entitled to an additional severance pay of an amount equalling his or her monthly salary for six months. In addition, in case Terveystalo wishes to invoke the CEO's full twelve-month non-competition undertaking, the CEO shall be entitled to an additional compensation amounting to his salary for six months. The CEO's contract will expire automatically without prior written notice upon the CEO reaching the age of 60.

If the Company terminates an employment contract of a member of the Executive Team other than the CEO, the member is entitled to additional severance pay equalling his or her monthly salary for three months, unless the employment contract has been terminated by the individual him/herself or if the employment contract has been cancelled by either party in accordance with Chapter 8 of the Finnish Employment Contracts Act. In addition, depending on the duration of the post-contractual non-competition undertaking, a member of the Executive Team may be entitled to additional severance pay equalling his or her monthly salary for 4.5 months. The retirement age of Executive Team members other than the CEO is determined in accordance with the Finnish employee pension legislation in force at the time.

Terveystalo offers the members of the Executive Team the statutory Finnish TyEL pension (employees' pension insurance). Furthermore, two members of the Executive Team are entitled to a defined contribution pension benefit amounting to EUR 8,500 per year.

Bonus Scheme

The Company operates a bonus scheme resolved upon by the Board of Directors of the Company upon the recommendation of the Remuneration Committee. The CEO and the other members of the Executive Team are eligible to participate in the bonus scheme in accordance with the Company's bonus policy. Annual bonuses are payable based on the attainment of key performance targets of the Company. For 2017, the key performance targets of the CEO and the Executive Team were based on the Company's EBITDA as well as individual business and performance targets. The individual business and performance targets are set by the manager of the participant in the bonus scheme.

In 2017, the maximum bonus payable to the CEO for achieving his targets was equivalent to his ten months' salary. The maximum bonus payable to the other members of the Executive Team for achieving his or her targets was equivalent to his or her five months' salary.

Long-term Incentive Plan

The Company considers competitive remuneration of management and personnel to be important.

The Board of Directors of Terveystalo Plc resolved in November 2017 to establish a new share-based incentive plan directed at the Group key employees. The aim of the plan is to align the objectives of the shareholders and the key employees in order to increase the value of the Company in the long-term, to retain the key employees at the Company, and to offer them a competitive reward plan that is based on earning and accumulating the Company's shares.

The Performance Share Plan includes three performance periods, calendar years 2018, 2019 and 2020. The Board of Directors will resolve on the performance criteria and on the required performance levels for each criterion at the beginning of each performance period.

During the performance period 2018, the plan offers the key employees a possibility to earn rewards based on the Company achieving the required operational targets and Total Shareholder Return (TSR) levels.

The potential rewards from the performance share plan will be paid partly in Terveystalo Plc shares and partly in cash approximately two years after the performance periods. The cash proportion is intended to cover taxes and tax-related costs arising from the rewards to the plan participants. As a rule, no reward will be paid if a plan participant terminates his or her employment or service before the reward payment.

The rewards to be paid on the basis of the performance period 2018 correspond to an approximate maximum total of 943,000 Terveystalo Plc shares, including currently allocated and unallocated shares as well as the proportion to be paid in cash. The plan is directed at approximately 80 key employees, including the members of the Executive Team during the performance period 2018. The Performance Share Plan has not incurred any expenses in 2017.



C. REMUNERATION REPORT

Board of Directors

The remuneration paid to the members of the Board of Directors in 2017 is presented in the following table:

Remuneration of the members of the Board of Directors (in EUR thousand)	From January 1 to December 31. 2017
Fredrik Cappelen (Chairman of the Board of Directors)	50.0
Olli Holmström ¹⁾	17.7
Vesa Koskinen ²⁾	-
Åse Aulie Michelet	25.0
Ralf Michels	25.0
Matti Rihko	25.0
Åsa Riisberg ²⁾	-

1) Member of the Board of Directors since April 20, 2017.

2) No remuneration was paid to the members of the Board of Directors employed by EQT.

CEO

The remuneration and benefits paid to the CEO in 2017 are presented in the following table:

Remuneration of the CEO (in EUR thousand)	From January 1 to December 31. 2017
Salaries and benefits	573.1
Pension costs	102.1
Total	675.2

Other Members of the Executive Team

The remuneration and benefits paid to the Executive Team (excluding the CEO) in 2017 is presented in the following table:

Remuneration of the Executive Team members (excluding the CEO)	From January 1 to December 31. 2017
Salaries and benefits	1,891.4
Pension costs	336.9
Total	2,228.3

In 2017, the payments for the defined contribution pension plans of the other members of the Executive Team amounted to EUR 17,000 in total.



INFORMATION ABOUT GENERAL MEETING OF SHAREHOLDERS

April
12

General Meeting of Shareholders

Terveystalo Plc's Annual General Meeting will be held on **April 12, 2018, starting at 3:00 pm EET**, at Marina Congress Center, Katajanokanlaituri 6, 00160 Helsinki, Finland. The reception of persons who have registered for the meeting will commence at 2:00 pm EET.

Coffee will be served at the meeting.

Notice to General Meeting of Shareholders

The notice to General Meeting of Shareholders, as well as the Board of Directors' proposals to the General Meeting are published in a stock exchange release and on Terveystalo's website. The matters to be dealt with at the meeting are listed in the notice to the meeting. Pursuant to the Limited Liability Companies Act, shareholders have the right to have a matter falling within the competence of the general meeting under law dealt with by the General Meeting, provided that the shareholder requests this in writing from the Board of Directors well in advance, so that the matter can be included in the notice to the meeting.

March
29

The right to attend

Shareholders who are included in the Company's shareholders' register, maintained by Euroclear Finland Ltd, on March 29, 2018, have the right to attend the General Meeting of Shareholders.

April
9

Registration

Shareholders who wish to attend the General Meeting of Shareholders and exercise their right to vote shall inform the company of this **by 4:00 pm EET on Monday, April 9, 2018.**

Registration is possible

- on the internet at https://www.terveystalo.com/en/investors/Corporate-governance/General-Meeting-of-Shareholders/AGM_2018/ or
- by telephone from Monday to Friday from 9:00 am to 4:00 pm EET, **+358 20 770 6866** or
- by letter to Terveystalo Plc, General meeting/Legal matters & Compliance, Jaakonkatu 3, 00100 Helsinki, Finland.

Holders of nominee-registered shares are advised without delay to request from their custodian bank the necessary instructions regarding the registration in the Register of Shareholders, issuing of proxy documents, and registration for the Annual General Meeting. The account management organization of the custodian bank will register a holder of nominee-registered shares who wants to attend the Annual General Meeting to be entered in the temporary Register of Shareholder of the Company at the latest on Monday, April 9, 2018 by 10:00 am EET.

Shareholders may attend the Annual General Meeting or authorize a representative to exercise their rights at the meeting. Please deliver any proxy documents by the registration deadline to: Terveystalo Plc, General meeting/Legal matters & Compliance, Jaakonkatu 3, 00100 Helsinki, Finland.

RECORD DATE OF THE GENERAL MEETING

March 29, 2018, the date of record

April 9, 2018, 4:00 pm EET registration deadline

April 12, 2018, 2:00 pm EET reception of persons registered for the meeting begins

April 12, 2018 3:00 pm EET Annual General Meeting begins

Proposal for the distribution of profits

The parent company's distributable funds total EUR 516.7 million, of which EUR -10.1 million is loss for the financial year. The Board of Directors proposes to the Annual General Meeting that EUR 0.06 per share be distributed for 2017 from the unrestricted equity reserve, totaling EUR 7.7 million. No substantial changes have occurred in the company's financial position since the end of the financial year. The company's liquidity is good and, in the Board's opinion, will not be jeopardized by the proposed distribution of profits.

Basic share information

Listing: Nasdaq Helsinki Oy

Trading ticker: TTALO

ISIN code: FI4000252127

Sector: Healthcare

Number of shares on December 31, 2017:
128,036,531

Date of listing: October 13, 2017

FINANCIAL REVIEWS IN 2018

The publication dates of Terveystalo's financial reporting in 2018 are as follows:

- The Interim report for January–March 2018 will be published on Wednesday, May 16, 2018
- The Half-year report for 2018 will be published on Friday, August 17, 2018
- The Interim report for January–September 2018 will be published on Wednesday, November 14, 2018

Terveystalo's financial reports are prepared in Finnish and English. Subscribe to receive Terveystalo's information releases by email at <https://www.terveystalo.com/fi/Sijoittajat/Tiedotteet/>

Silent period

Terveystalo observes a silent period of 30 days prior to the publication of interim reports and the year-end result. During the silent period, Terveystalo does not comment on any business-related matters or meet with any representatives of the capital markets.

Changes of address

Euroclear Finland Ltd maintains lists of Terveystalo Plc's shares, shareholders, and options. Shareholders who wish to make changes to their personal and contact information are kindly asked to contact their own account operator directly. Terveystalo does not make such updates.

Evaluation of Terveystalo as an investment

According to our knowledge, the following analysts follow Terveystalo Group regularly. The list is not necessarily exhaustive. The listed analysts follow Terveystalo on their own initiative, and the company takes no responsibility for their views.

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CUSTOMER FEEDBACK

To send customer feedback, please fill out the feedback form (<https://www.terveystalo.com/en/Company/Responsibility/Customer-feedback/>), which will be submitted to the clinic chosen by you. You can give feedback also by telephone by calling +358 45 773 499 74.

We recommend to contact us by telephone in matters related to health or treatment. We cannot discuss matters involving personal patient data on social media channels.

Our Customer support provides assistance in questions related to online appointment booking (Mon-Fri from 8 am to 4 pm),
asiakastuki@terveystalo.com

PRESS CONTACTS

Expert interviews for media

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TERVEYSTALO PLC CONSOLIDATED FINANCIAL STATEMENTS 2017



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REPORT OF THE BOARD OF DIRECTORS 2017

Market review

The healthcare services market remained stable throughout the reporting period. The recovering Finnish economy, improved employment rate, and increased consumer confidence all contributed to strong demand in corporate and private customer groups in the review period. Successful acquisitions and good operational performance enabled Terveystalo's growth in terms of both market share and revenue.

In December 2017, the Government decided on amendments to the Draft bill for the Freedom of Choice Act. The amendments were particularly related to the use of customer service vouchers in specialized care and the range of services provided by the future centers for healthcare and social welfare services. The Parliament of Finland aims to consider the healthcare and social welfare reform laws during the spring. The first regional councils will be elected through elections in fall 2018. The responsibility for providing healthcare and social welfare services will be transferred to the counties in 2020. The freedom of choice will be implemented gradually.

With the most extensive network of clinics and hospitals and the largest occupational healthcare customer base, Terveystalo expects to be able to continue its strong performance in the current market structure and to be an attractive partner for many cities and municipalities.

Strategic and financial targets and strategy implementation

Terveystalo's Board of Directors has adopted the following strategic targets for the company;

Maintaining high Clinical quality at the core of strategy and business operations, capitalizing on Finnish market growth opportunities, providing customer-centric proactive care with the aid of digital tools and new channels for interaction, continuous improvement of operational excellence to increase profitability and cash generation and continuing to grow in existing and complementary services through organic initiatives and value-adding acquisitions.

The following long-term financial targets were adopted by the Board for Terveystalo Plc: 6–8% annual growth in revenue in the long term through a combination of organic growth and bolt-on acquisitions; An Adjusted EBITA margin^(*) 12–13% of revenue in the medium to long term and Interest-bearing Net Debt relative to Adjusted EBITDA^(**) not to exceed 3 times. However, indebtedness may temporarily exceed the target level, for example, in conjunction with acquisitions.

^(*) Earnings Before Interest, Taxes, Depreciation and Amortization.

^(**) EBITDA = Earnings Before Interest, Taxes, Depreciation, and Amortization
Adjustments are material items outside the ordinary course of business associated with acquisition-related expenses, restructuring-related expenses, gain on sale of assets, strategic projects including the IPO, new business operations, and other items affecting comparability.

The aim of Terveystalo's Dividend Policy is to distribute at least one third of net profit as dividends during the business cycle. The current financial performance, development potential, financial position and capital requirements are taken into account.

Implementation of strategy during the review period

2017 was a year of strong growth for Terveystalo. Growth was supported by acquisitions and organic growth. Domestic economic growth, growth in employment and improved consumer confidence supported the strong demand for both occupational health care and private customers during the review period. Thanks to strong demand and efficient operational performance, Terveystalo was able to continue to increase its market share.

Strong market development and the strong demand for Terveystalo's services supported growth in all customer segments. Demand for digital services grew steadily among customers, which was reflected in the rapid deployment of digital tools and the growing number of users. Terveystalo continued to develop digital solutions during the year by launching, among other things, the first 24/7 Medical Chat services in Finland and specialty medical chat services.

The acquisitions of Porin Lääkäritalo Oy in January 2017 and Diacor Terveyspalvelut Oy in March 2017 contributed significantly to growth. Integrations were implemented at a rapid pace with regard to personnel, processes and facilities. Terveystalo estimates that the cost synergies of EUR 14.6 million sought through the two acquisitions will be realized according to plan. The impact on earnings will be reflected in the 2018 results almost in full.

Revenue for the full year grew 26.1 percent from the previous year to EUR 689.5 million (547.0) and adjusted EBITA was 10.6% (10.4%) of revenue. Net debt relative to adjusted EBITDA decreased to 2.8 (4.2).

Significant events during the review period

In January 2017, Terveystalo acquired Porin Lääkäritalo Oy in Pori and Rauma, which had a concentrated customer base with approximately 15,200 occupational healthcare end-customers and 1,030 occupational healthcare customers. At the end of March 2017, Terveystalo acquired Diacor Terveyspalvelut Oy, which strengthened Terveystalo's network in the Helsinki metropolitan area and in Turku with about 135,000 end-users of occupational health care and about 700,000 patient-per-year patient visits.

Terveystalo was listed on the Nasdaq Helsinki main list in October 2017. The IPO was the largest in the Nordic countries in 2017.



The listing consisted of a share issue and a share sale. Terveystalo raised about EUR 100 million in gross assets in the share issue. The demand from both Finnish and international investors was strong, and the listing was oversubscribed several times. Trading of the Company's shares commenced on the Prelist of Nasdaq Helsinki Oy ("Helsinki Stock Exchange") on October 11, 2017 and on the Official List on October 13, 2017. After the completion of the listing, the total number of outstanding shares of the Company was 128,036,531 shares. In the end of 2017, the total number of shareholders was more than 14,000 shareholders.

The objective of the Offering and listing was to improve Terveystalo's ability to successfully pursue its strategy and invest in its

business in order to remain at the forefront of developing the standards of the quality and impact of treatment and publishing of results of clinical quality in Finland, which the Company expects to drive long-term growth for the Company.

Future outlook

The continuing improvement of the domestic economy supports corporate and private customer business. Healthcare and social welfare reform will change the environment for all healthcare companies and create new opportunities, especially for those who invest in meeting the new needs created by the reform. Terveystalo expects its markets to continue to develop favorably.

KEY FIGURES

Terveystalo Group, in millions of euro	2017	2016	2015
Revenue	689.5	547.0	505.6
Adjusted EBITDA ^c	92.4	72.9	67.2
Adjusted EBITDA, % ^c	13.4	13.3	13.3
Adjusted EBITA ^c	73.0	56.8	50.7
Adjusted EBITA, % ^c	10.6	10.4	10.0
EBITDA ^c	68.2	68.9	59.0
EBITDA, % ^c	9.9	12.6	11.7
EBITA ^c	48.8	52.7	42.5
EBITA, % ^c	7.1	9.6	8.4
Operating profit (EBIT) ^c	28.2	29.6	19.3
Operating profit (EBIT), % ^c	4.1	5.4	3.8
Adjusted net income ^{c,***}	44.0	30.3	21.9
Return on equity (ROE), % ^c	2.1	5.6	0.5
Equity ratio, % ^c	50.7	31.7	30.5
Earnings per share (€) ^{c**}	0.06	0.11	0.01
Gearing, % ^c	56.1	132.6	151.5
Net debt/ Adjusted EBITDA (LTM) ^c	2.8	4.2	5.0
Total assets	902.3	734.1	723.6
Average personnel FTE	3,180	2,605	2,480
Personnel (end of period)	4,265	3,463	3,416
Private practitioners (end of period)	4,431	3,448	3,430

^{a)} Alternative performance measure. Terveystalo presents alternative performance measures as additional information to financial measures defined in IFRS. Those are performance measures that the company monitors internally and they provide management, investors, securities analysts and other parties with significant additional information related to the company's results of operations, financial position and cash flows. These should not be considered in isolation or as substitute to the measures under IFRS.

Adjustments are material items outside the ordinary course of business associated with acquisition-related expenses, restructuring-related expenses, gain on sale of assets, strategic projects including the IPO, new business operations, and other items affecting comparability. Adjustments totaled EUR 24.1 (4.0) million for the full year 2017.

^{**)} The effect of share conversion and share split have been taken into account in the weighted average number of shares. Comparative figures have been adjusted accordingly.

^{***)} Finance costs related to the previous bank loans had been amortized to the loan period using the effective interest rate method. As part of the IPO, these costs have been expensed.



DEVELOPMENT OF REVENUE BY PAYER GROUP IN 2017

Corporate

Corporate customers constitute Terveystalo's largest customer group. Terveystalo's corporate customers consist of the company's occupational healthcare customers, excluding municipal occupational healthcare customers. The company provides statutory occupational health services and other occupational health and wellbeing services for corporate customers of all sizes. Terveystalo is the largest provider of occupational healthcare services in Finland in terms of revenue and the number of end-users. Terveystalo provides occupational healthcare services for over 23,000 companies.

Corporate revenue for the financial period was EUR 372.1 (290.8) million, up by 28.0 percent. The acquisitions of Porin Lääkäritalo in January 2017 and Diacor in March 2017 contributed significantly to revenue growth. In addition, organic growth in occupational healthcare customer contract base increased the number of end-user customers in Terveystalo's occupational healthcare services. Favorable development of sales mix and preventive occupational healthcare services also promoted revenue growth.

Private

Private customers are Terveystalo's second-largest customer group. Private customers include private individuals and families. The company's strong brand, easy access to services without long waiting times, leading service portfolio for private customers, families, and senior citizens, and personalized digital services give Terveystalo a competitive edge over public healthcare services and encourage customers to invest in their own health. Services for private customers are paid for either by the customers themselves or by their insurance companies.

Revenue for the review period from private customers was EUR 253.8 (195.7) million, an increase of 29.7 percent. The acquisitions of Porin Lääkäritalo and Diacor, stable organic development, and, to a lesser effect, the expansion of the dental network in Lahti, Forssa, Espoo, and Iisalmi contributed to top line growth in the review period. Divestments of fertility clinics in Finland had a minor effect on revenue in the reporting period.

Public

Terveystalo's public customer group is made up of Finnish public sector organizations, such as municipalities, municipal federations, and hospital districts, as well as municipal occupational healthcare customers. Terveystalo's broad nationwide platform, digital offering, good reputation, and established brand, as well as its thorough expertise and experience in healthcare services throughout the chain of care, make Terveystalo an attractive partner for the public sector. Terveystalo's services for public sector customers are mainly financed by municipalities and government budgets.

Revenue from public customers increased by 5.2 percent in the review period and was EUR 63.6 (60.5) million. Demand for Terveystalo's services in the public sector market is strong, and the new occupational healthcare outsourcing contracts contributed to

revenue growth. The volumes of the Finnish Immigration Service, in turn, declined from the previous year, which reduced revenue slightly from the comparison period.

During the review period, Terveystalo won six occupational healthcare outsourcing contracts and three new outsourcing contracts for healthcare and social welfare services at Kinnula, Lumijoki and Iisalmi.

Consolidated revenue and result

Terveystalo Group has early adopted the new IFRS 15 *Revenue from Contracts with Customers* standard before the mandatory application date. The Group has elected to apply IFRS 15 standard using retrospective approach for all financial years presented and has adjusted comparative information accordingly. With regard to the application of the standard, the Group has reviewed the revenue recognition principles and presentation in accordance with the new IFRS 15 standard, taking into account changes in service model and way of operating. In accordance with IFRS 15 standard, revenue also includes the fees for services provided by private practitioners to private customers. These fees are presented in revenue on a gross basis instead of the previous net based presentation. Based on management judgement, the Group has primary responsibility for providing services to customers and therefore, it acts as a principal, because it has exposure to the significant risks and rewards associated with the contractual arrangements. The gross basis is considered to result in a more faithful presentation of the Group's revenue. The adoption of IFRS 15 standard had no impact on the Group's equity.

Revenue for 2017 was EUR 689.5 (547.0) million, up by 26.1 percent. The acquisitions of Porin Lääkäritalo and Diacor contributed significantly to revenue growth. Organic growth was stable, and demand for Terveystalo's services was high.

Costs for materials and services in 2017 increased in line with the revenue growth by 25.0 percent, amounting to EUR 324.3 (259.3) million. The Group's employee benefit expenses totaled EUR 189.5 (155.5) million, an increase of 21.8 percent as a result of volume growth.

Adjusted^(*) EBITDA for 2017 amounted to EUR 92.4 (72.9) million, up by 26.7 percent. The increase in adjusted EBITDA was mainly a result of increased revenue and materialized cost synergies. Adjusted EBITDA margin for the period represented 13.4 (13.3) percent of revenue.

EBITDA for 2017 was close to flat year-on-year, totaling EUR 68.2 (68.9) million. Acquisition-, restructuring-, and IPO-related costs affected comparability of the EBITDA margin, which decreased by 2.6 percentage points to 7.1 percent.

Depreciation, amortization, and impairment totaled EUR 40.0 (39.3) million. Amortization and impairment of intangible assets in 2017 amounted to EUR 20.2 (23.0) million, of which the amortization of intangible assets allocated from the transaction price of business combinations on the date of acquisition totaled EUR 14.6 (18.0) million. Depreciation of property, plant, and equipment totaled EUR 19.4 (16.1) million.



Terveystalo's operating profit decreased by 4.8 percent and was EUR 28.2 (29.6) million. Significant acquisition-, restructuring-, and IPO-related expenses affected the comparability of the operating profit year-on-year.

Group's net financial expenses in 2017 were EUR 24.1 (20.1) million. Finance costs of EUR 7.2 million relating to the previous bank loans that had been amortized to the loan period using the effective interest rate method were expensed as part of the IPO.

Terveystalo's profit before tax for the period was EUR 3.9 (9.5) million. Taxes for the period amounted to EUR 3.3 (3.2) million. Profit for the financial period was EUR 7.2 million (12.7).

^{a)} Adjustments are material items outside the ordinary course of business associated with acquisition-related expenses, restructuring-related expenses, gain on sale of assets, strategic projects including the IPO, new business operations, and other items affecting comparability. Adjustments totaled EUR 24.1 (4.0) million in 2017.

Financial position and cash flow

Total assets of the Group amounted to EUR 902.3 million (EUR 734.1 million in December 2016). The increase of EUR 168.2 million, or 22.9 percent, was mainly attributable to the acquisitions of Diacor Terveyspalvelut Group and Porin Lääkäritalo Group, for which a total goodwill of EUR 132.5 million was recognized.

Cash and cash equivalents at the end of the period amounted to EUR 33.0 million (EUR 39.1 million in December 2016).

Terveystalo's operating cash flow for 2017 increased to EUR 70.0 (64.7) million. The increase of EUR 5.3 million, or 8.3 percent, was mainly attributable to the change in net working capital.

Net cash used in investing activities in 2017 increased to EUR -102.7 (-9.0) million, with the effect of acquisitions of subsidiaries being EUR -81.6 (-4.7) million.

Cash flow before financing activities in 2017 was EUR -32.7 (55.7) million.

Cash flow from financing activities in 2017 increased by EUR 59.8 million to EUR 26.5 (-33.2) million. The Initial Public Offering (IPO), carried out in October, raised EUR 100.0 million in gross assets. In addition, on the basis of the company's pre-listing shareholders' commitments, the shareholders made a total of 25 million euro investment without consideration in the company's invested non-restricted equity reserve. The existing loans were refinanced at the same time. In connection to IPO and refinancing, Terveystalo withdrew new long-term loans amounting to EUR 257.0 million and repaid old loans amounting to EUR 337.9 million. Paid interests decreased by EUR 5.8 million year-on-year, resulting from the refinancing of loans.

Equity attributable to owners of the parent company totaled EUR 457.3 (232.3) million. The increase of EUR 225.0 million resulted mainly from the new capital raised through the listing and the EUR 93.9 million investment in the unrestricted equity reserve of Terveystalo in relation to the acquisition of Diacor.

Gearing at the end of the reporting period was 56.1 (132.6) percent. Net interest-bearing debt was EUR 256.4 (308.1) million. The decrease was mainly due to the equity raised through the share issue carried out in connection with the listing.

At the end of the reporting period, return on equity was 2.1 (5.6) percent and equity ratio 50.7 (31.7) percent.

Investments and acquisitions

Net investments for 2017, including M&A, amounted to EUR 204.3 (18.1) million. Group's net cash capital expenditure was EUR 16.3 (7.7) million and non-cash capital expenditure EUR 12.9 (9.4) million. These investments consist mainly of investments in network and medical equipment, and the increase can be partially explained by integration-related investments. M&A-related investments were EUR 175.1 (0.9) million including EUR 93.9 million directed share issue related to the Diacor acquisition.

Terveystalo acquired the entire share capital of Porin Lääkäritalo Oy in January 2017. The company's comparable^(*) revenue in 2016 was approximately EUR 23.2 million. The company employed 130 employees and 160 (private) practitioners.

Terveystalo acquired the entire share capital of Diacor Terveyspalvelut Oy on March 24, 2017. Diacor's comparable^(*) revenue in 2016 was approximately EUR 131.2 million and the company employed approximately 700 employees and 800 (private) practitioners at its medical centers and hospital.

Terveystalo estimates that the cost synergies of EUR 14.6 million sought through the two acquisitions will be realized according to plan. The impact on earnings will be reflected in the 2018 results almost in full.

Furthermore, in 2017 Terveystalo strengthened its dental business by acquiring Ky Läkkitörin Hammaslääkäriasema, a dental service provider in Espoo (March), as well as acquiring the oral health operations of Data Plaza Oy, located in Turku (April), and the oral health operations of Crossdental Oy, located in Iisalmi (May). Terveystalo simplified its portfolio by divesting the fertility clinics in Jyväskylä and Helsinki to Ovumia in August.

^{a)} Adjusted according to Terveystalo's accounting principles

Personnel

The number of employed staff on December 31, 2017 was 4,265 (3,463), an increase of 802 (23.2 per cent) year-on-year. At the end of the period, the number of private practitioners amounted to 4,431 (3,448), an increase of 983 persons, or 28.5 per cent. The number of full-time employed staff in the Group averaged 3,180 (2,605), an increase of 575, or 22.1 per cent. The increase in the number of employed staff was mainly due to the acquisitions of Porin Lääkäritalo and Diacor in January and March 2017, respectively.



SHARES AND SHARE CAPITAL

Terveystalo's market value on December 31, 2017 was EUR 1,138 million (-) and closing price EUR 8.90 (-). In 2017, the highest price of Terveystalo's share on NASDAQ Helsinki Ltd was EUR 10.43 (-),

the lowest price EUR 8.76 (-), and the average price was EUR 9.76 (-). A total of 93.6 million shares were traded (-) in 2017. At the end of the reporting period, the number of Terveystalo shares registered in the Trade Register was 128,036,531.

LARGEST SHAREHOLDERS ON DECEMBER 31, 2017

Name	Number of shares	% of shares	Votes	% of votes
1 Varma Mutual Insurance Company	19,223,816	15.0	19,223,816	15.0
2 Lotta Holding I S.A' R.L (EQT)	14,510,320	11.3	14,510,320	11.3
3 Helsinki Deaconess Institute Foundation	13,470,705	10.5	13,470,705	10.5
4 Rettig Group AB	13,243,068	10.3	13,243,068	10.3
5 Hartwall Capital	12,931,690	10.1	12,931,690	10.1
6 Ilmarinen Mutual Pension Insurance Company	6,592,335	5.1	6,592,335	5.1
7 Elo Mutual Pension Insurance Company	5,122,951	4.0	5,122,951	4.0
8 Investment fund OP-Suomi	1,327,340	1.0	1,327,340	1.0
9 ODCO OY	1,225,000	1.0	1,225,000	1.0
10 Mandatum Life	1,223,861	1.0	1,223,861	1.0
Ten largest, in total	88,871,086	69.4	88,871,086	69.4

DISTRIBUTION OF OWNERSHIP, DECEMBER 31, 2017

Osakemäärä	Number of shareholders	% of shareholders	Number of securities	% of securities	Number of votes	% of votes
1-100	4,087	29	319,971	0.25	319,971	0.25
101- 500	8,015	56	1,955,976	1.53	1,955,976	1.53
501-1 000	1,157	8	914,652	0.71	914,652	0.71
1 001-5 000	702	5	1,446,774	1.13	1,446,774	1.13
5 001-10 000	74	0.521	534,092	0.42	534,092	0.42
10 001-50 000	105	0.739	2,323,603	1.82	2,323,603	1.82
50 001-100 000	14	0.099	954,598	0.75	954,598	0.75
100 001-500 000	34	0.239	6,447,771	5.04	6,447,771	5.04
500 001-	22	0.155	113,137,558	88.36	113,137,558	88.36
Total	14,210	100	128,034,995	100.00	128,034,995	100.00
of which nominee-registered	9		18,529,446	14.47	18,529,446	14.47
Non-transferred, total	0		0	0	0	0.00
In general account			0	0	0	0.00
In special accounts, total			1,536	0.00	1,536	0.00
Total issued			128,036,531	100	128,036,531	100

SHAREHOLDER GROUPS, DECEMBER 31, 2017

Shareholders by sector	Number of shares	% of shares
Households	7,856,315	7.17
Public entities	32,556,519	29.73
Financial and insurance institutions	8,031,201	7.33
Companies	17,928,895	16.37
Non-profit institutions	14,493,595	13.24
Foreign owners	28,639,024	26.15
Total	109,507,085	100.00
In general account	1,536	0.00
Of which nominee-registered	18,529,446	14.47

SHARES OWNED BY THE MANAGEMENT

HOLDINGS OF THE MEMBERS OF THE BOARD AND THE CONTROLLED ENTITIES IN THE GROUP, DECEMBER 31, 2017

Ulf Fredrik Cappelen ⁽¹⁾	267,795
Åse Aulie Michelet ⁽²⁾	22,624
Ralf Michels	120,132
Matti Rihko ⁽³⁾	129,132
(Others 0 shares)	

DIRECT AND INDIRECT HOLDINGS OF THE MANAGEMENT GROUP IN TERVEYSTALO, DECEMBER 31, 2017

Yrjö Närhinen ⁽⁴⁾	1,316,459
Juha Tuominen ⁽⁵⁾	160,625
Jens Jensen	119,476
Juha Juosila	94,323
Johanna Karppi	10,112
Susanna Laine	18,668
Ilkka Laurila	314,923
Laura Rätty ⁽⁶⁾	9,078
Siina Saksi	50,559
Pia Westman	23,594

1) Fredrik Cappelen's ownership consists of 267,795 shares owned by Baskina AB, which he controls.

2) Åse Aulie Michelet's ownership consists of 22,624 shares owned by Michelet Consult AS, which she controls.

3) Matti Rihko's ownership consists of 120,132 shares held by Mandatum Life Insurance Company Limited, Mr. Rihko being the ultimate beneficiary. In addition, Matti Rihko directly holds 9,000 shares.

4) Yrjö Närhinen's ownership consists of 556,353 shares owned by Närhen pesä Oy, which he controls, and 760,106 shares held by Mandatum Life Insurance Company Limited, Mr. Närhinen being the ultimate beneficiary.

5) Juha Tuominen's ownership consists of 160,625 shares held by Mandatum Life Insurance Company Limited, Mr. Tuominen being the ultimate beneficiary. In addition, Juha Tuominen's spouse and controlled entities hold 5,820 shares.

6) Laura Rätty's ownership consists of 9,078 shares owned by Groundhog Ltd, which she controls.

Notifications of major shareholdings

No notifications of major shareholdings were submitted in 2017.

Shareholders' agreements

Terveystalo is not aware of any shareholder's agreements regarding the ownership of the Company and voting rights.

Share-based incentive schemes

During the reporting period, the Company did not have any share-based incentive schemes. In November 2017, the Company announced a new long-term incentive scheme, which came into effect on January 1, 2018.

Dividend Policy and equity repayment proposed by Members of the Board

The aim of Terveystalo's Dividend Policy is to distribute at least one third of net profit as dividends during the business cycle. The current financial performance, development potential, financial position and capital requirements are taken into account. In 2017, earnings per share^(*) were EUR 0.06 (0.11).

On December 31, 2017 the distributable funds of the parent company totaled EUR 516.7 million including the loss of the financial period 2017 of EUR -10.1 million. The Board of Directors proposes to the Annual General Meeting that an equity repayment of EUR 0.06 per share totaling EUR 7.7 million be distributed from the invested non-restricted equity reserve for 2017. No material changes have taken place in the company's financial position since the end of the financial year. The liquidity of the company is good and the proposed allocation of funds, in the view of the Board of Directors, does not endanger the company's solvency.

^(*) Earnings per share in accordance with IFRS 2017 have been calculated using the weighted average number of shares for the year. The weighted average number of shares has taken into account the effect of the combination of share classes and the reverse share split. The comparative information has been adjusted accordingly. The number of shares changed significantly during the reporting period, due to the combination of old share classes and the IPO.

Related party information

Related party information is presented in Note 29 to the Consolidated Financial Statements.

Corporate governance

Terveystalo Plc Corporate Governance Statement (CG Statement) will be published as a document separate from the Report of the Board of Directors as a part of the annual review in the week beginning on March 12, 2018, and it will also be available on the company website. The CG Statement includes information on the Board, the CEO and the Auditors.



Risks and uncertainty factors

When implementing the strategy, Terveystalo and its operations face many types of risks and opportunities. Terveystalo applies a comprehensive risk management process to ensure that risks are identified and mitigated whenever possible, even though many of the risks are not within the full control of the Company. To harness its value creation potential, Terveystalo is prepared to take controlled risks within its risk-bearing capacity.

Unacceptable risks include illegal activities or practices, serious risk to customers' or personnel's health; financial losses that significantly affect the company's results; serious health, safety, information safety, incident, or accident risks relating to premises, equipment, or systems; and loss of reputation or image that causes significant loss of confidence in the company.

According to Terveystalo's risk classification, risks are divided into four main groups: strategic risks, financial and personnel risks, operational risks, and patient safety risks. All of these categories may include both internal and external risks and opportunities.

The risks and uncertainties described below may be considered to have a significant impact on the company business, financial performance and prospects for the next 12 months. The list is not intended to be exhaustive.

Changes in the competitive environment and increasing price competition can have a detrimental effect on the company's profitability and growth potential.

Risks related to the development and implementation of new services, products and operating models may arise.

The company's business depends on its ability to find and attract qualified and skilled healthcare professionals, employees and managers and retain them in their service. There is a risk that the turnover of key personnel will be accompanied by the loss of knowledge and know-how.

The company may not be able to find suitable acquisition targets on favorable terms.

The company is a party and may become a party to the Authority, the patient or third-party proceedings brought by judicial or administrative proceeding. The company considers that its current pending legal claims or litigation are not of a significant nature.

During the review period, the Finnish Competition Authority made a decision not to investigate Suomen Terveystalo Oy in connection with a request made in 2016 to investigate the company concerning possible abuse of a dominant position and breach of competition law in the Finnish mammography screening market.

Risk management at Terveystalo and risks related to the company's business are described in more detail in the company listing prospectus and on the company website at <https://www.terveystalo.com/en/investors/Corporate-governance/Risk-management-and-risks/> and in the Corporate Governance Statement for the year 2017.

Seasonal variation and impact of the number of business days

Seasonality has some effect on the Company's revenue. Previously, the Company's revenue has been lower during holiday seasons, particularly in July and August. At the quarterly level, seasonal variation has historically reduced revenue particularly in the third quarter. Due to the seasonal nature of business, the required net working capital varies during the year. Variation is also due to the timing of pension and VAT payments, vacation pay obligations and service fees related to occupational healthcare. Normally, the net working capital of the Company decreases towards the end of the year, as a result of seasonal factors. The number of business days typically has an effect on revenue and earnings development, particularly when comparing development at quarter level.

Events after the reporting period

At the end of January 2018, the Shareholders' Nomination Board of Terveystalo submitted to the Board of Directors its proposal to the Annual General Meeting 2018. The Board proposes that the number of members of the Board of Directors be eight (8) instead of the previous seven (7) and that Ulf Fredrik Cappelen, Olli Holmström, Vesa Koskinen, and Åse Aulie Michelet be re-elected as members of the Board and Eeva Ahdekivi, Lasse Heinonen, Katri Viippola, and Tomas von Rettig be elected as new members of the Board.

The annual remuneration of the Chairman is proposed to be EUR 80,000, annual remuneration of the Vice-Chairman EUR 49,000, annual remuneration of the members EUR 39,000, and annual remuneration of the Chairman of the Audit Committee EUR 49,000. The following attendance fees are proposed to be paid for each Board and Committee meeting: EUR 600 for members residing in Finland, EUR 1,200 for members residing elsewhere in Europe, and EUR 2,400 for members residing outside of Europe. For Board and Committee meetings that are held by telephone or other electronic means, the proposed attendance fee is EUR 600. It is proposed that travel expenses be reimbursed in accordance with the company's travel policy.

In addition, the Nomination Board proposes that the annual remuneration of the Board be paid as a combination of company shares and cash in such a manner that 40 per cent of the annual remuneration is paid in shares in the possession of the company or, if this is not possible, in company shares purchased from the market, and 60 per cent is paid in cash. The Company will reimburse the transaction costs and capital transfer tax related to trading. It is proposed that attendance fees are to be paid in cash.

The Shareholder's Nomination Board that prepared proposals for the Annual General Meeting 2018 consists of Chairman, Risto Murto, CEO, Varma Mutual Pension Insurance Company, and members Vesa Koskinen, M.Sc. Economics, Lotta Holding I S.à r.l. (EQT VI), Maija-Liisa Friman, M.Sc. (Tech.), Helsinki Deaconess Institute Foundation sr, Ole Johansson, Chairman of the Board, Hartwall Capital, Tomas von Rettig, CEO, Rettig Group Oy Ab, and Ulf Fredrik Cappelen, Chairman of the Board at Terveystalo Plc.



The proposals of the Nomination Board will be included in the invitation to the Annual General Meeting. The CVs of the proposed new members are available at Terveystalo's website.

After the end of the review period, Terveystalo increased its dental business by acquiring Hammass Jaarli Oy business in January 2018. The transaction did not have a material financial impact.

STATEMENT OF NON-FINANCIAL INFORMATION

Terveystalo has the largest network of any healthcare service company in Finland. The company offers versatile healthcare, occupational healthcare, oral health, medical and diagnostics services in more than 180 clinics in over 70 towns around Finland. Out of these, 18 are hospital units that perform surgical operations. Terveystalo's customers include companies and organizations, private individuals, insurance companies and the public sector. Nearly 9,000 healthcare professionals work at Terveystalo, approximately half as independent practitioners. The Company's business is described in more detail on pages 10-19 of the Annual Report.

Terveystalo's vision, strategy and values reflect Terveystalo's social responsibility. Our high-quality and customer-oriented services promote the health of Finns and thereby the wellbeing of Finnish society as a whole. Our values – know-how and caring – steer our operations at all levels. Responsibility is evident in all of Terveystalo's operations. Terveystalo has committed to complying with international and local legislation and ethical principles.

In 2017, Terveystalo defined key aspects of responsibility that will guide the planning and implementation of its responsibility program in the future. Essential aspects of responsibility focus on Terveystalo's social role in ensuring the national availability of treatment and preventive care, responsibility for the personnel, clinical quality and effectiveness of care, and transparent operations. Terveystalo systematically monitors and measures the efficiency of its operations, the effectiveness of treatment, customer service and customer satisfaction. As a pioneer in its field, Terveystalo annually publishes key indicators related to all of the above for example in its quality book.

General management principles

The aim of Terveystalo's management system is to achieve the strategic targets, create additional value for the owners and other stakeholders, to manage operational risks and to improve the Company's performance. The Company's operating methods are guided by Terveystalo's SFS-EN ISO 9001:2015 quality certificate, as well as its compliance program, environmental program, policies and guidance, such as the equality and non-discrimination policy and Terveystalo's code of ethics.

SOCIAL AND PERSONNEL RELATED ASPECTS

Society

Private healthcare has a vital role in the society and supplements public services. Terveystalo actively cooperates with other operators to promote the wellbeing of citizens and to solve social challenges related to healthcare. Terveystalo introduces new, cost-effective practices to the sector and attempts to shift the emphasis from treatment to identification of risk groups and prevention of illnesses. Terveystalo wants to help the customers to make choices that promote their wellbeing. Terveystalo also attempts to utilize the health data recorded in its patient database for the benefit of the Finnish society and the public health. Key uncertainty factors are related to political decision-making and the expectations for ethical and financial transparency.

In 2017, Terveystalo together with the Confederation of Finnish Industries, the Central Organisation of Finnish Trade Unions, the Finnish Institute of Occupational Health, PwC, Elo Mutual Pension Insurance Company, Etera, Ilmarinen, Keva, Varma, Veritas and the If Insurance Company conducted an annual review of work left undone. It follows on the comparison studies conducted in 2010–2016 that aimed to find out the direct costs of sick and accident leaves, disability pensions and occupational accident insurance of employees of organizations that operate in Finland and their investments in occupational healthcare services. The 2017 annual report reviewed the years 2008–2016. For the Finnish private sector, the cost of work left undone is EUR 3.5 billion a year. On average, the companies that participated in the annual report have managed to cut the cost of the work left undone by 1.32 percentage points in relation to wages and salaries. If all Finnish employers achieved the same result, the total savings would amount to approximately EUR 1.3 billion in just one year.

Since 2014, Terveystalo has offered the Terveystalo Cost Analysis service for medium-sized and large employers. It provides a big picture of the development of costs related to work left undone and the related savings potential. The results of the annual report show that active work ability management can contribute significantly to an organization's productivity and competitiveness. When the risk of reduced work ability is recognized in time, employees can be offered targeted support. Occupational healthcare that emphasizes prevention is also of paramount importance.

With Terveystalo's cooperation model and tools, the costs of work left undone in customer organizations have decreased by up to 3 per cent, equivalent to EUR 910 per employee. On average, the costs of work left undone in 2016 were 6.17 per cent of the total payroll or EUR 2,580 per employee in Terveystalo customer organizations.

Terveystalo provides the residents of Varkaus and Joroinen with specialized medical care in orthopedics, urology, plastic surgery, vascular and abdominal surgery and surgery in gynecology and ear, nose and throat diseases. The aim of the partnership is to provide residents with fast access to care and effective treatment. In addition, the partnership aims to increase predictability of costs and to stop cost inflation.



The first years' experience shows that waiting times have shortened and the costs have decreased since the cooperation began. According to a report by Nordic Healthcare Group, Varkaus saved about 300,000 euros in medical expenses in 2017, thanks to the Terveystalo partnership.

Availability of care

Care can only be effective when it is given. According to the report of the National Institute for Health and Welfare^(*), 50 per cent of non-emergency patients waited over a week for an out-patient appointment in Helsinki. Private healthcare supplements the public services by offering immediate availability of care. Terveystalo plays a significant role in ensuring the availability of health services; in 2017, approximately 3.3 million physician visits took place at Terveystalo. In addition, Terveystalo is responsible for the occupational healthcare of approximately 700,000 working-age Finns and, consequently, of the work ability of Finns and the competitiveness of companies.

Terveystalo serves its customers through its nation-wide network of 180 clinics. The clinic network is supplemented by digital services that are available 24/7. As the first in Finland in 2017, Terveystalo introduced a doctor chat that is open around the clock, every day of the year. The Company also offers specialist chat services in gynecology and pediatrics, for example.

^(*) National institute for health and welfare: *Odotusajat Suomen julkisessa perusterveydenhuollossa* (March 2017)

Patient safety and the quality and effectiveness of care

The quality and effectiveness of our services are at the core of our strategy, and improvement of quality is based on Terveystalo's Quality Triangle of clinical, operational and experienced quality. Patient safety is the foundation for our clinical quality. Patient safety is monitored and improved by the Quality Management Team, which reports to the Chief Medical Officer. The Quality Management Team supports, monitors and continuously improves quality and patient safety in our everyday operations. We report on the effectiveness and patient safety of care in a transparent manner and develop the reporting practices of the sector. Everyone working at Terveystalo is obliged to comply with Terveystalo's guidance and practices that support patient safety and quality. At Terveystalo, patient safety is monitored using key indicators. These are patient injury reports, compensated patient injuries, notifications and complaints, as well as audit nonconformities and patient safety incidents related to patient safety and data protection.

The cornerstones of Terveystalo's quality system are patient safety and the national legislation governing the field. Terveystalo holds the ISO 9001:2015 quality certification and, in some of the clinics, the ISO 14001 environmental certification, which was updated in 2017 in Terveystalo Joensuu and Terveystalo Oulu to conform to the ISO 14001:2015 standard.

In 2017, 26 of Terveystalo's clinics were evaluated for compliance with the ISO 9001:2015 quality standard by Labquality Oy, a third party accredited auditor. Five of the clinics perform surgical operations. Clinical imaging audits were conducted in 2 clinics and one MRI trailer. In addition to external audits, Terveystalo invests heavily in internal audits, and, in 2017, internal audits were

conducted in 45 clinics. 29 clinics conducted a quality self-audit. During the year, we also piloted a peer-review model for management and supervisory activities in hospitals. Audits and deficiency resolution reporting and monitoring were conducted at the clinic, area and Group level.

In 2017, a total of 3.3 (2.5 in 2016) million physician visits took place at Terveystalo. In 2017, the share of notifications in relation to physician visits was 0.005 per cent (0.005 per cent), and the share of complaints was 0.0009 per cent (0.0011 per cent) of all physician visits. Both notifications and complaints are legal remedies available for patients. Notifications are filed directly to the place of treatment and complaints to an authority (AVI, the Regional State Administrative Agency, or Valvira, the National Supervisory Authority for Welfare and Health).

In 2017, Terveystalo received 3,881 (3,257) patient safety incident reports, which corresponds to 0.12 per cent (0.12 per cent) of all physician visits. Out of these, 60 per cent were close calls. The number of reports has increased from the comparison period in line with the goal, indicating development of the patient safety culture.

In 2017, Terveystalo received 402 (298) patient injury notifications, which corresponds to 0.0124 per cent (0.0112 per cent) of all physician visits. The growth in the number of notifications is mainly due to an increase in the number of visits as a result of the acquisition of Diacor and the inclusion of incomplete requests for review made to Diacor. In 2015^(*), 28.5 per cent of the patient injury reports filed to Terveystalo were compensated for. The share of compensated injuries was 0.003 per cent of physician visits. The share of compensated injuries has decreased somewhat from previous years, which is a clear indication that systematic promotion of quality and patient safety is showing results.

^(*) Figures are reported for 2015, because the Patient Insurance Centre has not completed the review of the 2016 and 2017 notifications.

Quality of care

Diabetes is one of the fastest growing diseases in Finland and in the world. More than half a million Finns suffer from diabetes and their treatment costs account for about 15% of total Finnish health care expenditure. According to some predictions, the number of people affected may even double in the next 10 to 15 years. Early detection of risk factors can prevent the onset of type 2 diabetes. Early diagnosis of illness and effective treatment can prevent the onset of associated diseases and maintain good quality of life and work ability.

In Terveystalo, the assessment of the diabetes risk is carried out in connection with each health check by means of a preliminary inquiry and a fasting blood glucose test. When a high risk is detected for the first time, an individual risk profile is assigned to the client based on additional studies and laboratory tests. Together with the client, a personal health plan is made, where the life situation and goals are taken into consideration so that diabetes cannot break out.

However, if the disease is to get break out, the most important thing is early diagnosis and fast start of good and comprehensive health care. Customer's blood glucose, LDL cholesterol and blood



pressure are constantly monitored using the Etydi tool. These key variables can be used in the treatment of diabetes to form an overall understanding of arterial health of the diabetic patient and the risk of serious adverse events. The effectiveness of treatment can be assessed by comparing the results with the Terveystalo average. This way, it is possible to improve areas that are not at an optimal level in treating diabetes. The implementation of the prevention and treatment of diabetes is monitored at Terveystalo with the following process and outcome indicators:

Process indicators

How often does diabetes risk assessment actually take place?

How often do people with diabetes take the laboratory tests required by the treatment recommendation?

How often does the staff report the issues correctly in the medical report?

Outcome indicators

Long-term value of diabetic patient's blood glucose, LDL cholesterol and blood pressure

Occupational health care plays a key role in preventing diabetes and the resulting costs to the society. During working life, costs occur from increased sickness absences and possibly a shorter working career. Associated diseases usually occur only after retirement after decades of illness and their risk can be decreased with good self-care.

Effectiveness of treatment

The effectiveness of surgical treatment consists of rapid access to treatment, successful surgery with pre- and postoperative procedures and rehabilitation. In Terveystalo, pre-surgery specialist reception is available no later than three working days from contact and surgery is done within a maximum of five days from the surgery decision. Each hospital unit also works with physiotherapists before surgery and post-operative rehabilitation. Physiotherapy is a key part of the Terveystalo Accident Patient Care Clinic, where preoperative guidance and early start of rehabilitation support the customer's return to work and restoring their own functional ability as quickly as possible.

In 2017, about 30% of the surgeries in Terveystalo were knee or shoulder surgeries. Terveystalo's hospital services and occupational health work together to provide total care in connection of the knee and shoulder procedures, with the aim to enable patients fast return to work after the incident.

In 2017, the number of sick days after surgery of the shoulder circumference of the shoulder joint decreased to an average of 81 days (94 days in 2016) and the number of sick days after post-surgical repair of the knee decreased to an average of 57 days (60).

Open and transparent communication

The communication policy of Terveystalo aims at making the Company's operations transparent in order to promote social

openness in matters related to both healthcare and medicine and the healthcare service business. Terveystalo also strives to promote national health by distributing and analyzing statistical healthcare information contained in its records and systems for socially beneficial purposes.

Terveystalo reports on its operations in a transparent manner and constantly strives to develop company reporting and the reporting practices in the sector as well as to increase the comparability between the different actors in the field. The key principles of Terveystalo's communication policy are transparency, integrity, fairness and activeness. The Company communicates both positive and negative information consistently and simultaneously to all stakeholders. In its communication, Terveystalo complies with the Company's disclosure policy, regulations and guidelines applicable to publicly listed companies and limited companies as well as the good practices of marketing and journalism. The Company has committed to comply with the global ethical guidelines for communication, such as the Code of Athens and the Code of Lisbon, and with the responsible business principles in the healthcare service sector.

Customer experience

As a private provider of health services, Terveystalo's task is to create health value and value for money for its customers. As a result, measuring customer satisfaction is of utmost importance and a decrease in customer satisfaction is an important business risk. Terveystalo gathers customer feedback and measures customer satisfaction on an ongoing basis. Customer feedback helps us to constantly improve the customer experience. The Company also promotes dialog between the patients and the medical staff by training its personnel in the field of customer service and communication and by developing new channels for patient communication. Customer satisfaction is measured using the Net Promoter Score.

In 2017, the NPS for the Terveystalo Group on average was 66.9 (70.6) per cent and 88.3 (88.9) per cent in clinical services.

Responsibility for personnel

As a large employer, the impacts of Terveystalo's social responsibility are targeted to the employees and the working conditions. Impacts related to the personnel and the working conditions are managed in line with Terveystalo's strategic HR policies and Terveystalo's personnel policy. Competent and committed personnel is pivotal for us, and the biggest risks are related to the lack of resources and the commitment of the employed staff and the private practitioners.

Management, personnel development and wellbeing at work

Terveystalo complies with ethical guidelines and the equality and non-discrimination policy and does not discriminate on the basis of race, age, ethnic or national origin, nationality, language, religion, belief, opinions, health status, disability, sexual orientation or other personal reasons or circumstances. Terveystalo does not allow harassment or inappropriate behavior in the work community. The Company offers equal opportunities for everyone to be employed, to work, to advance in their career and to develop.



Terveystalo invests in the development of the personnel skills and management and in wellbeing at work. The personnel is encouraged to improve their competence throughout their career.

Clearly defined work targets are the foundation for smooth workflows and good supervisory work. According to the personnel survey carried out in 2017, 96.7 per cent (97.7 per cent) of Terveystalo's staff finds the set targets comprehensible and 93.6 per cent (94.5 per cent) feels that their tasks are clearly defined. The staff is happy to come to work, which implies that they are satisfied with their work. Managerial work has constantly strengthened, and the development of management remains important. Fair management is the cornerstone of good managerial work. 92 per cent (91.5 per cent) of Terveystalo's employees assessed the management to be fair. In addition, 93 per cent (93.4 per cent) out of those in an employment relationship felt that the employees trust one another and that the team spirit is good. Improvement of the personnel experience will play a key role over the coming years. Conceptualization of the employee experience was started with the staff at the end of autumn 2017. The employee experience has an impact on customer encounters, and successful customer service is a high priority for Terveystalo.

Terveystalo ensures the required skills and competence of the personnel as part of the recruiting process and places a great deal of emphasis on the orientation of the staff, which is also documented. The Company offers extensive training of professional skills, as well as training on Terveystalo's processes, systems and management. Employees can opt to choose various career paths, including senior positions in medicine and support services, supervisory duties or executive tasks. Terveystalo systematically improves the skills of the personnel, and targets for the following year are set in the development discussions. Future needs are also evaluated with the help of occupational skills profiles based on the various occupational groups. To assist skills development, we organize training sessions and support mutual learning. The majority of learning, however, takes place at work through continuous improvement projects and other activities. Development discussion notes and completed trainings are recorded in the staff information system.

In 2017, the percentage of new employees who received documented orientation was 77 per cent (81 per cent). Terveystalo constantly encourages competence building, and 96.3 per cent (97.8 per cent) of the employees say that they have the necessary skills and competence to successfully carry out their work and to reach the set targets. In 2017, Terveystalo organized 547 centralized national training sessions, as well as unit-specific, external and project-specific training. 450 physicians participated in Terveystalo's own three-day medical convention.

90 per cent of the staff finds their level of energy and alertness and their working ability excellent. Together with occupational healthcare, Terveystalo improves wellbeing and health at work in accordance with the occupational healthcare action plan. Terveystalo systematically reshapes the occupational healthcare services available to its entire personnel. In autumn 2017, we adopted an intelligent referral system to guide the personnel promptly and efficiently to the appropriate treatment. Terveystalo has a solid foundation for early support, and the Sirius system monitors sick leaves. Systematic and solution-oriented management

of work ability is constantly developed. In 2017, the sick leave percentage was 3.7 per cent (3.7 per cent), one percent lower than the sector average.^{**) In 2017, both physicians and health-care students rated Terveystalo the most attractive employer in the sector according to Mediuutiset and Universum surveys.}

^{**) Survey on working hours and absences conducted by the Confederation of Finnish Industries (EK), average in the health service sector 4.7 per cent}

Human rights

Terveystalo's operation is not connected to any direct and significant risks and impacts on human rights. Such impacts can, however, be connected to the supply chain and outsourced operations, for example. Terveystalo's human rights management policy is described in the ethical guidelines. Terveystalo respects and promotes internationally recognized human rights in all its operations. Terveystalo does not use child labor. The Company emphasizes equality and aims to ensure that the working environment is free from discrimination and harassment at work. Terveystalo considers all employees, applicants, private entrepreneurs and partners equal, and they are treated in an equal manner regardless of their race, skin color, religion, gender, age, origin, possible disabilities or handicaps, sexual orientation, marital status, the method of performance of their military service duty, nationality or other factor prohibited by law.

Abuse and harassment are forbidden. No sexual or racial harassment or any other kind of harassment, mental or physical, will be tolerated at Terveystalo. With regard to salaries, the Company emphasizes fairness by taking into account the minimum pay in the sector as well as the market and competitive situation. In Finland, freedom of association and the right to collective bargaining are recognized fundamental rights, and Terveystalo employees can decide to join or not to join trade unions or similar interest organizations. The company does not have the right to restrict their employees' freedom to choose their political views. As a company, Terveystalo does not participate in political activities. Human rights issues were not defined as a key theme in the materiality matrix.

Environmental responsibility

Terveystalo operates in line with the principles of sustainable development in order to reduce and eliminate harmful effects on the environment. Our sustainable development practices include procedures that help prevent environmental impacts, such as reduction of water consumption, reduction of waste and appropriate treatment of waste, life-cycle models for equipment and fixtures, an environmentally friendly travel policy, utilization of online services and technologies as well as up-to-date design and realization of pharmaceutical services. There are key risks related to changes in environmental legislation. Environmental responsibility is managed under Terveystalo's environmental policy and program for 2017–2020, and its implementation is monitored with defined key indicators starting from 2018. The indicators are used to monitor energy consumption, increase in the use of digital services and reduction in paper consumption and the amount of waste for disposal.

In 2017, the consumption of paper increased, for example. This was mainly due to the extensive business integrations during the year. Paper consumption is expected to decrease in 2018, thanks



to the digital services adopted in the autumn. Already at the end of 2017, approximately 10 per cent of workplace surveys and 25 per cent of occupational healthcare action plans were signed electronically. Approximately 70,000 digital Oma Suunnitelma plans were prepared, corresponding to 420 reams (210,000 A4 sheets) in terms of printer paper consumption. The aspect of environmental responsibility was not defined as a key theme in the materiality matrix.

Prevention of corruption and bribery

Prevention of corruption and bribery is described in Terveystalo's ethical guidelines. Members of Terveystalo's personnel are not permitted to give or receive any gifts that affect business decisions or have considerable personal nominal or financial value. It is forbidden to offer any inappropriate financial incentives to representatives of the authorities with the goal of promoting Terveystalo's business or other interests of the Group. According to the Company's general risk assessment, Terveystalo's operations or services do not entail any significant risks related to corruption or bribery. The Company upholds responsible business practices in all its operations. In 2017, no cases of corruption or bribery came to company's attention. Prevention of corruption and bribery was not defined as a key theme in the materiality matrix.

Terveystalo's risk management system is described on company's website at: <https://www.terveystalo.com/en/investors/Corporate-governance/Risk-management-and-risks/> and on page 30-31 of the Annual Report. Governance of the Company is described in Terveystalo Plc's Corporate Governance Statement.

Terveystalo Plc

Board of Directors



FINANCIAL STATEMENTS 2017



CONSOLIDATED FINANCIAL STATEMENTS, IFRS

CONSOLIDATED STATEMENT OF INCOME

In millions of euro	Note	1.1.-31.12.2017	Restated 1.1.-31.12.2016
Revenue	4	689.5	547.0
Other operating income	5, 10	2.1	7.1
Materials and services	6, 10	-324.3	-259.3
Employee benefit expenses	7, 10	-189.5	-155.5
Depreciation, amortization and impairment losses	8	-40.0	-39.3
Other operating expenses	9, 10	-109.6	-70.4
Operating profit		28.2	29.6
Financial income	11	0.1	1.9
Financial expenses	11	-24.2	-22.0
Net finance expenses		-24.1	-20.1
Share of results in associated companies		-0.2	-
Profit before taxes		3.9	9.5
Income tax expense	12	3.3	3.2
Profit for the period		7.2	12.7
Profit attributable to			
Owners of the parent company		7.2	12.6
Non-controlling interests		0.0	0.1
Earnings per share for profit attributable to the shareholders of the parent company, in euro ^(*)			
Basic earnings per share		0.06	0.11
Diluted earnings per share		0.06	0.11

^(*) The effect of share conversion and share split have been taken into account in the weighted average number of shares. Comparative figures have been adjusted accordingly.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In millions of euro	1.1.-31.12.2017	Restated 1.1.-31.12.2016
Profit for the period	7.2	12.7
Total comprehensive income	7.2	12.7
Total comprehensive income attributable to:		
Owners of the parent company	7.2	12.6
Non-controlling interest	0.0	0.1

The notes are an integral part of the Consolidated financial statements.



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In millions of euro	Note	31.12.2017	31.12.2016
ASSETS			
Non-current assets			
Property, plant and equipment	14	92.1	65.5
Goodwill	15, 16	583.3	449.1
Other intangible assets	15	109.2	113.9
Investment properties	17	0.6	0.6
Investments in associates	18	0.3	-
Available-for-sale financial assets	20	1.2	1.7
Other receivables	22	0.0	0.0
Deferred tax assets	12	7.4	6.0
Total non-current assets		794.1	636.8
Current assets			
Inventories		5.2	4.4
Other receivables	22	70.0	53.7
Cash and cash equivalents	23	33.0	39.1
Total current assets		108.2	97.3
TOTAL ASSETS		902.3	734.1
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital		0.1	0.0
Invested non-restricted equity reserve		525.9	308.0
Retained deficit		-68.8	-76.2
Non-controlling interest		0.1	0.4
Total equity		457.3	232.3
Non-current liabilities			
Non-current financial liabilities	21, 25	270.2	315.7
Deferred tax liabilities	12	24.1	25.0
Provisions	27	6.6	4.5
Other liabilities		6.3	29.5
Total non-current liabilities		307.2	374.7
Current liabilities			
Provisions	27	1.4	0.7
Trade and other payables	26	117.1	94.9
Current tax liabilities		0.1	0.0
Current financial liabilities	21	19.2	31.5
Total current liabilities		137.8	127.1
TOTAL LIABILITIES		445.0	501.8
TOTAL EQUITY AND LIABILITIES		902.3	734.1

The notes are an integral part of these Consolidated financial statements.



CONSOLIDATED STATEMENT OF CASH FLOWS

In millions of euro	Note	1.1.-31.12.2017	1.1.-31.12.2016
Cash flows from operating activities			
Profit before income taxes		3.9	9.5
Adjustments for			
Non-cash transactions			
Depreciation, amortization and impairment losses		40.0	39.3
Change in provisions		-0.8	2.8
Other non-cash transactions		1.1	-0.3
Gains and Losses on sale of property, plant, equipment and other changes		-0.2	-4.7
Net finance expenses		24.1	20.1
Changes in working capital			
Trade and other receivables		1.0	-5.4
Inventories		0.0	0.3
Trade and other payables		1.3	3.6
Interest received		0.1	0.1
Income taxes paid		-0.6	-0.6
Net cash from operating activities		70.0	64.7
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		-81.6	-4.7
Acquisition of property, plant and equipment		-11.4	-7.9
Acquisition of intangible assets		-5.1	-3.8
Proceeds from the disposal of subsidiaries, net of cash disposed of		-	4.8
Proceeds from sale of available-for-sale financial assets		0.1	1.8
Proceeds from sale of business operations, net of cash disposed of		1.1	-
Acquisition of business operations, net of cash acquired		-0.7	-1.0
Repayment of borrowings		-5.1	-0.3
Proceeds from sale of property, plant and equipment		-	2.2
Dividends received		0.0	0.0
Net cash from investing activities		-102.7	-9.0
Cash flows from financing activities			
Share issue		100.0	-
Equity investment without consideration in the invested non-restricted equity reserve		25.0	-
Proceeds from non-current borrowings	25	297.8	-
Repayment of non-current borrowings	25	-344.9	-14.1
Proceeds from current borrowings	25	20.0	25.4
Repayment of current borrowings	25	-31.6	-14.9
Payment of finance lease liabilities	25	-14.6	-6.0
Payment of hire purchase liabilities	25	-9.4	-2.1
Interests and other financial expenses paid		-15.5	-21.3
Acquisition of non-controlling interests		-0.3	-0.2
Net cash from financing activities		26.5	-33.2
Net change in cash and cash equivalents		-6.1	22.5
Cash and cash equivalents at 1 January		39.1	16.6
Cash and cash equivalents at 31 December		33.0	39.1

The notes are an integral part of these Consolidated financial statements.



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In millions of euro	Note	Equity attributable to owners of the parent company				Non-controlling interests	Total equity
		Share capital	Invested non-restricted equity reserve	Retained deficit	Total		
Equity at 1.1.2017		0.0	308.0	-76.2	231.8	0.4	232.3
Comprehensive income							
Profit for the period		-	-	7.2	7.2	0.0	7.2
Transactions with owners							
Share capital increase	24	0.1	-0.1	-	-	-	-
Directed share issue	24	-	93.9	-	93.9	-	93.9
Equity investment without consideration	24	-	25.0	-	25.0	-	25.0
Share issue	24	-	100.0	-	100.0	-	100.0
Transaction costs paid in connection with share issue, net of tax		-	-0.9	-	-0.9	-	-0.9
Share-based payments, personnel offering	19	-	-	0.2	0.2	-	0.2
Transactions with non-controlling interests							
Change in non-controlling interests		-	-	-	-	-0.4	-0.4
Equity at 31.12.2017		0.1	525.9	-68.8	457.2	0.1	457.3

In millions of euro	Note	Equity attributable to owners of the parent company				Non-controlling interests	Total equity
		Share capital	Invested non-restricted equity reserve	Retained deficit	Total		
Equity at 1.1.2016		0.0	308.0	-88.7	219.3	1.1	220.4
Comprehensive income							
Profit for the period		-	-	12.6	12.6	0.1	12.7
Transactions with non-controlling interests							
Change in non-controlling interests		-	-	-	-	-0.8	-0.8
Other adjustments		-	-	-0.1	-0.1	-	-0.1
Equity at 31.12.2016		0.0	308.0	-76.2	231.8	0.4	232.3

The notes are an integral part of these Consolidated financial statements.

1. CORPORATE INFORMATION

Terveystalo Plc is a Finnish public limited liability company organized under the laws of Finland and domiciled in Helsinki, Finland. The parent company, Terveystalo Plc, is listed on the Nasdaq Helsinki. A copy of the consolidated financial statements is available at the Group's website www.terveystalo.com, from Terveystalo Oyj / Corporate Communications, Jaakonkatu 3, 00100 Helsinki, Finland, or via e-mail at investors@terveystalo.com.

Terveystalo is a leading private healthcare service provider in Finland. The company offers general practice and specialist medical care, diagnostic services, outpatient surgery, dental services and other adjacent services to corporate, private and public sector customers. Terveystalo has approximately 180 clinics (of which 18 clinic-hospitals) in approximately 100 locations.

In its meeting on February 28, 2018 the Board of Directors of Terveystalo Plc approved the publishing of these consolidated financial statements. According to the Finnish Limited Liability Companies Act, shareholders have the right to approve or reject the financial statements in the Annual General Meeting held after the publication of the financial statements. The Annual General Meeting also has the right to make a decision to amend the financial statements.

2. ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of preparation

The consolidated financial statements of Terveystalo have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The consolidated financial statements have been prepared in compliance with the IAS and IFRS standards as well as the SIC and IFRIC interpretations in force on December 31, 2017. Terveystalo Group has also early adopted the new IFRS 15 *Revenue from Contracts with Customers* standard. The consolidated financial statements also comply with the regulations of Finnish accounting and company legislation complementing the IFRSs.

The consolidated financial statements are presented in millions of euro and have been prepared under the historical cost basis, unless otherwise stated in the accounting principles. All figures presented have been rounded, and consequently the sum of individual figures may deviate from the presented aggregate figure. Key figures have been calculated using exact figures.

2.2 Application of new and amended IFRSs

New and amended standards applied in the financial year 2017

Terveystalo Group has early adopted the new IFRS 15 *Revenue from Contracts with Customers* standard in financial year 2017 before the mandatory application date. The new standard replaces the requirements of earlier standards and interpretations

regarding revenue recognition. IFRS 15 provides a 5step model for the revenue recognition from customer contracts and specifies, among other things, to what extent and when revenue can be recognised. In accordance with the standard revenue is recognised as control is passed either over time or at a point in time.

More detailed information regarding the Group's revenue and the effects of the adoption of IFRS 15 standard are presented in note 4 *Disaggregation of revenue* and information regarding Group's revenue recognition principles is presented below on accounting policies section 2.15 *Revenue recognition*.

In addition, Terveystalo Group has applied as from 1 January 2017 the following new and amended standards that have come into effect:

- Amendments to IAS 7 *Statement of Cash Flows – Disclosure Initiative* (effective for financial years beginning on or after 1 January 2017). The changes were made to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. Information regarding these amendments are presented on note 25 *Financial liabilities*.
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses* (effective for financial years beginning on or after 1 January 2017). The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments had no impact on Terveystalo's consolidated financial statements.
- Amendments to IFRS 12^{*)}, *Annual Improvements to IFRSs* (2014-2016 cycle) (effective for financial years beginning on or after 1 January 2017). The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments had no impact on Terveystalo's consolidated financial statements.

^{*)} = not yet endorsed for use by the European Union as of 31 December 2017.

Adoption of new and amended standards and interpretations applicable in future financial years

Terveystalo Group has not yet adopted the following new and amended standards and interpretations already issued by the IASB. The Group will adopt them as of the effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year.

- IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2018): IFRS 9 replaces the existing guidance in IAS 39. The new standard includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss



model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The new standard is not expected to have a significant impact on Terveystalo's consolidated financial statements.

- IFRS 16 *Leases* (effective for financial years beginning on or after 1 January 2019): The new standard replaces the current IAS 17 standard and related interpretations. IFRS 16 requires the lessees to recognise the lease agreements on the statement of financial position as a right-of-use assets and lease liabilities. The accounting model is similar to current finance lease accounting according to IAS 17. There are two exceptions available, these relate to either short term contracts in which the lease term is 12 months or less, or to low value items i.e. assets of value USD 5,000 or less. The lessor accounting remains mostly similar to current IAS 17 accounting.
- Terveystalo has started a preliminary assessment of the impacts on its consolidated financial statements. The most significant impact identified is that Terveystalo will recognize new assets and liabilities, mainly for its operating leases of facilities. In addition, the nature of expenses related to those leases will change as IFRS 16 replaces the operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities reported under financing expenses. Terveystalo has not yet quantified the impacts of the adoption of IFRS 16 on its consolidated financial statements. More detailed assessments of the impacts will be done over the next twelve months. The transition alternatives have not yet been decided.
- Amendments to IFRS 2 *Clarification and Measurement of Share-based Payment Transactions*^(*) (effective for financial years beginning on or after January 1, 2018). The amendments clarify the accounting for certain types of arrangements. Three accounting areas are covered: measurement of cash-settled share-based payments; classification of share-based payments settled net of tax withholdings; and accounting for a modification of a share-based payment from cash settled to equity-settled. Terveystalo takes into account the changes when applying IFRS 2 on share-based key employee incentive plan. The standard will apply in the Group for fiscal year starting on January 1, 2018.
- Amendments to IAS 40 - *Transfers of Investment Property*^(*) (effective for financial years beginning on or after 1 January 2018). When making transfers of an investment property, the amendments clarify that a change in management's intentions, in isolation, provides no evidence of a change in use. The examples of evidences of a change in use are also amended so that they refer to property under construction or development as well as to completed property. The impacts of the amendments on Terveystalo's consolidated financial statements are not expected to be significant.
- *Annual Improvements to IFRSs* (2014-2016 cycle)^(*) (effective for financial years beginning on or after 1 January 2018). The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The

amendments relate to IFRS 1 and IAS 28. The impacts of the improvements on Terveystalo's consolidated financial statements are not expected to be significant.

- IFRIC 23 *Uncertainty over Income Tax Treatments*^(*) (effective for financial years beginning on or after 1 January 2019). The interpretation brings clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. The key test is whether the tax authority will accept the company's chosen tax treatment. When considering this the assumption is that tax authorities will have full knowledge of all relevant information in assessing a proposed tax treatment. The impacts on Terveystalo's consolidated financial statements are not expected to be significant.
- Amendments to IFRS 9: *Prepayment Features with Negative Compensation*^(*) (effective for financial years beginning on or after 1 January 2019). The amendments enable entities to measure at amortised cost some prepayable financial assets with so-called negative compensation. The impacts of the amendments on Terveystalo's consolidated financial statements are not expected to be significant.
- Amendments to IAS 28: *Long-term Interests in Associates and Joint Ventures*^(*) (effective for financial years beginning on or after 1 January 2019). The amendments clarify that a company applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The impacts of the amendments on Terveystalo's consolidated financial statements are not expected to be significant.
- *Annual Improvements to IFRSs* (2015-2017 cycle)^(*) (effective for financial years beginning on or after 1 January 2019). The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments relate to IFRS 3, IFRS 11, IAS 12 and IAS 23. The impacts of the amendments on Terveystalo's consolidated financial statements are not expected to be significant.

2.3 Critical accounting estimates and judgements

The preparation of the financial statements require management to make certain estimates and assumptions that are based on management's best view of the circumstances prevailing at the reporting date, prior experience and assumptions about future events related, among other, to the expected development of the Group's economic environment in terms of sales and cost level. However, it is possible that the realised outcomes differ from the estimates and assumptions used in the financial statements. In addition, the application of the accounting policies requires judgement, especially when the current IFRS standard has alternative accounting, valuation and presentation methods.

The Group monitors the realisation of the estimates and assumptions and changes in the underlying factors on a regular basis together with the operating units by using several internal and external information sources. Changes in estimates or



assumptions are recognised in the period when the estimate or assumption is revised, and in the future periods if the change affects the subsequent periods.

The critical issues requiring management's judgement are presented below:

Intangible assets in connection with business combinations

IFRS 3 requires the acquirer to recognise intangible assets separately from goodwill, if certain criteria are met. Recognising intangible assets separately at fair value requires management to estimate the expected future cash flows. Management has used available market information when possible in determining the fair values. If no market information has been available, the measurement of intangible assets has been based on historical income from the asset and the planned use in operation. The valuations are based on discounted cash flows and estimated disposal or replacement prices, and the valuation requires management to make estimates of the future use of the asset and impact on the company's financial position. Changes in the company's future operations may cause changes in valuation.

Management believes that the used estimates and assumptions are reasonable for measurement of fair values. In addition, the Group's property, plant and equipment and intangible assets are assessed to determine whether there is any indication of impairment at least at each reporting date.

The valuation of contingent considerations

Management makes discretionary decisions and estimates when determining the valuation of contingent considerations in business combinations. Judgement is applied especially when estimating the expected amount of payments and those are based on potential scenarios for future returns, amounts paid under different scenarios and the profitability of each scenario.

Lease agreements classified between finance and other leases

Management makes judgements and estimates while assessing when all the risks and rewards incidental to ownership of a leased assets are substantially transferred to the Group.

Impairment testing

Impairment testing for goodwill is carried out at least annually. The Group has no other intangible assets with an indefinite useful life. The recoverable amounts of cash generating units are estimated based on the calculations of their value in use. Preparation of these calculations requires use of estimates. Even though management believes that the used estimates and assumptions are appropriate, the estimated recoverable amounts may differ from the actual results. See note 16 *Impairment testing of cash-generating units including goodwill for more detailed information*.

Provisions

The most significant provisions in the statement of financial position relate to empty leased premises and other loss-making contracts as well as retirement obligations related to some leased premises. Management estimates mainly relate to the estimated amount of losses.

2.4 Principles of consolidation

Subsidiaries

The consolidated financial statements include the parent company Terveystalo Plc and all its subsidiaries where over 50% of the voting rights are controlled by the parent company or the parent company otherwise controls the company. The Group controls an entity when it is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The subsidiaries are included in the consolidated financial statements starting from the date on which control commences until the date on which control ceases.

All subsidiaries are consolidated by using the acquisition method. The consideration transferred for the acquisition of a subsidiary comprise assets transferred, liabilities incurred and the equity interests issued by the Group measured at fair value. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the acquisition date. On an acquisition-by-acquisition basis, non-controlling interest in the acquiree is measured either at fair value or at value, which equals the proportional share of the non-controlling interest in the identifiable net assets acquired.

All acquisition costs, except costs related to issue of debt or equity securities, are recognised as an expense as incurred. The consideration transferred does not include transactions treated separately from the acquisition which are recognised through profit or loss. Any contingent consideration is measured at fair value and it is classified either as a liability or equity. Contingent consideration classified as a liability is measured at fair value at the end of reporting period and the resulting profit or loss is recognised in profit or loss. Contingent consideration classified as equity is not remeasured.

If the Group gains control in stages in the acquiree, the existing interest will be measured at fair value through profit or loss.

Goodwill arising on an acquisition is recognised as the excess of the aggregate of the consideration transferred, the amount of non-controlling interests in the acquiree and previously held equity interest in acquiree over the fair value of the Group's share of the identifiable net assets acquired. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired, the resulting gain is recognised in profit or loss.

Intra-Group transactions, receivables, liabilities and unrealised gains, as well as the distribution of profits within the Group are



eliminated in the preparation of the consolidated financial statements. Accounting policies of subsidiaries have been aligned where necessary to correspond to the Group's principles.

Transactions with non-controlling interests that do not result in the loss of control are treated as equity transactions – in other words, as transactions with owners when they are acting as owners. The difference between the fair value of the consideration paid and the book value of the portion of the net assets acquired is recognised in equity. Also, gains and losses arising from sales of shares to noncontrolling interest are recognised in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is measured at fair value through profit or loss. Terveystalo Group does not have such subsidiaries, which have a significant non-controlling interest.

Associates

Associates are entities over which the Group has significant influence. Significant influence generally arises when the Group holds over 20% of the voting rights, or otherwise has significant influence, but no control over the entity.

Associates are consolidated using the equity method. They are initially recognised at cost, which includes transaction expenses. If the Group's share of the associated company's losses exceeds the carrying amount of the investment, the investment is recognised at zero value in the consolidated statement of financial position. Recognition of further losses exceeding the carrying amount is discontinued, unless the Group has incurred legal or constructive obligations on behalf of the associate.

Unrealised gains resulting from the transactions between the Group and associates are eliminated according to the Group's share of ownership. Goodwill relating to an associate is included in the carrying amount of the investment. The Group's share of the associated company's profit or loss for the period is separately disclosed below net finance expenses. Adjustments have been made when necessary to the associate's accounting policies to align to those of the Group.

At each reporting date, the Group reviews the carrying amounts of the investments in associates to determine whether there is any objective indication of impairment. If any such evidence of impairment exists, then the impairment loss is determined. An impairment loss is the amount by which the carrying amount of an investment in associate exceeds its recoverable amount. An impairment loss is recognised in profit or loss.

If the Group's ownership interest in an associate is reduced, but significant influence is retained, only the relative portion of previously recognised amounts in other comprehensive income and the value of the investment in the consolidated financial statements are recognised in profit or loss as part of the gain or loss.

Mutual real estate companies

Housing companies and mutual real estate companies are consolidated to the financial statements as subsidiaries using the acquisition method when the Group has control over the company.

Mutual real estate companies, where Terveystalo Group and other parties have either contractually or through articles of association rights to the assets and obligations for the liabilities relating to the arrangement are accounted for as joint operations. Group includes in its consolidated financial statements proportion to its ownership its share of the income, expenses and other comprehensive income as well as proportion of the assets and liabilities related to joint operations starting from the date the joint control commences until the date the joint control ceases.

Depreciation on premises used in operations is recognised on a straight-line basis over a 40-year depreciation period.

Apartments, which are not used in business operations, are in principal accounted for as investment properties.

2.5 Foreign currency transactions

The consolidated financial statements are presented in euros which is the functional and presentation currency of the parent company. Transactions in foreign currencies are translated into respective functional currency at the exchange rate prevailing on the transaction date. Gains and losses arising from transactions denominated in foreign currency and from translation of monetary items are recognised in profit or loss as financial income or expenses.

The Group had no significant foreign currency transactions during the reporting period and as at the reporting date the Group has no significant foreign currency denominated monetary or non-monetary statement of financial position items.

2.6 Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Depreciation is recognised on a straight-line basis over the estimated useful lives of items of property, plant and equipment. Land is not depreciated

The estimated useful lives are as follows:

Magnetic resonance imaging equipment	10 years
Buildings	10–40 years
Machinery and equipment	2–7 years
Improvements to office premises	2–10 years

Premises used in operations are depreciated on a straight-line basis over a 40-year depreciation period.

Machinery, equipment and other tangible assets acquired through a finance lease are recognised in the statement of financial position and are depreciated over the shorter of the useful life or lease term. Depreciation periods vary from 2 to 6 years.

Operational premises acquired through sale and leaseback contracts and other leases of premises that are classified as finance lease are capitalised at the present value of minimum lease payments and depreciated over the lease period. Depreciation periods vary from 8 to 15 years. Property, plant and equipment also include artworks which are not depreciated.



Gains and losses on the sale and disposal of property, plant and equipment are presented in other operating income or other operating expenses.

Maintenance expenditure are not included in the carrying amounts of property, plant and equipment. When parts of the magnetic resonance imaging equipment need to be replaced, the Group capitalises the replacement costs as a separate item.

The residual values and useful lives of property, plant and equipment are reviewed at each reporting date.

2.7 Investment properties

Investment property refers to properties held by the Group in order to earn rental income or for capital appreciation or both. Investment properties are measured at acquisition cost and depreciated on a straight-line basis over a 40-year depreciation period.

2.8 Goodwill and other intangible assets

Goodwill

Goodwill arising in a business combination is recognised as the excess of the aggregate of the consideration transferred, the amount of non-controlling interests in the acquiree and previously held equity interest in acquiree over the fair value of the Group's share of the identifiable net assets acquired.

Goodwill is not amortised but tested for impairment annually. For impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units. Goodwill is measured at cost less accumulated impairment losses. An Impairment loss in respect of goodwill is not reversed.

Gain or loss on disposed unit includes also the carrying amount of goodwill.

Other intangible assets

Other intangible assets include software and licenses, as well as acquired companies' customer relationships and trademarks. Intangible assets are recognised initially at cost if the cost of the asset can be measured reliably and if it is probable that the future economic benefits attributable to the asset will flow to the Group.

Intangible assets acquired in a business combination are measured at fair value at the acquisition date separately from goodwill, if the assets meet the definition of an asset, are identifiable or rise from contractual or legal rights.

Other intangible assets are measured at cost and amortized on a straight-line basis over the known or estimated useful lives.

The Group has no intangible assets with indefinite useful lives.

Amortization periods used for intangible assets are as follows:

Immaterial rights	3-5 years
Other capitalised expenditure	3-5 years
Software	5 years
Customer agreements and related customer relationships	3-7 years
Trademarks	20 years or shorter useful life

Research and development

Research costs are recognised as an expense as incurred in the statement of income. Development costs are capitalised when certain capitalisation criteria are met. Development costs that do not qualify for the capitalisation are recognised as an expense. The estimated useful lives of capitalised development costs are 3-5 years.

2.9 Impairment

Tangible and intangible assets

At the end of each reporting period, the Group assesses whether there are any indications of impairment. If any indications of an impairment exist, the recoverable amount of the asset is determined. For goodwill and intangible assets not yet available for use, the recoverable amount is determined annually, irrespective of whether there is any evidence of impairment. Evidence of impairment is assessed at the level of geographical areas using common resources i.e at the lowest unit level, which is largely independent of the other units and whose cash flows can be distinguished from the cash flows of equivalent units.

The recoverable amount of an asset is the higher of its fair value less costs to sell or value in use. The value in use is the amount of future cash flows of an asset or cash generating unit discounted to present value. The discount rate used is the pre-tax discount rate which reflects the market view on the time value of money and specific risks related to the asset.

An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount.

The impairment loss is recognised in profit or loss. If impairment loss is related to a cash generating unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit, and then to reduce the carrying amounts of the other assets on a pro rata basis. The useful life of an asset, which is subject to depreciation or amortization, is reassessed when an impairment loss is recognised. The impairment loss recognised for other assets than goodwill is reversed if there has been a change in estimates used to determine the recoverable amount. The reversal of the impairment loss cannot exceed the carrying amount of the asset if impairment loss had not been recognised. Impairment loss recognised for goodwill is not reversed.



Financial assets

At the end of each reporting period the Group evaluates whether there are indications of potential impairment of a single financial asset or a group of financial assets. If the fair value of an available for sale equity instrument is substantively below the acquisition cost, this is an indication of an impairment of an available for sale equity instrument. The impairment loss is recognised in the statement of income immediately.

The Group recognises an impairment loss on trade receivables if there is objective evidence that the receivable cannot be collected in full. Significant financial difficulties of the debtor, probability of a bankruptcy, defaults in payments or significant delays in payments are indicators of impairment in trade receivables. The impairment loss to be recognised in profit or loss is the difference between the carrying value of the receivable and the estimated future cash flows. An impairment loss will be reversed through profit or loss if the decrease in the impairment is based on an objective evidence of an event which has been realized after the initial recognition of the impairment loss.

2.10 Leases – Group as a lessee

Leases of property, plant and equipment, in which the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Assets acquired through a finance lease agreement are recognised on the statement of financial position at inception of the lease period at the lower of fair value of the leased asset and the present value of the minimum lease payments. Assets acquired under finance lease agreements are depreciated over the shorter of the useful life of the asset and the lease period. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each reporting period during the lease period as to produce a constant periodic rate of interest on the remaining balance of liability. The finance lease liability is included in interest-bearing financial liabilities.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating lease contracts are expensed on a straight-line basis over the lease periods.

Classification of contracts as leases is based on the substance of the arrangement and more specifically on whether the arrangement is dependent on a certain asset and whether the arrangement conveys the right to use that asset.

2.11 Financial assets and liabilities

Financial assets

Financial assets are classified in accordance with IAS 39 *Financial instruments: Recognition and measurement* into the following categories: financial assets at fair value through profit or loss, loans and other receivables, and available-for-sale financial assets. Classification is based on the purpose of the acquisition of the item and is made upon initial recognition.

Financial assets at fair value through profit or loss are initially measured at fair value. Fair value is determined based on their current quotation in active markets. Realised or unrealised gains and losses arising from changes in fair values are recognised in profit or loss in the period in which they are incurred. There weren't any financial assets valued at fair value through profit or loss in Terveystalo Group during the periods 2016 and 2017.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets and which are not held for trading purposes by the Group. They are measured at amortized cost and they are recognised in current or non-current financial assets in the statement of financial position based on their nature; they are recognised as non-current, if they mature after 12 months.

Available-for-sale financial assets are non-derivative financial assets that are designated into this category, and that are not classified into any other category. They are included in non-current assets unless the Group has an intention to hold the instrument for less than 12 months from the reporting date, in which case they are included in current assets. Available-for-sale financial assets consist of unlisted shares and investments. They are measured at fair value or, if their fair value cannot be reliably measured, at cost deducted by any impairment loss.

Financial asset is derecognised when the contractual rights to the cash flows from that asset expire, or the financial asset is transferred to another party and the Group substantially transfers all the risks and rewards of ownership to another party.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, bank deposits available on demand, and other short-term highly liquid investments. Items included in cash and cash equivalents have original maturities of three months or less from the acquisition date.

Financial liabilities

Financial liabilities are measured at amortized cost. They are initially recognised at fair value which is based on the consideration received. Transaction costs are included in the initial amount recognised and subsequently the financial liability is measured at amortized cost using the effective interest method.

Financial liabilities are included in non-current and current liabilities and they can be either interest-bearing or non-interest-bearing. Financial liabilities are classified as current liabilities, unless the Group has an unconditional right to postpone the payment of the liability to at least 12 months from the reporting date.

Overdraft accounts included in Group cash pool account structure are included in current interest-bearing financial liabilities and they are presented on a net basis, because the Group has a contractual legal right to off-set or otherwise eliminate an amount due to a debtor fully or in part.

The classification of the Group's liabilities is presented in note 25 *Financial liabilities*.



2.12 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is determined by using FIFO (first in, first out) method. Net realisable value is the cost of goods less obsolescence allowance.

2.13 Employee benefits

Pension benefits

Pension plans are classified as either defined contribution plans or defined benefit plans. The Finnish TyEL pension insurance is treated as a defined contribution plan. In defined contribution plans, the Group makes fixed contributions into the plan. The Group has no legal or constructive obligation to make additional payments if the pension insurance company is unable to pay pension benefits earned by employees in the reporting period or in previous periods. Contributions made into defined contribution plans are recognised through profit or loss in the reporting period which they relate.

Share-based payment transactions

Share-based payment schemes are valued at fair value on the grant date and recognized as an expense over the vesting period. A corresponding adjustment is made to equity or liabilities when the transaction is cash settled.

The expense determined at the grant date is based on the Group's estimate of the number of shares that will ultimately vest. The estimate is reviewed at the end of each reporting period and the potential impact of any adjustments to the initial estimates is recognized in profit or loss and a corresponding adjustment is made to equity or liabilities. When the shares are subscribed, the proceeds received, net of any transaction costs, are credited in the invested non-restricted equity reserve.

There were no expenses in 2017 related to the Performance Share Plan.

Personnel offering

As part of the initial public offering of Terveystalo Plc, personnel were offered an opportunity to subscribe the company's shares with a ten per cent lower price than the subscription price in the institutional and the public offering. Personnel offering is accounted for under IFRS 2. The subscription price paid by subscribers is booked in the invested non-restricted equity reserve and the discount granted to the subscribers is expensed over the 180-day lock-up period with corresponding adjustment to retained earnings. More details on the personnel offering can be found in Note 19 *Share-based Payments*.

2.14 Provisions and contingent liabilities

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are recognised at the

present value of the expenditure required to fulfil the obligation. If the obligation can be partially compensated by a third party, the compensation is treated as a separate asset, but only when it is virtually certain that the compensation will be received.

Leases become onerous if the leased premises become vacant, or if they are subleased at a lower rate than paid for the head lease. A provision is recognised for an estimated loss from vacant lease premises over the remaining lease period, and for losses from subleased premises. A provision is also recognized for other contracts when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

A contingent liability is a possible obligation arising as a result of past events, and whose existence will be confirmed only when an uncertain future event takes place, not wholly within control of the entity. Also, a present obligation which probably does not require a cash settlement or on which the value cannot be reliably estimated is considered as a contingent liability. Contingent liabilities are disclosed in the notes.

2.15 Revenue recognition

Revenue is recognised when the significant risks and rewards of ownership and control over the services and products have been transferred to the buyer. Group's services consists mainly of occupational healthcare services, general practise and clinic hospital operations, dental services as well as diagnostic services. Revenue from services is recognised when the service is rendered. Regarding long-term contracts, revenue is recognised over the term of the contract, as the customer simultaneously receives and consumes the benefits from the service as Terveystalo provides the service. Revenue is recognised to the extent that Terveystalo Group expects to be entitled in exchange for the goods and services taking into account the terms and conditions of the customer contracts and business practices. Regarding private practitioners, Terveystalo acts as a principal and recognises revenue on a gross basis based on accrued gross sales. Fees related to purchasing these services are recognised in materials and services expenses

Revenue recognised by the reporting date corresponds to the benefit of the service provided by Terveystalo for the customer. Terveystalo Group has not incurred any costs of obtaining a contract to be recognised as an asset. Customer contracts do not include any significant financing components.

Terveystalo Group has early adopted the new IFRS 15 *Revenue from Contracts with Customers* standard in financial year 2017 before the mandatory application date of the standard. With regard to the application of the new IFRS 15 standard the Group has clarified the principles of revenue recognition and the comparative information has been adjusted accordingly. More detailed information regarding the effects of the adoption of IFRS 15 standard are presented in note 4 *Disaggregation of revenue*.

2.16 Segment information

Terveystalo Group's business is divided into five geographical regions which are the group's operating segments: Helsinki



metropolitan area and Uusimaa, Western region, Central region, Eastern region and Northern region. In addition to the regional structure, the group functions include finance and administration, HR and legal, IT, communication, marketing and investor relations, business development and digitalisation, as well as clinical quality and service management. Terveystalo reports the Group as one reportable segments based on the IFRS 8 aggregation criteria as same services are offered in all regions, customer type is similar in all regions, methods used to provide services are similar and regulatory environment and operational risks are same in all regions. In addition, monitoring of profitability is primarily based on geographical areas. CEO is Terveystalo's chief operating decision maker. Terveystalo operates mainly in Finland and Terveystalo does not have individual significant customers as defined in IFRS 8.

2.17 Government grants

Government grants are presented in other operating income as far as they do not relate to acquired assets. Grants are recognised when there is reasonable assurance that grants will be received and Group will comply with the conditions associated with the grants.

2.18 Operating profit

IAS 1 (Presentation of Financial Statements) standard does not define operating profit. The Group has defined it as follows: Operating profit is calculated by adding other operating income to revenue, deducting costs related to materials and services, deducting costs related to employee benefits, depreciation, amortization and impairments as well as other operating expenses.

2.19 Adjustments to operating profit

Adjustments to operating profit presented in note 10 *Adjustments to operating profit* include material items outside the ordinary course of business, such as expenses related to acquisitions and restructurings, gain on sale of assets, strategic projects, new operations and other items affecting comparability.

2.20 Earnings per share

Basic earnings per share is calculated by dividing profit or loss attributable to the shareholders of the parent company by the weighted average number of shares outstanding during the financial period. The company has no equity instruments or arrangements that would have dilution effect related to calculation of earnings per share.

2.21 Income taxes

Income taxes primarily include current and deferred taxes. Tax related to items recognized directly in equity or in other comprehensive income is also recognized in equity or in other comprehensive income. Current tax assets and liabilities are measured at the amount expected to be received from or paid to taxation authorities, using the rates and laws that have been enacted by the date of the statement of financial position. Income taxes include any adjustment to tax in respect of previous years.

Deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts in taxation. Deferred tax is not recognised in the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit nor loss at the date of the transaction. Deferred tax is not recognised for non-tax deductible goodwill or for subsidiaries' retained earnings to the extent that it is probable that the temporary difference will not reverse in the foreseeable future. Deferred taxes relate primarily to tax losses carried forward and the difference between the book value and tax base of capitalized customer relationships and trademarks, and to provisions related primarily to loss making contracts and to unused leased premises.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which they can be used and using the losses is considered probable.

Deferred taxes are calculated using tax rates enacted by the reporting date.

3. BUSINESS COMBINATION

Year 2017

During 2017, the Group has made several business acquisitions. The two biggest acquisitions are presented separately and the other smaller acquisitions are disclosed in aggregate.

Acquisition of Diacor terveyspalvelut Oy Group

On 24 March 2017, Terveystalo Healthcare Oy acquired 100% of the shares of Diacor terveyspalvelut Oy ("Diacor"). As a part of the acquisition the Group gained also control of Eloni Oy, a subsidiary of Diacor terveyspalvelut Oy. The acquisition strengthens Terveystalo's position as one of the leading healthcare service provider especially in Helsinki metropolitan area and Turku. The financial statements of acquired companies have been included in the consolidated financial statements of Terveystalo from the end of March, 2017.



The following table summarizes the acquisition date fair values of the consideration transferred as well as the recognized amounts of assets acquired and liabilities assumed at the date of acquisition. The statement of financial position has been prepared in accordance with IFRS and Terveystalo Group's accounting principles in all material respect.

CONSIDERATION TRANSFERRED

In millions of euro	
Cash	19.8
Shares	93.9
Total consideration transferred	113.7

IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED

In millions of euro	
Cash and cash equivalents	5.7
Intangible assets	7.6
Property, plant and equipment	12.7
Deferred tax assets	0.4
Inventories	0.7
Trade and other receivables	15.9
Trade and other payables	-16.0
Provisions	-0.0
Deferred tax liabilities	-1.7
Interest bearing liabilities	-13.5
Total identifiable net assets acquired	12.0

Goodwill 101.7

The tangible assets acquired in the business combination described above were measured at fair value based on the market prices of corresponding assets. In the business combination, the Group has acquired customer relationships. The fair value of customer contracts and related customer relationships included in other intangible assets has been determined on the basis of the estimated duration of customer relationships and the discounted net cash flows from existing customer contracts. The fair values of customer relationships are preliminary. The acquisition resulted a goodwill amounting to EUR 101.7 million. The goodwill is attributable to skills of the workforce and synergies expected to be achieved from integrating acquired businesses into Terveystalo's existing operations. The recognized goodwill is not deductible for tax purposes. The fair value of the acquired trade and other receivables amounts to EUR 15.9 million for which the risk of impairment has been deemed non-significant. The Group incurred acquisition-related expenses of EUR 2.5 million related to consulting, valuation or equivalent services. The expenses have been included in other operating expenses. From the acquisition, revenue of EUR 83.4 million and loss of EUR -0.0 million is recognised in year 2017 to the Group's consolidated results. If the acquisition had occurred on 1 January 2017, management estimates that the Group's consolidated revenue in 2017 would have been EUR 724.1 million and the consolidated

profit for the period would have been EUR 8.3 million. As part of the acquisition, Terveystalo made certain commitments that are comparable to contingent consideration. Management estimates that the realization of these commitments is unlikely.

Acquisition of Porin Lääkäritalo Group

On 2 January 2017, Terveystalo Healthcare Oy acquired 100% of the shares of Porin Lääkäritalo Oy ("Pori"). As a part of the acquisition, the Group also gained control of the subsidiaries Koy Porin Linnankulma, Curia Oy and Porin Lääkärikeskus Oy. Porin Lääkärikeskus owns 7.79% of the shares of Porin Lääkäritalo. The acquisition strengthens Terveystalo's position as one of the leading healthcare service provider in Pori region. The financial statements of the acquired companies have been included in the consolidated financial statements of Terveystalo from the date of acquisition.

The following table summarizes the acquisition date fair values of the consideration transferred as well as the recognized amounts of assets acquired and liabilities assumed at the date of acquisition. The statement of financial position has been prepared in accordance with IFRS and Terveystalo Group's accounting principles in all material respect.

CONSIDERATION TRANSFERRED

In millions of euro	
Cash	43.4
Total consideration transferred	43.4

IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED

In millions of euro	
Cash and cash equivalents	2.3
Intangible assets	2.0
Property, plant and equipment	11.4
Inventories	0.1
Trade and other receivables	1.6
Trade and other payables	-2.4
Provisions	-0.0
Deferred tax liabilities	-0.4
Interest bearing liabilities	-2.1
Total identifiable net assets acquired	12.5

Goodwill 30.9

The tangible assets acquired in the business combination described above were measured at fair value based on the market prices of corresponding assets. In the business combination, the Group has acquired customer relationships. The fair value of customer contracts and related customer relationships included in other intangible assets has been determined on the basis of the estimated duration of customer relationships and the discounted net cash flows from existing customer contracts. The acquisition resulted a goodwill amounting to EUR 30.9 million. The goodwill is attributable to skills of the workforce and synergies expected to be achieved. The recognized goodwill is not deductible for tax

purposes. The fair value of the acquired trade and other receivables amounts to EUR 1.6 million for which the risk of impairment has been deemed non-significant. The Group incurred acquisition-related expenses of EUR 0.8 million related to consulting, valuation or equivalent services. The expenses have been included in other operating expenses. From the acquisition, revenue of EUR 22.6 million and profit of EUR 1.1 million is recognised in year 2017 to the Group's consolidated results.

Other business combinations

On 31 March 2017, Terveystalo Healthcare Oy acquired 100 % of the shares of Ky Läkkitörin Hammaslääkäriasema. The acquired subsidiary has been consolidated to the Group's financial statements from the acquisition month onwards.

On 19 April 2017, Suomen Terveystalo Oy acquired the dental business from Data Plaza Oy as an asset deal.

On 2 May 2017, Suomen Terveystalo Oy acquired the dental business from Crossdental Oy as an asset deal. The acquisition includes a contingent consideration that was treated as part of the consideration transferred and recognized as a liability at the date of the acquisition with a fair value of EUR 0.3 million. The contingent consideration is tied to the 2018–2020 sales.

On 30 November 2017, Suomen Terveystalo Oy acquired the musculoskeletal disease business from City Akuutti Oy as an asset deal. The acquisition includes a contingent consideration that was treated as part of the consideration transferred and recognized as a liability at the date of acquisition with a fair value of EUR 0.1 million. The contingent consideration is tied to the 2018–2019 sales.

The following table summarizes the acquisition date fair values of the consideration transferred as well as the recognized amounts of assets acquired and liabilities assumed at the date of acquisition. The net assets have been adjusted to correspond Terveystalo Group's accounting principles in all material respect.

CONSIDERATION TRANSFERRED

In millions of euro	
Cash	1.6
Contingent consideration	0.4
Total consideration transferred	1.9

IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED

In millions of euro	
Cash and cash equivalents	0.2
Property, plant and equipment	0.7
Inventories	0.1
Trade and other receivables	0.0
Trade and other payables	-0.4
Interest bearing liabilities	-0.5
Total identifiable net assets acquired	0.1
Goodwill	1.9

The tangible assets acquired in the business combination described above were measured at fair value based on the market prices of corresponding assets. The acquisition resulted to a goodwill amounting to EUR 1.9 million. The goodwill is attributable to skills of the workforce and synergies expected to be achieved. The recognized goodwill is tax deductible as far as it related to asset deals. The fair value of the acquired trade and other receivables amounts to EUR 0.04 million, for which the risk of impairment has been deemed non-significant. The Group has incurred acquisition-related expenses of EUR 0.02 million related to consulting, valuation or equivalent services. The expenses have been included in other operating expenses. From these other business combinations, revenue of EUR 2.6 million and profit of EUR 0.2 million is recognised in year 2017 to the Group's consolidated results. If these other acquisitions had occurred on 1 January 2017, management estimates that the Group's consolidated revenue in 2017 would have been EUR 690.6 million and consolidated profit would have been EUR 7.3 million.

Year 2016

During 2016, the Group made several business acquisitions. The biggest acquisition is presented separately and the other smaller acquisitions are disclosed in aggregate.

Acquisition of Tampereen Hammaslääkäriasema Oy

On 29 April 2016, Terveystalo Healthcare Oy acquired 100% of the shares of Tampereen Hammaslääkäriasema Oy. The acquired subsidiary has been consolidated to the Group financial statements from the acquisition month onwards.

The purchase price allocations are based on the acquiree's balance sheet values closest to the date of the acquisition. The balance sheet has been prepared in accordance with IFRS and Terveystalo Group's accounting principles in all material respect.

The following table summarises the acquisition date fair value of the consideration transferred as well as the recognized amounts of assets acquired and liabilities assumed at the date of acquisition.

CONSIDERATION TRANSFERRED

In millions of euro	
Cash	1.8
Total consideration transferred	1.8

IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED

In millions of euro	
Cash and cash equivalents	0.1
Intangible assets	0.3
Property, plant and equipment	0.5
Inventories	0.1
Trade and other receivables	0.1
Trade and other payables	-1.2
Total identifiable net assets acquired	-0.1
Goodwill	1.9

As a result of this acquisition, goodwill amounting to EUR 1.9 million was recognised. The goodwill is attributable to skills of the workforce and synergies expected to be achieved. The recognized goodwill is not deductible in taxation.

The fair value of the acquired trade and other receivables amounted to EUR 0.08 million for which the risk of impairment has been deemed non-significant. The Group incurred acquisition-related expenses of EUR 0.06 million related to consulting, valuation or equivalent services. The expenses have been included in other operating expenses. The contributed recognised revenue from the acquisition in year was EUR 2.5 million and the result was EUR -0.2 million. If the acquisition had occurred on 1 January 2016, the Group's consolidated revenue in 2016 would have been EUR 548.2 million and the consolidated profit for the period EUR 12.8 million.

Other business combinations

On 29 January 2016, Terveystalo Healthcare Oy acquired 100% of the shares of Bitewell Oy. The acquired subsidiary has been consolidated to the Group's financial statements from the acquisition month onwards. The purchase price includes a contingent consideration that is treated as part of the consideration transferred and recognised as a liability with a fair value of EUR 0.2 million. The contingent consideration is tied to the 2017-2018 sales. On 7 March 2016, Suomen Terveystalo Oy acquired the dental business from Hammasklinikka Dent Oy as an asset deal.

CONSIDERATION TRANSFERRED

In millions of euro	
Cash	3.1
Contingent consideration	0.5
Total consideration transferred	3.5

IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED

In millions of euro	
Cash and cash equivalents	0.3
Intangible assets	0.1
Property, plant and equipment	0.3
Investments	0.1
Inventories	0.1
Trade and other receivables	0.1
Trade and other payables	-0.4
Total identifiable net assets acquired	0.6
Goodwill	2.9

On 31 October 2016, Terveystalo Healthcare Oy acquired 100% of the shares of Vimadent Oy. The acquired subsidiary has been consolidated to Group's financial statements from the acquisition month onwards.

On 30 December 2016, Terveystalo Healthcare Oy acquired 100% of the shares of Forssan Erikoishammaslääkärit Oy and Hammaslääkäriasema Kymppihammas Oy. Only the balance sheet of the acquired companies as of 31 December 2016 has been consolidated to the Group's financial statements. The income statement has not been consolidated. The purchase price of Forssan Erikoishammaslääkärit Oy includes a contingent consideration that is treated as part of the consideration transferred and recognised as a liability with a fair value of EUR 0.3 million. The contingent consideration is tied to the 2017-2018 sales.

The purchase price allocations are based on the acquiree's balance sheet values closest to the date of acquisition. The balance sheet has been prepared in accordance with IFRS and Terveystalo Group's accounting principles in all material respect.

The following table summarises the acquisition date fair value of the consideration transferred as well as the recognized amounts of assets acquired and liabilities assumed at the date of acquisition.

As a result of these business combinations, goodwill amounting to EUR 2.9 million was recognized. The goodwill is attributable to skills of the workforce and synergies expected to be achieved. The recognised goodwill is not deductible in taxation.

The fair value of the acquired trade and other receivables amounted to EUR 0.1 million, for which the risk of impairment has been deemed non-significant.

The Group has incurred acquisition-related expenses of EUR 0.08 million related to consulting, valuation or equivalent services. The expenses have been included in other operating expenses.

The contributed recognised revenue from these acquisitions in 2016 was EUR 1.9 million and the result was EUR -0.2 million.

If the acquisition had occurred on 1 January 2016, the Group's consolidated revenue in 2016 would have been EUR 550.0 million and profit EUR 12.5 million.

4. DISAGGREGATION OF REVENUE

Terveystalo Group has early adopted the new IFRS 15 *Revenue from Contracts with Customers* standard before the mandatory application date. The Group has elected to apply IFRS 15 standard using retrospective approach for all financial years presented and has adjusted comparative information accordingly. The Group's revenue recognition principles are presented earlier in the accounting policies.

With regard to the application of the standard, the Group has reviewed the revenue recognition principles and presentation in accordance with the new IFRS 15 standard, taking into account changes in service model and way of operating. In accordance

with IFRS 15 standard, revenue also includes the fees for services provided by private practitioners to private customers. These fees are presented in revenue on a gross basis instead of the previous net based presentation and the effect on revenue and materials and services expenses are presented in the tables below. Comparative information has been adjusted accordingly. Based on management judgement, the Group has primary responsibility for providing services to customers and therefore, it acts as a principal, because it has exposure to the significant risks and rewards associated with the contractual arrangements. The gross basis is considered to result in a more faithful presentation of the Group's revenue. The adoption of IFRS 15 standard had no impact on the Group's equity.

Terveystalo offers its primary and outpatient secondary healthcare services to three distinct customer groups for which revenue has been divided. The customer groups are: corporate customers, private customers and public customers.

Corporate Customers

The Company's corporate customer group comprises Terveystalo's occupational healthcare customers, excluding municipal occupational healthcare customers, and corporate insurance customers. The customers in the corporate customer group include private sector corporations, associations, foundations and state administration and represent all main industries, such as construction, retail, manufacturing and professional industries. The Company offers services to corporate customers of all sizes, from entrepreneurs and small companies to medium and large-sized companies, including some of the largest employers in Finland.

Private Customers

The Company's private customers group comprises private individuals, families, retirees and private insurance customers. Some of the Company's occupational healthcare end-users also use the Company's services as private customers, such as occupational healthcare end-users with children.

Public Customers

The Company's public customers group comprises public sector organizations in Finland, such as municipalities, municipal federations and hospital districts and includes municipal occupational healthcare customers.

The Group does not have customers whose revenue exceeds 10% of the Group's total revenue in financial years 2017 and 2016.

DISSAGGREGATION OF REVENUE

In millions of euro	1.1.-31.12.2017	1.1.-31.12.2016
Corporate ^(*)	372.1	290.8
Private	253.8	195.7
Public ^(*)	63.6	60.5
Total	689.5	547.0

^(*) Disaggregation of revenue for the year 2016 has been adjusted to correspond the current definition. The changes has a minor effect on the figures for corporate customers and public.



CONTRACT BALANCES

In millions of euro	1.1.-31.12.2017	1.1.-31.12.2016
Receivables, which are included in trade and other receivables	65.0	50.6
Contract liabilities	1.2	1.0

THE EFFECT OF IFRS 15 TRANSITION ON REVENUE

In millions of euro	1.1.-31.12.2017	1.1.-31.12.2016
Previously reported (IAS 18)	593.3	473.0
Adoption of IFRS 15	96.2	74.0
Restated revenue (IFRS 15)	689.5	547.0

THE EFFECT OF IFRS 15 TRANSITION ON MATERIALS AND SERVICES EXPENSES

In millions of euro	1.1.-31.12.2017	1.1.-31.12.2016
Previously reported (IAS 18)	-228.1	-185.3
Adoption of IFRS 15	-96.2	-74.0
Restated materials and services expenses	-324.3	-259.3

5. OTHER OPERATING INCOME

In millions of euro	1.1.-31.12.2017	1.1.-31.12.2016
Rental income	0.6	0.5
Gains on sale of property, plant and equipment	0.2	1.5
Gains on disposal of subsidiaries	-	3.2
Other items	1.3	1.9
Total	2.1	7.1

6. MATERIALS AND SERVICES

In millions of euro	1.1.-31.12.2017	1.1.-31.12.2016
Purchases of materials	-27.8	-21.9
Change in inventories	-0.0	-0.3
External services	-296.5	-237.1
Total	-324.3	-259.3

Materials and services has been adjusted regarding to the transition to IFRS 15 standard. More specific information is included in note 4 Disaggregation of revenue.

7. EMPLOYEE BENEFIT EXPENSES

In millions of euro	1.1.-31.12.2017	1.1.-31.12.2016
Wages and salaries	-155.2	-125.8
Share-based compensation, personnel offering	-0.2	-
Pension expenses - defined contribution plans	-28.1	-22.1
Other social security costs	-5.9	-7,6
Total	-189.5	-155.5
Number of personnel at the end of the reporting period	4,265	3,463



8. DEPRECIATION, AMORTIZATION AND IMPAIRMENT

In millions of euro	1.1.-31.12.2017	1.1.-31.12.2016
Depreciation and amortization by asset type		
Intangible assets		
Trademarks	-4.2	-4.2
Customer relationships	-10.4	-13.8
Other intangible assets	-5.1	-4.6
Total	-19.8	-22.6
Property, plant and equipment		
Buildings	-3.6	-3.0
Machinery and equipment	-12.0	-10.7
Other property, plant and equipment	-3.7	-2.4
Total	-19.4	-16.1
Investment property	-0.0	-0.0
Total	-39.2	-38.7
Impairment losses by asset groups		
Other intangible assets	-0.4	-
Buildings	-0.2	-
Other property, plant and equipment	-0.0	-0.1
Machinery and equipment	-0.0	-0.1
Available-for-sale financial assets	-0.2	-0.4
Total	-0.8	-0.6
Total depreciation, amortization and impairment losses	-40.0	-39.3

9. OTHER OPERATING EXPENSES

In millions of euro	1.1.-31.12.2017	1.1.-31.12.2016
External services	-7.1	-2.0
Operating and maintenance expenses for premises and equipment	-15.9	-12.9
ICT expenses	-19.4	-11.5
Other personnel related expenses	-5.1	-3.8
Leases	-32.9	-23.0
Travel expenses	-3.1	-2.7
Marketing and communication	-8.9	-7.0
Acquisition related expenses	-3.6	-0.3
Other costs	-13.6	-7.1
Total	-109.6	-70.4



AUDITOR'S FEES

In thousands of euro	1.1.-31.12.2017	1.1.-31.12.2016
Audit and auditor's statements based on laws and regulations		
Audit, KPMG	-229.1	-111.0
Audit, other offices	-6.6	-7.0
Auditor's statements based on laws and regulations, KPMG	-89.0	-5.0
Total	-324.7	-123.0
Non audit services		
Assurance services, KPMG	-92.6	-
Tax services, KPMG	-3.7	-12.3
Other services, KPMG	-516.6	-92.5
Total	-612.9	-104.8
Auditor's fees total	-937.6	-227.8

10. ADJUSTMENTS TO OPERATING PROFIT

BASED ON SUBJECT AREA

In millions of euro	1.1.-31.12.2017	1.1.-31.12.2016
Acquisition related expenses ¹⁾	17.7	0.2
Restructuring expenses ²⁾	5.8	6.2
Gain on sale of asset	-0.2	-4.6
Strategic projects, new operations and other items affecting comparability	0.8	2.2
Total	24.1	4.0

¹⁾ including transaction costs and expenses from integration of acquired businesses as well as IPO related expenses

²⁾ including restructuring of network and business operations, start up losses, provisions for onerous contracts (lease agreements and other contracts)

BASED ON ACCOUNT GROUPS

In millions of euro	1.1.-31.12.2017	1.1.-31.12.2016
Other operating income	-0.2	-5.3
Materials and services costs	0.1	3.4
Personnel expenses	4.0	2.0
Other operating expenses	20.3	3.9
Total	24.1	4.0

11. FINANCIAL INCOME AND EXPENSES

In millions of euro	1.1.-31.12.2017	1.1.-31.12.2016
Interest income on loans and other receivables	0.1	0.1
Dividend income on available-for-sale financial assets	0.0	0.0
Interest income on interest rate derivatives	-	1.8
Total financial income	0.1	1.9
Loans from financial institutions	-12.4	-16.8
Interest expense on finance lease agreements	-1.8	-1.8
Other financial expenses	-10.0	-3.4
Total financial expenses	-24.2	-22.0
Total financial income and expenses	-24.1	-20.1

Financial income and expenses do not include any significant foreign exchange gains or losses and there are no other foreign currency items in the consolidated statement of income.



12. TAXES

12.1 Income taxes

INCOME TAXES IN THE STATEMENT OF INCOME

In millions of euro	1.1.-31.12.2017	1.1.-31.12.2016
Current tax for the reporting year	-0.6	-0.2
Income taxes for prior periods	-0.0	-0.0
Deferred taxes	3.9	3.5
Total income taxes	3.3	3.2

Deferred taxes have been calculated using the enacted tax rate of 20 %.

Reconciliation of tax expense

RECONCILIATION OF THE GROUP'S TAX RATE TO THE FINNISH TAX RATE

In millions of euro	1.1.-31.12.2017	1.1.-31.12.2016
Profit or loss before taxes	3.9	9.5
Tax using the Parent company's tax rate	-0.8	-1.9
Tax rates in foreign jurisdictions	0.1	0.1
Tax exempt income	0.1	0.4
Non-deductible expenses	-0.3	-0.1
Share of profit in associated companies	-0.0	-
Recognition of previously unrecognised tax losses	4.4	4.7
Taxes from previous periods	-0.0	0.0
Other	-0.1	0.0
Total tax in the statement of income	3.3	3.2

12.2 Deferred tax assets and liabilities

During the year 2017

DEFERRED TAX ASSETS:

In millions of euro	1.1.2017	Recognised in profit or loss	Business combi- nations	31.12.2017
Provisions	0.8	0.1	-	0.9
Tax losses carried forward	3.8	0.9	-	4.8
Finance leases	0.6	-0.1	0.1	0.5
Other temporary differences	0.8	0.1	0.4	1.2
Total	6.0	1.0	0.4	7.4

DEFERRED TAX LIABILITIES:

In millions of euro	1.1.2017	Recognised in profit or loss	Business combi- nations	31.12.2017
Reversal of goodwill amortization	2.0	0.1	-	2.2
Business combinations	22.2	-2.9	1.9	2.1
Depreciation difference	0.3	-0.0	-	0.3
Loan withdrawal expense	0.4	-0.1	-	0.3
Other temporary differences	0.1	-0.1	0.2	0.2
Total	25.0	-2.9	2.0	24.1



Deferred tax assets are recognised from unused tax losses to the extent that is probable that future taxable profits will be available against which the losses can be used. Unused tax losses amount to EUR 89.0 (102.1) million, of which for a portion of EUR 65.1 (82.9) million no deferred tax asset has been recognized. EUR 12.2 million tax losses expire at the end of the financial year 2021, EUR 28.9 million tax losses expire at the end of the financial year 2022, EUR 33.7 million tax losses expire at the end of the financial year 2023, EUR 0.1 million tax losses expire at the end

of the financial year 2024, EUR 2.4 million tax losses expire at the end of the financial year 2025, EUR 2.4 million tax losses expire at the end of the financial year 2026 and EUR 9.3 million tax losses expire at the end of the financial year 2027. The Group's tax burden could increase as a result of changes to tax laws or their application or as a result of the ongoing tax audit or future tax audits, and the Group companies may not be able to utilize their tax losses carryforwards.

During the year 2016

DEFERRED TAX ASSETS:

In millions of euro	1.1.2016	Recognised in profit or loss	Business combinations	31.12.2016
Provisions	0.2	0.6	-	0.8
Tax losses carried forward	3.6	0.2	-	3.8
Finance leases	0.5	0.1	-	0.6
Interest rate derivatives	0.4	-0.4	-	-
Other temporary differences	1.0	-0.2	-	0.8
Total	5.6	0.4	-	6.0

DEFERRED TAX LIABILITIES:

In millions of euro	1.1.2016	Recognised in profit or loss	Business combinations	31.12.2016
Reversal of goodwill amortization	1.9	0.2	-	2.2
Business combinations	25.8	-3.6	-	22.2
Depreciation difference	0.2	0.0	-	0.3
Loan withdrawal expense	0.1	0.3	-	0.4
Other temporary differences	0.1	0.0	-	0.1
Total	28.1	-3.1	-	25.0

13. EARNINGS PER SHARE

	1.1.-31.12.2017	1.1.-31.12.2016
Result attributable to the equity holders of the company, € million	7.2	12.6
Weighted average number of shares, in thousands ^(*)	116,485	116,485
Diluted average number of shares, in thousands ^(*)	116,485	116,485
Earnings per share for result attributable to the equity holders of the company (basic and diluted), €	0.06	0.11

^(*) The effect of share conversion and share split have been taken into account in the weighted average number of shares. Comparative figures have been adjusted accordingly.



14. PROPERTY, PLANT AND EQUIPMENT

In millions of euro	Land and water	Buildings and constructions	Machinery and equipment	Improvements to premises	Other tangible assets and advances paid	Total
Acquisition cost 1.1.2017	0.1	35.2	62.8	15.7	3.0	116.8
Business combination	1.9	9.8	5.7	6.4	-	23.7
Additions	-	0.8	16.3	5.7	1.4	24.2
Disposals	-0.0	-0.0	-1.3	-0.6	-0.0	-2.0
Reclassifications	-	-6.0	-	6.3	-	0.3
Acquisition cost 31.12.2017	1.9	39.8	83.5	33.4	4.4	163.0
Accumulated depreciation and impairment losses 1.1.2017	-	-8.9	-35.9	-5.8	-0.7	-51.3
Depreciation	-	-3.6	-12.0	-3.4	-0.4	-19.4
Impairment losses	-	-0.2	-0.0	-	-0.0	-0.2
Accumulated depreciation and impairment losses 31.12.2017	-	-12.6	-48.0	-9.2	-1.1	-70.9
Carrying amount 1.1.2017	0.1	26.4	26.9	9.8	2.3	65.5
Carrying amount 31.12.2017	1.9	27.1	35.5	24.2	3.3	92.1

Other tangible assets and advances paid include advances paid EUR 2.2 million at the reporting date.

In millions of euro	Land and water	Buildings and constructions	Machinery and equipment	Improvements to premises	Other tangible assets and advances paid	Total
Acquisition cost 1.1.2016	1.1	37.3	52.2	13.6	1.4	105.6
Business combination	-	-	0.2	0.4	0.0	0.6
Additions	-	2.8	10.6	1.9	1.6	16.8
Disposals of subsidiaries	-0.9	-1.9	-0.1	-	-	-2.8
Disposals	-0.2	-0.8	-0.2	-0.1	-	-1.3
Reclassifications	-	-2.1	-	-	-	-2.1
Acquisition cost 31.12.2016	0.1	35.2	62.8	15.7	3.0	116.8
Accumulated depreciation and impairment losses 1.1.2016	-	-5.9	-25.1	-3.7	-0.3	-35.0
Depreciation	-	-3.0	-10.7	-2.1	-0.3	-16.1
Impairment losses	-	-	-0.1	-	-0.1	-0.2
Accumulated depreciation and impairment losses 31.12.2016	-	-8.9	-35.9	-5.8	-0.7	-51.3
Carrying amount 1.1.2016	1.1	31.4	27.1	9.8	1.1	70.6
Carrying amount 31.12.2016	0.1	26.4	26.9	9.8	2.3	65.5

Other tangible assets and advances paid include advances paid EUR 1.8 million at the reporting date.

14.1 Finance leases

Property, plant and equipment include assets leased under finance leases as follows:

In millions of euro	Buildings and constructions	Machinery and equipment	Other tangible assets and advances paid	Total
Acquisition cost 1.1.2017	32.7	16.4	1.1	50.1
Business combination	1.6	3.5	-	5.1
Additions	0.7	0.4	1.0	2.2
Disposals	-0.0	-0.8	-	-0.8
Reclassifications	-6.3	-1.7	-	-8.0
Acquisition cost 31.12.2017	28.7	17.8	2.1	48.6
Accumulated depreciation and impairment losses 1.1.2017	-7.4	-13.1	-0.7	-21.2
Depreciation	-3.2	-2.5	-0.4	-6.1
Accumulated depreciation and impairment losses 31.12.2017	-10.6	-15.6	-1.0	-27.3
Carrying amount 1.1.2017	25.3	3.2	0.4	28.9
Carrying amount 31.12.2017	18.1	2.2	1.1	21.3

In millions of euro	Buildings and constructions	Machinery and equipment	Other tangible assets and advances paid	Total
Acquisition cost 1.1.2016	29.9	15.5	0.8	46.1
Additions	2.8	0.9	0.3	4.0
Acquisition cost 31.12.2016	32.7	16.4	1.1	50.1
Accumulated depreciation and impairment losses 1.1.2016	-4.5	-10.0	-0.3	-14.9
Depreciation	-2.9	-3.1	-0.3	-6.3
Accumulated depreciation and impairment losses 31.12.2016	-7.4	-13.1	-0.7	-21.2
Carrying amount 1.1.2016	25.4	5.4	0.4	31.3
Carrying amount 31.12.2016	25.3	3.2	0.4	28.9

The Group has finance lease agreements with several counterparties. Rental payments are mainly based on the interest rate level at the inception of the lease. Some of the finance lease agreements include purchase options. The lease agreements do not include restrictions on dividends, additional indebtedness or entering new lease agreements.

15. INTANGIBLE ASSETS

In millions of euro	Goodwill	Customer relationships	Trade-marks	Other intangible assets and advances paid	Total
Acquisition cost 1.1.2017	517.1	74.5	83.0	23.7	698.4
Business combination	134.1	9.3	-	1.5	145.0
Additions	-	-	-	5.1	5.1
Disposals	-	-	-0.1	-0.3	-0.5
Acquisition cost 31.12.2017	651.3	83.8	82.9	30.0	848.0
Accumulated amortizations and impairment losses 1.1.2017	-68.0	-40.9	-12.7	-13.8	-135.3
Amortization	-	-10.4	-4.2	-5.1	-19.8
Impairment	-	-	-	-0.4	-0.4
Accumulated amortizations and impairment losses 31.12.2017	-68.0	-51.3	-16.9	-19.3	-155.5
Carrying amount 1.1.2017	449.1	33.6	70.3	10.0	563.0
Carrying amount 31.12.2017	583.3	32.5	66.0	10.7	692.5

Other intangible assets and advances paid include advances paid EUR 2.1 million at the reporting date.

In millions of euro	Goodwill	Customer relationships	Trade-marks	Other intangible assets and advances paid	Total
Acquisition cost 1.1.2016	512.3	74.5	83.0	19.1	688.9
Business combination	4.8	-	-	0.1	4.9
Additions	-	-	-	4.5	4.5
Acquisition cost 31.12.2016	517.1	74.5	83.0	23.7	698.4
Accumulated amortizations and impairment losses 1.1.2016	-68.0	-27.0	-8.5	-8.9	-112.4
Amortization	-	-13.9	-4.2	-4.9	-23.0
Accumulated amortizations and impairment losses 31.12.2016	-68.0	-40.9	-12.7	-13.8	-135.3
Carrying amount 1.1.2016	444.3	47.4	74.6	10.2	576.6
Carrying amount 31.12.2016	449.1	33.6	70.3	10.0	563.0

Other intangible assets and advances paid include advances paid EUR 1.6 million at the reporting date.

15.1 Development costs

Other intangible assets include development costs as follows:

In millions of euro	
Acquisition cost 1.1.2017	1.2
Additions	0.2
Disposals	-0.0
Acquisition cost 31.12.2017	1.4
Accumulated amortizations and impairment losses 1.1.2017	-0.8
Amortization	-0.3
Accumulated amortizations and impairment losses 31.12.2017	-1.1
Carrying amount 1.1.2017	0.4
Carrying amount 31.12.2017	0.3

In millions of euro	
Acquisition cost 1.1.2016	1.0
Additions	0.2
Disposals	-
Acquisition cost 31.12.2016	1.2
Accumulated amortizations and impairment losses 1.1.2016	-0.5
Amortization	-0.3
Accumulated amortizations and impairment losses 31.12.2016	-0.8
Carrying amount 1.1.2016	0.5
Carrying amount 31.12.2016	0.4



16. IMPAIRMENT TESTING OF CASH-GENERATING UNITS INCLUDING GOODWILL

Goodwill is not amortized but it is tested for impairment at least annually.

Goodwill arising from business combinations has been allocated to cash-generating units as shown in the table below. Geographical areas consist of units with their own budgets and performance measurement, but they use shared resources and are centrally managed.

31.12.2017

In millions of euro	Goodwill	%
Eastern Finland	76.2	13.1
Central Finland	93.3	16.0
Western Finland	122.3	21.0
Northern Finland	69.2	11.9
Capital region and Uusimaa	222.4	38.1
Total	583.3	100.0

31.12.2016

In millions of euro	Goodwill	%
Eastern Finland	75.4	16.8
Central Finland	93.3	20.8
Western Finland	80.6	17.9
Northern Finland	69.2	15.4
Capital region and Uusimaa	130.6	29.1
Total	449.1	100.0

In financial year 2017 there were five cash generating units, in comparison to three in financial year 2016. Along with the new division of cash generating units, goodwill was reallocated to new cash generating units based on geographical location and actual sales.

The recoverable amounts of the cash-generating units are based on value-in-use calculations which have been calculated using discounted cash flow projections. The key assumptions used in the calculations are discount rate, profitability growth rate and long-term growth rate. The projections are based on the budgets and estimates for the years 2018–2022 including the long-term growth which have been approved by the management.

The assumptions used in impairment calculations are:

The length of impairment testing period	5 years
Profitability growth rate during testing period	9.36%
Long-term growth rate	2.00%
Discount rate (Pre-tax WACC)	8.05%
Discount rate (Post-tax WACC)	7.07%

In the 2017 impairment testing, the assumption for the profitability growth is 9.36% (2016: 9.77%).

This assumption is based on organic growth under normal market situation, general development in healthcare services market and long term estimates by the group's management.

The subsequent cash flows are estimated by extrapolating the cash flow estimates using 2.0% (2016: 2.0%) growth factor which is in line with the target inflation of the European Central Bank.

The discount rate used in impairment testing has been Pre-tax WACC of which the components are risk-free interest rate, risk premiums, industry-specific beta, loan cost, and industry specific equity / debt ratios. The discount rate in the 2017 calculations has been 8.05% (2016: 9.07%).

Based on the impairment testing, there is no need for recognition of impairment losses. All cash generating units' value in use was higher than their carrying amount.

Sensitivity analysis

The Group has assessed the sensitivity of the impairment testing to the effect of the most critical assumptions used in the calculation. The Group has tested the sensitivity of the calculation with respect to the discount rate, profitability growth rate and long-term growth rate. The table below shows the required change in the assumption that the recoverable amount would fall below the carrying amount.

Discount rate (Pre-tax WACC)

Eastern	Increase over 10 percentage points
Central	Increase over 7 percentage points
Western	Increase over 3 percentage points
Northern	Increase over 7 percentage points
Capital region and Uusimaa	Increase over 5 percentage points

Profitability growth rate

Eastern	Decrease over 8 percentage points
Central	Decrease over 7 percentage points
Western	Decrease over 5 percentage points
Northern	Decrease over 8 percentage points
Capital region and Uusimaa	Decrease over 7 percentage points

Long term growth

Eastern	Decrease over 21 percentage points
Central	Decrease over 12 percentage points
Western	Decrease over 5 percentage points
Northern	Decrease over 15 percentage points
Capital region and Uusimaa	Decrease over 10 percentage points

When assessing the recoverable amounts of cash generating units, management believes that no reasonably possible change in any of the key variables used would lead to a situation where the recoverable amount of the units would fall below their carrying amount.

17. INVESTMENT PROPERTIES

In millions of euro	1.1.-31.12.2017	1.1.-31.12.2016
Carrying amount at the beginning of the period	0.6	0.6
Disposals	-	-0.0
Depreciation	-0.0	-0.0
Carrying amount at the end of the period	0.6	0.6

INCOME AND EXPENSES RELATED TO INVESTMENT PROPERTIES

In millions of euro	1.1.-31.12.2017	1.1.-31.12.2016
Rental income from investment properties	0.1	0.1
Operating expenses for investment properties	-0.0	-0.0
Total	0.1	0.1

Income and expenses relating to investment properties are presented based on the Group's ownership in the investment properties. There are no other contractual obligations related to investment properties.

FAIR VALUES OF INVESTMENT PROPERTIES

Investment	m ²	Value per m ² (In thousands of euro)	Total value (In thousands of euro)
Koy Jyväskylän Väinönkatu 30	1,348	0.4-0.5	556-679

The value of Kiinteistö Oy Jyväskylän Väinönkatu has been determined based on the Group's share of ownership (16.81 %).

18. ASSOCIATED COMPANIES

Terveystalo has an associated company, Medix Laboratoriot Oy of which Group's ownership is 25%. The associated company was acquired as part of Diacor acquisition. It is concluded that the investment is immaterial. The carrying amount of the investment at the end of the reporting period is EUR 0.3 million and Group's share of total comprehensive income of Medix Laboratoriot Oy is EUR -0.2 million based on an estimate for the 2017 result received from the company.

19. SHARE-BASED PAYMENTS

The Board of Directors of Terveystalo Plc has resolved to establish a new share-based incentive plan directed to the Group key employees. The aim of the plan is to align the objectives of the shareholders and the key employees in order to increase the value of the Company in the long-term, to retain the key employees at the Company, and to offer them a competitive reward plan that is based on earning and accumulating the Company's shares.

The Performance Share Plan includes three performance periods, calendar years 2018, 2019 and 2020. The Board of Directors will resolve on the performance criteria and on the required performance levels for each criterion at the beginning of each performance period.

During the performance period 2018, the plan offers the key employees a possibility to earn rewards based on the Company achieving the required operational targets and Total Shareholder Return (TSR) levels.

The potential rewards from the performance share plan will be paid partly in Terveystalo Plc shares and partly in cash

approximately two years after the performance periods. The cash proportion is intended to cover taxes and tax-related costs arising from the rewards to the plan participants. As a rule, no reward will be paid if a plan participant terminates his or her employment or service before the reward payment.

The rewards to be paid on the basis of the performance period 2018 correspond to an approximate maximum total of 943,000 Terveystalo Plc shares, including currently allocated and unallocated shares as well as the proportion to be paid in cash. The plan is directed to approximately 80 key employees, including the members of the Management Group during the performance period 2018.

There were no expenses in 2017 related to the Performance Share Plan.

Personnel offering

As part of the initial public offering of Terveystalo Plc, personnel were offered an opportunity to subscribe the company's shares with a ten per cent lower price than the subscription price in the institutional and the public offering. Terveystalo's Board of Directors accepted the commitments given in full and issued 355,656 new shares to permanent employees of the Company or its wholly owned subsidiaries in Finland during the subscription period and the members of the Board of Directors of Terveystalo.

The subscription price at the personnel offering was 8.79 euros. The subscription price paid by the subscribers has been booked into the invested non-restricted equity fund and the discount granted to the subscribers has been expensed to the 180 days lock-up period determined in the offering terms according to IFRS 2. In 2017, EUR 157.2 thousands were booked in personnel expenses and retained earnings.

20. FINANCIAL ASSETS AND LIABILITIES

- CARRYING AMOUNT AND FAIR VALUE AND FAIR VALUE HIERARCHY

In millions of euro 31.12.2017	Note	Financial assets and liabilities at amortized cost	Available-for-sale financial assets	Carrying amount	Fair value	Fair value hierarchy
Financial assets						
Non-current						
Available-for-sale financial assets		-	1.2	1.2	1.2	Level 3
Other receivables	22	0.0	-	0.0	0.0	Level 2
Current						
Trade receivables	22	65.0	-	65.0	65.0	Level 2
Cash and cash equivalents	23	33.0	-	33.0	33.0	Level 2
Total		98.0	1.2	99.2	99.2	
Financial liabilities						
Non-current						
Loans from financial institutions	25	243.9	-	243.9	243.9	Level 2
Hire purchase liabilities	25	6.2	-	6.2	6.2	Level 2
Finance lease liabilities	25	20.1	-	20.1	20.1	Level 2
Accrued additional purchase price		0.3	-	0.3	0.3	Taso 3
Current						
Loans from financial institutions	25	12.3	-	12.3	12.3	Level 2
Hire purchase liabilities	25	3.1	-	3.1	3.1	Level 2
Finance lease liabilities	25	3.8	-	3.8	3.8	Level 2
Trade payables	26	27.0	-	27.0	27.0	Level 2
Accrued additional purchase price		0.5	-	0.5	0.5	Taso 3
Total		317.2	-	317.2	317.2	

In millions of euro 31.12.2016	Note	Financial assets and liabilities at amortized cost	Available-for-sale financial assets	Carrying amount	Fair value	Fair value hierarchy
Financial assets						
Non-current						
Available-for-sale financial assets		-	1.7	1.7	1.7	Level 3
Other receivables	22	0.0	-	0.0	0.0	Level 2
Current						
Trade receivables	22	50.6	-	50.6	50.6	Level 2
Cash and cash equivalents	23	39.1	-	39.1	39.1	Level 2
Total		89.7	1.7	91.4	91.4	
Financial liabilities						
Non-current						
Loans from financial institutions	25	281.0	-	281.0	281.0	Level 2
Hire purchase liabilities	25	7.4	-	7.4	7.4	Level 2
Finance lease liabilities	25	27.3	-	27.3	27.3	Level 2
Accrued additional purchase price		0.4	-	0.4	0.4	Level 3
Current						
Loans from financial institutions	25	24.0	-	24.0	24.0	Level 2
Hire purchase liabilities	25	2.8	-	2.8	2.8	Level 2
Finance lease liabilities	25	4.6	-	4.6	4.6	Level 2
Trade payables	26	19.6	-	19.6	19.6	Level 2
Accrued additional purchase price		0.2	-	0.2	0.2	Level 3
Total		367.4	-	367.4	367.4	



Reconciliation of financial assets and financial liabilities recognized at fair value on level 3

AVAILABLE-FOR-SALE FINANCIAL ASSETS AND ACCRUED ADDITIONAL PURCHASE PRICE LIABILITIES

In millions of euro	2017	2016
Carrying amount 1.1	2.4	1.3
Additions	0.5	1.3
Disposals	-0.3	-0.9
Reclassifications	-0.3	1.0
Through profit or loss	-0.2	-0.4
Carrying amount 31.12	2.1	2.4

Available for sale financial assets include unlisted shares whose fair value has been determined using expert assessment.

21. FINANCIAL RISK MANAGEMENT

The Group is exposed to various financial risks in its normal business activities. The objective of the Group's risk management is to minimize the negative effects of changes in the financial markets on the Group's result and valuation. The Group's main financial risks are interest rate risk, credit risk and liquidity risk. The Group's risk management principles are approved by the Board of Directors and the Group's financial department is responsible for the implementation of the principles. The Group's financial department identifies and assesses risks and acquires instruments needed to hedge against them.

21.1 Interest rate risk

The Company's interest rate risk arises from its loans from financial institutions issued at floating rate. In 2017, the Group's average interest rate for loans from financial institutions has been 3.4% (2016: 4.1%). An increase of one percentage point in the average interest rate would have increased the Group's interest expenses by EUR 3.3 million during the year 2017 (2016: EUR 3.1 million).

The Group does not apply hedge accounting according to IAS 39. The Group does not have open interest rate derivative contracts at the reporting date.

21.2 Credit risk

Majority of the Group's incoming cash flows are payments from established institutions, public sector and companies with appropriate credit rating. However, the Group's trade receivables include credit risk. Credit risk is managed mainly by monitoring the customer's credit rating on a regular basis and by co-operating with collection agencies. In addition, the Group's customers include private people whose invoicing is primarily carried out in connection with the rendering of services.

The Group has no major customer specific risk concentrations and its credit risk is diversified. Credit risk is managed by monitoring the amount, maturity distribution and turnover of trade receivables. Credit risk is also monitored on a client by client basis.

The Group's maximum credit risk is equal to the carrying amount of financial assets at the reporting date. The maturity distribution of the Group's trade receivables is disclosed in note 22 *Trade and other receivables*.

21.3 Liquidity risk

The Group aims to assess and monitor continuously the amount of funding required by business operations, in order to ensure sufficient liquidity to finance its operations, to repay maturing loans as well as to carry out investments and acquisitions of companies according to the growth strategy. The Group's cash and cash equivalents comprise cash in bank accounts, cash in hand and cash payments not yet recorded into the Group's bank accounts (cash in transit) at the reporting date.

The Group manages liquidity risk by monitoring unused liquidity reserves and forecasting future cash flows. The Group has an overdraft facility in use, of which EUR 48.0 million remained unused at the reporting date (2016: EUR 98.2 million).

The table below presents a contractual maturity analysis of financial liabilities. The figures are undiscounted and they include both interest payments and repayments of principals. The undiscounted cash flows related to finance lease liabilities differ from the amounts in the statement of financial position because the amounts recognised in the statement of financial position are discounted to the end of the reporting period. Interest payments which are based on variable rates have been presented using variable rates as of the end of the reporting date.



31.12.2017

In millions of euro	Carrying amount	Contractual cash flows	1 year	1-2 years	2-5 years	Over 5 years
Loans from financial institutions	256.2	279.2	17.4	26.2	235.6	-
Finance lease liabilities	23.9	29.4	4.9	4.3	8.7	11.5
Hire purchase liabilities	9.3	9.6	2.9	2.7	4.1	-
Trade payables	27.0	27.0	27.0	-	-	-

31.12.2016

In millions of euro	Carrying amount	Contractual cash flows	1 year	1-2 years	2-5 years	Over 5 years
Loans from financial institutions	305.0	381.4	36.5	26.0	74.9	244.0
Finance lease liabilities	31.9	39.1	6.2	4.9	11.5	16.5
Hire purchase liabilities	10.3	10.7	3.1	2.9	4.8	0.0
Trade payables	19.6	19.6	19.6	-	-	-

21.4 Capital management

The objective of the Group's capital management is to support business operations and to ensure competitive operating conditions with optimal capital structure, as well as to enable the implementation of the strategy.

In addition to operative cash flows the capital structure is managed by share issues, by increase or repayment of financial liabilities, possible conversions between equity and financial liabilities, as well as through operative decisions on investments and growth and potential disposals of assets in order to reduce liabilities.

The development of the Group's capital structure is monitored, amongst others things with the following ratios: change in net

debt, ratio of net debt to operating margin, and ratio of operating cash flows to the financial expenses.

The Group's net debt to equity ratio (gearing) was 56.1% at the reporting date (2016: 132.6%). The ratio is calculated by dividing interest-bearing net debt with equity. The net debt includes interest-bearing liabilities less interest-bearing receivables and cash and cash equivalents. The Group's interest-bearing liabilities were EUR 289.4 million at the reporting date (2016: EUR 347.2 million). Significant part of the interest-bearing liabilities consists of loans from financial institutions.

22. TRADE AND OTHER RECEIVABLES

In millions of euro	2017	2016
Non-current		
Loan receivables	0.0	0.0
Total non-current receivables	0.0	0.0
Current		
Trade receivables	65.0	50.6
Other receivables	1.7	0.1
Accrued income and deferred expenses	3.3	3.1
Total	70.0	53.7

SPEIFICATION OF ACCRUED INCOME AND DEFERRED EXPENSES

In millions of euro	2017	2016
Personnel related deferred expenses	0.2	0.0
Current tax receivables	0.4	0.1
Other accrued income and deferred expenses	2.6	2.9
Total	3.3	3.1

During the reporting period the Group has recognised impairment losses and provisions for impairment losses on trade receivables through profit or loss totaling EUR 0.9 million (2016: EUR 0.4 million). Based on the Group's view, the carrying amount of trade receivables corresponds to the maximum credit risk if the

contractual parties are unable to meet their obligations related to trade receivables.

The fair value of other receivables and accrued income corresponds with their carrying amount.



AGEING OF TRADE RECEIVABLES AND RECOGNISED IMPAIRMENT LOSSES:

In millions of euro	2017	Recognised impairment losses	Net 2017
Not past due	60.0	-	60.0
Past due			
Less than 30 days	3.1	-	3.1
31-90 days	1.4	-	1.4
91-180 days	0.5	-	0.5
Over 180 days	1.0	-0.9	0.1
Total	65.9	-0.9	65.0

Trade receivables are denominated in euros. Information about credit risk related to trade receivables are stated in note 21 *Financial risk management*.

In millions of euro	2016	Recognised impairment losses	Net 2016
Not past due	45.2	-	45.2
Past due			
Less than 30 days	3.8	-	3.8
31-90 days	0.9	-	0.9
91-180 days	0.4	-	0.4
Over 180 days	0.8	-0.4	0.4
Total	50.9	-0.4	50.6

23. CASH AND CASH EQUIVALENTS

The Group's cash and cash equivalents at 31 December 2017, amounting to EUR 33.0 million (2016: EUR 39.1 million) consist of cash in hand and bank as well as, cash payments on the bank settlement account at the reporting date.

The carrying amounts in the statement of financial position correspond to the maximum amount of credit risk if the contractual parties are unable to meet their obligations. However, no significant counterparty risks are associated with cash and cash equivalents. The fair value of cash and cash equivalents correspond to their carrying amounts.



24. SHARE CAPITAL AND INVESTED NON-RESTRICTED EQUITY RESERVE

Number of shares, 1,000	Share classes						Total
	A	B	C	D	E	F	
On 1 January, 2016	27,420	3,092	288	270,983	3,340	2,876	308,000
On 31 December, 2016	27,420	3,092	288	270,983	3,340	2,876	308,000
Directed share issue to Helsinki Deaconess Institute Foundation	4,382	-	-	43,764	-	-	48,146
Conversion between share classes	-5,433	4,935	498	-10,924	5,957	4,968	-
Share class conversion, conversion rate	1	1	1	0.07	0.07	0.07	-
Share conversion	-	-	-	-281,393	-8,611	-7,265	-297,268
Number of shares after the share conversion							58,878
Issuance of new shares without payment (share split)							58,878
Personnel Offering							356
Public Offering							9,926
31.12.2017							128,037

In millions of euro	Number of shares, 1,000	Share capital	Invested non-restricted equity reserve	Total
On 1 January, 2016	308,000	0.0	308.0	308.0
On 31 December, 2016	308,000	0.0	308.0	308.0
Increase in share capital	-	0.1	-0.1	-
Directed share issue to Helsinki Deaconess Institute Foundation	48,146	-	93.9	93.9
Share class conversion	-297,268	-	-	-
Equity investment without consideration	-	-	25.0	25.0
Issuance of new shares without payment (share split)	58,878	-	-	-
Personnel Offering	356	-	3.1	3.1
Public Offering	9,926	-	96.9	96.9
Transaction costs paid in connection with share issue, net of tax	-	-	-0.9	-0.9
31.12.2017	128,037	0.1	525.9	526.0

Shares and share capital

The Extraordinary General Meeting (EGM) of Terveystalo held on 26 September, 2017 in Helsinki, resolved to convert the company to public limited liability company and increase the share capital from 2,500 euros to 80,000 euros. In addition, the EGM resolved to convert the previous B, C, D, E and F –share classes to A shares after which the A shares were converted into the company's single class shares. As a result the company has one single share class. The share conversions did not have any effect on the company's registered share capital.

On 31 December, 2017 the amount of shares outstanding is 128,036,531. The new single share class (TTALO) became subject to public trading on 11 October, 2017. All shares issued have been paid in full. The shares have no nominal value. Each share has one vote at the Annual General Meeting and equal rights to dividend and other distribution of assets. The company does not hold its own shares.

Share issues

As part of the acquisition of Diacor Group, the Board of Directors resolved on the directed share issue to the Helsinki Deaconess Institute Foundation by virtue of an authorization. Total of

4,382,146 class A shares for the price of EUR 8.36 per share and 43,764,100 class D shares for the price of EUR 1.31 per share were issued in order to pay EUR 93.9 million of the purchase price.

Based on the authorization of the EGM, the Board of Directors resolved on 10 October, 2017 on the issuance of new shares without payment in proportion to shareholdings for the purposes of increasing the total number of shares in the company (share split). In the share issue two new shares were issued for each one single class share.

In Terveystalo's Initial Public Offering, 10,281,249 new shares were issued, of which 355,665 new shares were issued to the personnel. The subscription price was EUR 9.76 per share in the Public and Institutional Offering and EUR 8.79 in the Personnel Offering.

Invested non restricted equity reserve

Invested non restricted equity reserve consists of other investments similar to equity and the subscription price of shares to the extent that it has not been recorded in share capital according to specific resolution. According to the current Finnish Companies Act subscription price of new shares is recognised in the share capital, unless it has not been according to Issuance Resolution fully or

partly recognised in invested non restricted equity reserve. Shares issued in 2017 have been fully booked to the invested non-restricted equity reserve. In addition, on the basis of the company's pre-listing shareholders' commitments, the shareholders made a total of 25 million euro investment without consideration in the company's invested non-restricted equity reserve.

Distributable funds

On December 31, 2017 the distributable funds of the parent company totaled EUR 516.7 million including the loss of the financial period 2017 of EUR -10.1 million. The Board of Directors proposes to the Annual General Meeting in 2018 that the distributable profits are used as follows:

- 0.06 eur per share totaling EUR 7.7 million will be distributed from the invested non-restricted equity reserve
- EUR 509.0 million will be left in equity

The equity repayment proposed by the Board of Directors to the Annual General Meeting is not deducted from distributable equity until approved by the Annual General Meeting of Shareholders.

No material changes have taken place in the company's financial position since the end of the financial year. The liquidity of the company is good and the proposed allocation of funds, in the view of the Board of Directors, does not endanger the company's solvency.

25. FINANCIAL LIABILITIES

FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST

In millions of euro	2017	2016
Non-current		
Loans from financial institutions	243.9	281.0
Hire purchase liabilities	6.2	7.4
Finance lease liabilities	20.1	27.3
Total	270.2	315.7
Current		
Loans from financial institutions	12.3	24.0
Hire purchase liabilities	3.1	2.8
Finance lease liabilities	3.8	4.6
Total	19.2	31.5
Financial liabilities total	289.4	347.2

The Group's loan agreement includes covenants based on which creditors can demand an immediate repayment of the loans if certain covenant limits are breached. The loan agreement that was valid from the beginning of the financial year until the beginning of October included covenants that were connected to

ratios between EBITDA and net debt as well as EBITDA and financial expenses. The covenant included in the new loan agreement of the Group signed in October, relate to the ratio between EBITDA and net debt. The Group has met all covenant terms and conditions during the reporting period.

GROSS AMOUNT OF FINANCE LEASE LIABILITIES - MATURITY OF THE MINIMUM LEASE PAYMENTS

In millions of euro	2017	2016
Within one year	4.9	6.2
Between one and five years	13.0	16.4
Later	11.5	16.5
Total	29.4	39.1
Financial expenses to be accrued in the future	-5.5	-7.2
Present value of finance lease liabilities	23.9	31.9

MATURITY OF THE PRESENT VALUE OF FINANCE LEASE LIABILITIES

In millions of euro	2017	2016
Within one year	3.8	4.6
Between one and five years	10.0	12.2
Later	10.0	15.1
Total	23.9	31.9



LIABILITIES ARISING FROM FINANCING ACTIVITIES

In millions of euro	1.1.2017	Cash flows	Non-cash changes					31.12.2017
			Additions	Disposals	Business combination	Other	Reclassifications	
Long-term								
Loans from financial institutions	281.0	-47.2	-	-	-	7.7	2.5	243.9
Hire purchase liabilities	7.4	-4.0	5.8	-	-	-	-3.1	6.2
Finance lease liabilities	27.3	-8.5	1.6	-0.2	3.3	0.5	-3.8	20.1
Total	315.7	-59.7	7.4	-0.2	3.3	8.1	-4.5	270.2
Short-term								
Loans from financial institutions	24.0	-11.6	-	-	1.8	-	-2.0	12.3
Hire purchase liabilities	2.8	-5.4	2.4	-	-	0.2	3.1	3.1
Finance lease liabilities	4.6	-6.0	0.5	-0.2	1.9	-0.8	3.8	3.8
Total	31.5	-23.0	2.9	-0.2	3.7	-0.5	5.0	19.2

26. TRADE AND OTHER PAYABLES

In millions of euro	2017	2016
Trade payables	27.0	19.6
Other payables	52.5	41.8
Advances received	1.2	1.0
Accrued expenses	36.5	32.4
Total	117.1	94.9

SPECIFICATION OF OTHER PAYABLES AND ACCRUED EXPENSES

Other payables In millions of euro	2017	2016
Doctor's fee liabilities	34.9	25.6
VAT liabilities	13.9	11.7
Other	3.7	4.5
Total	52.5	41.8

Accrued expenses In millions of euro	2017	2016
Personnel related accrued expenses	34.1	31.3
Interest liabilities	1.1	0.1
Other	1.2	1.1
Total	36.5	32.4

27. PROVISIONS

In millions of euro	2017	2016
Non-current provisions	6.6	4.5
Current provisions	1.4	0.7
Total	8.0	5.2

In millions of euro	2017	2016
Onerous contracts	3.9	4.4
Other provisions	4.1	0.8
Total	8.0	5.2

CHANGES IN PROVISIONS DURING THE FINANCIAL YEAR 2017

In millions of euro	Onerous contracts	Other provisions	Total
1.1.2017	4.4	0.8	5.2
Increase in provisions	1.5	4.7	6.2
Used provisions	-2.0	-1.4	-3.4
31.12.2017	3.9	4.1	8.0

CHANGES IN PROVISIONS DURING THE FINANCIAL YEAR 2016

In millions of euro	Onerous contracts	Other provisions	Total
1.1.2016	1.7	0.7	2.4
Increase in provisions	3.2	0.3	3.6
Used provisions	-0.5	-0.3	-0.8
31.12.2016	4.4	0.8	5.2

Onerous contracts and other provisions

The most significant provisions in the statement of financial position relate to vacant leased premises and other loss-making agreements as well as to some asset retirement obligations related to leased premises.

28. COLLATERAL AND OTHER CONTINGENT LIABILITIES

In millions of euro	2017	2016
Liabilities secured by mortgages and pledged shares		
Loans from financial institutions ⁽¹⁾	0.7	314.2
Unused overdraft facilities	-	98.2
Total	0.7	412.4
Business mortgages	0.7	992.0
Real estate mortgages	11.9	
Carrying amount of the pledged shares	-	308.0
Total	12.6	1,300.0
Securities for own debts		
Deposits	0.0	37.0
Rental deposits	-	0.1
Guarantees	0.6	0.9
Total	0.6	38.0

In addition, parent company has provided a suretyship as collateral for the EUR 257.0 million loan.

Other operating lease liabilities⁽²⁾		
Less than one year	31.0	22.5
Between one year and five year	95.2	70.3
Later	66.9	64.0
Total	193.1	156.8

The Group is obligated to audit value added tax depreciations it has made on a property investment if the taxable use of the property decreases during the auditing period. The maximum amount of the responsibility is EUR 0.1 million on 31.12.2017 EUR - million on 31.12.2016.

1) The nominal value of loans, which differs from the carrying value.
2) The minimum lease payments relate to rented medical and office facilities. The minimum lease payments for fixed term contracts are determined by multiplying the remaining term of lease and the lease amount. Until further notice contracts are determined using the minimum rents for notice.

29. RELATED PARTY TRANSACTIONS

Group's related parties

The Group's related parties include the parent company as well as subsidiaries and associated companies. In addition, related parties include also the members of the Board of Directors, Group management and the CEO as well as their close family members and entities in which they have control, joint control or significant influence.

The relationships of the parent company and the subsidiaries are disclosed in note 30 *Group companies*.

RELATED PARTY TRANSACTIONS DURING THE FINANCIAL YEAR 2017

Transactions with related companies and Group's receivables from and liabilities to related companies at the reporting date, in thousands of euro	2017	2016
Sales	14.8	-
Purchases	27.6	-
Receivables	0.5	-
Liabilities	4.1	-

COMPENSATION FOR THE KEY MANAGEMENT

Remuneration for CEO, in thousands of euro	2017	2016
Salaries and benefits	573.1	441.3
Pension costs ⁽¹⁾	102.1	82.0
Total	675.2	523.3

1) Includes statutory pension, there is no supplementary pension benefit

The CEO's contract will expire automatically without prior written notice upon the CEO reaches the age of 60.

Remuneration to Board of directors, in thousands of euro	2017	2016
Fredrik Cappelen (Chairman of the board)	50.0	50.0
Matti Rihko	25.0	25.0
Ralf Michels	25.0	25.0
Åse Michelet	25.0	21.0
Olli Holmström ⁽¹⁾	17.7	-
Total	142.7	121.0

1) Member of the Board of Directors since April 20, 2017.

Other members of the board of directors are employed by the EQT and hence did not receive remuneration.

Remuneration to members of the Executive team (excluding CEO), in thousands of euro	2017	2016
Salaries and benefits	1,891.4	1,459.0
Pension costs	336.9	287.3
Total	2,228.3	1,745.3

Bonus Scheme

The Company operates a bonus scheme, which is determined by the Board of Directors of the Company upon the recommendation of the Remuneration Committee. The CEO and the members of the Executive Team are eligible to participate in the bonus scheme in accordance with the Company's bonus policy. Annual bonuses are payable based on the attainment of key performance targets of the Company. The key performance targets of the CEO and the Executive Team are based on the Company's EBITDA as well as the individual business and performance targets. The individual business and performance targets are set by the manager of the participant in the bonus scheme.

The Board of Directors of Terveystalo Plc has resolved to establish a new share-based incentive plan directed to the Group key employees. More information on the share-based incentive plan is presented in note 19 *Share-based payments*.

MANAGEMENT HOLDINGS

Name	Position	2017
Fredrik Cappelen ⁽¹⁾	Chairman of the Board of Directors	267,795
Vesa Koskinen	Member of the Board of Directors	-
Åse Aulie Michelet ⁽²⁾	Member of the Board of Directors	22,624
Ralf Michels	Member of the Board of Directors	120,132
Matti Riihko ⁽³⁾	Member of the Board of Directors	129,132
Åsa Riisberg	Member of the Board of Directors	-
Olli Holmström	Member of the Board of Directors	-
Yrjö Närhinen ⁽⁴⁾	Chief Executive Officer	1,316,459
Juha Tuominen ⁽⁵⁾	Chief Medical Officer	160,625
Jens Jensen	SVP, Commercial	119,476
Juha Juosila	Chief Digital Officer	94,323
Johanna Karppi	SVP, HR and Legal	10,112
Susanna Laine	SVP, Communications, Marketing and Brand	18,668
Ilkka Laurila	Chief Financial Officer	314,923
Laura Rätty ⁽⁶⁾	SVP, Public Partnerships	9,078
Siina Saksi	Chief Operating Officer, Clinic Network	50,559
Pia Westman	Chief Operating Officer, Centralized Services and Capital Region	23,594

1) Fredrik Cappelen's shares are owned by Baskina AB, which he controls.

2) Åse Aulie Michelet's shares are owned by Michelet Consult AS, which she controls.

3) From the shares that Matti Riihko owns, 120,132 shares are held by Mandatum Life Insurance Company Limited, Riihko being the ultimate beneficiary.

4) From the shares that Yrjö Närhinen owns, 556,353 shares are owned by Närhen Pesä Oy, which he controls and the rest 760,106 shares are held by Mandatum Life Insurance Company Limited, Närhinen being the ultimate beneficiary.

5) Juha Tuominen's shares are held by Mandatum Life Insurance Company Limited, Tuominen being the ultimate beneficiary. Further, Juha Tuominen's spouse with her controlling entities owns 5,820 shares.

6) Laura Rätty's shares are owned by Groundhog Holding Oy which she controls.

30. GROUP COMPANIES

The Group's parent company is Terveystalo Plc domiciled in Finland.

SUBSIDIARIES AS AT 31.12.2017

Company name	Group's share	Parent company's share	Domicile
Terveystalo Healthcare Holding Oy	100.00%	100.00%	Finland
Star Healthcare Oy	100.00%	0.00%	Finland
Terveystalo Healthcare Oy	100.00%	0.00%	Finland
Kiinteistö Oy Seinäjoen Lakeudentie	100.00%	0.00%	Finland
Suomen Terveystalo Oy	100.00%	0.00%	Finland
Kiinteistö Oy Porin Linnankulma	100.00%	0.00%	Finland
Turun Teknohammas Oy	100.00%	0.00%	Finland
Ky Läkkitorin Hammaslääkäriasema	100.00%	0.00%	Finland
Porin Hammaslääkäripalvelu Oy	100.00%	0.00%	Finland
Liikekeskuksen Hammaslääkärit Oy	100.00%	0.00%	Finland
Examinatio Magnetica Fennica Oy	60.00%	0.00%	Finland
Bitewell Oy	100.00%	0.00%	Finland
Tampereen Hammaslääkäriasema Oy	100.00%	0.00%	Finland
Forssan Erikoishammaslääkärit Oy	100.00%	0.00%	Finland
Hammaslääkäriasema Kymppihammas Oy	100.00%	0.00%	Finland
Fertility Clinic Holding Oy	100.00%	0.00%	Finland
AVA Clinic SIA	100.00%	0.00%	Latvia

ASSOCIATED COMPANIES 31.12.2017

Company name	Group's share	Parent company's share	Domicile
Medix Laboratoriot Oy	25.00%	0.00%	Finland

SUBSIDIARIES AS AT 31.12.2016

Company name	Group's share	Parent company's share	Domicile
Terveystalo Holding I Oy	100.00%	100.00%	Finland
Lotta Holding II S.ä.r.l.	100.00%	0.00%	Luxemburg
Lotta Holding III S.ä.r.l.	100.00%	0.00%	Luxemburg
Terveystalo Healthcare Holding Oy	100.00%	0.00%	Finland
Star Healthcare Oy	100.00%	0.00%	Finland
Terveystalo Healthcare Oy	100.00%	0.00%	Finland
Kiinteistö Oy Seinäjoen Lakeudentie	100.00%	0.00%	Finland
Suomen Terveystalo Oy	100.00%	0.00%	Finland
AVA Clinic SIA	87.50%	0.00%	Latvia
Turun Teknohammas Oy	100.00%	0.00%	Finland
Into Sales Oy	100.00%	0.00%	Finland
Porin Hammaslääkäripalvelu Oy	100.00%	0.00%	Finland
Densens Oy	100.00%	0.00%	Finland
Liikekeskuksen Hammaslääkärit Oy	100.00%	0.00%	Finland
Examinatio Magnetica Fennica Oy	60.00%	0.00%	Finland
Bitewell Oy	100.00%	0.00%	Finland
Tampereen Hammaslääkäriasema Oy	100.00%	0.00%	Finland
Vimadent Oy	100.00%	0.00%	Finland
Forssan Erikoishammaslääkärit Oy	100.00%	0.00%	Finland
Hammaslääkäriasema Kymppihammas Oy	100.00%	0.00%	Finland
Fertility Clinic Holding Oy	100.00%	0.00%	Finland

30.1 Changes in the Group structure

Financial year 2017

Following mergers took place during the financial year 2017:

- 31.3.2017 Lotta Holding III S.a.r.l merged with Lotta Holding II S.a.r.l.
- 30.6.2017 Into Sales Oy merged with Turun Teknohammas Oy.
- 31.3.2017 Lotta Holding II S.a.r.l merged with Terveystalo Holding I Oy.
- 31.7.2017 Terveystalo Holding I Oy merged with Terveystalo Oyj.
- 31.7.2017 Porin Lääkärikeskus Oy merged with Porin Lääkäritalo Oy.
- 31.7.2017 Porin Lääkäritalo Oy merged with Suomen Terveystalo Oy.
- 31.8.2017 Diacor terveystalut Oy merged with Suomen Terveystalo Oy.
- 30.9.2017 Eloni Oy merged with Suomen Terveystalo Oy.
- 31.10.2017 Densens Oy merged with Suomen Terveystalo Oy.
- 31.10.2017 Curia Oy merged with Suomen Terveystalo Oy.
- 30.11.2017 Vimadent Oy merged with Suomen Terveystalo Oy.

Financial year 2016

Following mergers took place during the financial year 2016:

- 31.1.2016 Jokilaaksojen Työterveys Oy merged with Suomen Terveystalo Oy.
- 31.3.2016 Joensuun Magneetti Oy merged with Suomen Terveystalo Oy.
- 31.3.2016 Sairaala Botnia Oy merged with Suomen Terveystalo Oy.
- 31.5.2016 Seinäjoen Lääketieteellinen Tutkimuslaitos Oy merged with Suomen Terveystalo Oy.

Following disposals of subsidiaries took place during the financial year 2016:

- 28.12.2016 Kiinteistö Oy Seinäjoen Lääkäritalo was disposed.
- 28.12.2016 Kiinteistö Oy Seinäjoen Marttilankulma was disposed.

31. GROUP'S KEY FINANCIAL RATIOS

Terveystalo group. in millions of euro	2017	2016	2015
Revenue	689.5	547.0	505.6
Adjusted EBITDA ^(*)	92.4	72.9	67.2
Adjusted EBITDA, % ^(*)	13.4	13.3	13.3
Adjusted EBITA ^(*)	73.0	56.8	50.7
Adjusted EBITA, % ^(*)	10.6	10.4	10.0
EBITDA ^(*)	68.2	68.9	59.0
EBITDA, % ^(*)	9.9	12.6	11.7
EBITA ^(*)	48.8	52.7	42.5
EBITA, % ^(*)	7.1	9.6	8.4
Operating profit (EBIT) ^(*)	28.2	29.6	19.3
Operating profit (EBIT), % ^(*)	4.1	5.4	3.8
Adjusted net income ^(*) (***)	44.0	30.3	21.9
Return on equity (ROE), % ^(*)	2.1	5.6	0.5
Equity ratio, % ^(*)	50.7	31.7	30.5
Earnings per share (€) ^(**)	0.06	0.11	0.01
Gearing, % ^(*)	56.1	132.6	151.5
Net debt/ Adjusted EBITDA (LTM) ^(*)	2.8	4.2	5.0
Total assets	902.3	734.1	723.6
Average personnel FTE	3,180	2,605	2,480
Personnel (end of period)	4,265	3,463	3,416
Private practitioners (end of period)	4,431	3,448	3,430

^(*) Alternative performance measure.

^(**) The effect of share conversion and share split have been taken into account in the weighted average number of shares. Comparative figures have been adjusted accordingly.

^(***) Finance costs related to the previous bank loans had been amortized to the loan period using the effective interest rate method. As part of the IPO, these costs have been expensed.



32. CALCULATION OF FINANCIAL RATIOS AND ALTERNATIVE PERFORMANCE MEASURES

Financial ratios

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

Terveystalo presents alternative performance measures as additional information to financial measures defined in IFRS. Those are performance measures that the company monitors internally and they provide management, investors, securities analysts and other parties with significant additional information related to the company's results of operations, financial position and cash flows. These should not be considered in isolation or as substitute to the measures under IFRS.

Alternative performance measures to the statement of financial position

The company presents the following alternative performance measures to the statement of financial position as they are, in the company's view, useful indicators of the company's ability to obtain financing and service its debt.

$$\begin{aligned} \text{Return on equity, \%} &= \frac{\text{Profit/loss for the period (annualised)}}{\text{Equity (including non-controlling interest) (average)}} \times 100 \\ \text{Equity ratio, \%} &= \frac{\text{Equity (including non-controlling interest)}}{\text{Total assets - advances received}} \times 100 \\ \text{Gearing, \%} &= \frac{\text{Interest-bearing liabilities - interest-bearing receivables and cash and cash equivalents}}{\text{Equity}} \times 100 \\ \text{Net debt / Adjusted EBITDA (LTM) }^{(*)} &= \frac{\text{Interest-bearing liabilities - interest-bearing receivables and cash and cash equivalents}}{\text{Adjusted EBITDA (LTM)}} \end{aligned}$$

Alternative performance measures to the statement of income

The company presents the following alternative performance measures to the statement of income as in the company's view, they increase understanding of the company's results of operations. In addition, the adjusted alternative performance measures are widely used by analysts, investors and other parties and facilitates comparability between periods.

$$\begin{aligned} \text{Adjusted EBITDA}^{(*)} &= \text{Earnings Before Interest, Taxes, Depreciation, Amortization, impairment losses and adjustments} \\ \text{Adjusted EBITDA, \%}^{(*)} &= \frac{\text{Earnings Before Interest, Taxes, Depreciation, Amortization, impairment losses and adjustments}}{\text{Revenue}} \times 100 \\ \text{Adjusted EBITA}^{(*)} &= \text{Earnings Before Interest, Taxes, Amortization, impairment losses and adjustments} \\ \text{Adjusted EBITA, \%}^{(*)} &= \frac{\text{Earnings Before Interest, Taxes, Amortization, impairment losses and adjustments}}{\text{Revenue}} \times 100 \\ \text{EBITDA} &= \text{Earnings Before Interest, Taxes, Depreciation and Amortization and impairment losses} \\ \text{EBITDA, \%} &= \frac{\text{Earnings Before Interest, Taxes, Depreciation and Amortization and impairment losses}}{\text{Revenue}} \times 100 \\ \text{EBITA} &= \text{Earnings Before Interest, Taxes, Amortization and impairment losses} \\ \text{EBITA, \%} &= \frac{\text{Earnings Before Interest, Taxes, Amortization and impairment losses}}{\text{Revenue}} \times 100 \\ \text{Operating profit (EBIT)} &= \text{Earnings Before Interest, Taxes and Share of profits in associated companies} \\ \text{Operating profit (EBIT), \%} &= \frac{\text{Earnings Before Interest, Taxes and Share of profits in associated companies}}{\text{Revenue}} \times 100 \\ \text{Adjusted net income}^{(*)} &= \text{Profit (loss) for the period + amortization of intangible assets identified in business combinations (PPA amortization, net of tax) + adjustments (net of tax) + finance cost related adjustments (net of tax)}^{(**)} \end{aligned}$$

^(*) Adjustments are material items outside the ordinary course of business and these relate to acquisition related expenses, restructuring related expenses, gain on sale of assets, strategic projects, new operations and other items affecting comparability.

33. RECONCILIATION OF ALTERNATIVE PERFORMANCE MEASURES

Return on equity, %	2017	2016	2015
Profit/loss for the period (annualised)	7.2	12.7	1.1
Equity (including non-controlling interest) (average)	344.8	226.3	219.4
Return on equity, %	2.1	5.6	0.5

Equity ratio, %	2017	2016	2015
Equity (including non-controlling interest)	457.3	232.3	220.4
Total assets	902.3	734.1	723.6
Advances received	1.2	1.0	0.9
Equity ratio, %	50.7	31.7	30.5

Gearing, %	2017	2016	2015
Interest-bearing liabilities	289.4	347.2	350.5
Interest-bearing receivables and cash and cash equivalents	33.0	39.1	16.6
Equity	457.3	232.3	220.4
Gearing, %	56.1	132.6	151.5

Net debt / Adjusted EBITDA (LTM), In millions of euro	2017	2016	2015
Interest-bearing liabilities	289.4	347.2	350.5
Interest-bearing receivables and cash and cash equivalents	33.0	39.1	16.6
Adjusted EBITDA (LTM)	92.4	72.9	67.2
Net debt / Adjusted EBITDA (LTM)	2.8	4.2	5.0

Adjusted EBITDA, In millions of euro	2017	2016	2015
Profit (loss) for the period	7.2	12.7	1.1
Income tax expense	-3.3	-3.2	-3.2
Share of profits in associated companies	0.2	-	-
Net finance expenses	24.1	20.1	21.4
Depreciation, amortization and impairment losses	40.0	39.3	39.7
Adjustments ^(*)	24.1	4.0	8.2
Adjusted EBITDA	92.4	72.9	67.2

Adjusted EBITDA, %	2017	2016	2015
Adjusted EBITDA	92.4	72.9	67.2
Revenue	689.5	547.0	505.6
Adjusted EBITDA, %	13.4	13.3	13.3

Adjusted EBITA, In millions of euro	2017	2016	2015
Profit (loss) for the period	7.2	12.7	1.1
Income tax expense	-3.3	-3.2	-3.2
Share of profits in associated companies	0.2	-	-
Net finance expenses	24.1	20.1	21.4
Amortization and impairment losses	20.6	23.1	23.2
Adjustments ^(*)	24.1	4.0	8.2
Adjusted EBITA	73.0	56.8	50.7

Adjusted EBITA, %	2017	2016	2015
Adjusted EBITA	73.0	56.8	50.7
Revenue	689.5	547.0	505.6
Adjusted EBIT, %	10.6	10.4	10.0



EBITDA, In millions of euro	2017	2016	2015
Profit (loss) for the period	7.2	12.7	1.1
Income tax expense	-3.3	-3.2	-3.2
Share of profits in associated companies	0.2	-	-
Net finance expenses	24.1	20.1	21.4
Depreciation, amortization and impairment losses	40.0	39.3	39.7
EBITDA	68.2	68.9	59.0
EBITDA, %	2017	2016	2015
EBITDA	68.2	68.9	59.0
Revenue	689.5	547.0	505.6
EBITDA, %	9.9	12.6	11.7
EBITA, In millions of euro	2017	2016	2015
Profit (loss) for the period	7.2	12.7	1.1
Income tax expense	-3.3	-3.2	-3.2
Share of profits in associated companies	0.2	-	-
Net finance expenses	24.1	20.1	21.4
Amortization and impairment losses	20.6	23.1	23.2
EBITA	48.8	52.7	42.5
EBITA, %	2017	2016	2015
EBITA	48.8	52.7	42.5
Revenue	689.5	547.0	505.6
EBITA, %	7.1	9.6	8.4
Operating profit (EBIT), In millions of euro	2017	2016	2015
Profit (loss) for the period	7.2	12.7	1.1
Income tax expense	-3.3	-3.2	-3.2
Share of profits in associated companies	0.2	-	-
Net finance expenses	24.1	20.1	21.4
EBIT	28.2	29.6	19.3
Operating profit, (EBIT), %	2017	2016	2015
EBIT	28.2	29.6	19.3
Revenue	689.5	547.0	505.6
EBIT, %	4.1	5.4	3.8
Adjusted net income, In millions of euro	2017	2016	2015
Profit (loss) for the period	7.2	12.7	1.1
PPA amortization	14.6	18.0	17.8
Tax related to PPA amortization	-2.9	-3.6	-3.6
Adjustments ^(*)	24.1	4.0	8.2
Tax related to adjustments	-4.8	-0.8	-1.6
Adjustments related to finance costs ^(**)	7.2	-	-
Tax related to finance cost adjustments	-1.4	-	-
Adjusted net income	44.0	30.3	21.9



^{*)} Adjustments, In millions of euro	2017	2016	2015
Acquisition related expenses ⁽¹⁾	17.7	0.2	1.7
Restructuring related expenses ⁽²⁾	5.8	6.2	4.7
Gain on sale of asset	-0.2	-4.6	-
Strategic projects, new operations and other items affecting to comparability	0.8	2.2	1.9
Adjustments	24.1	4.0	8.2

^{*)} Adjustments are material items outside the ordinary course of business and these relate to acquisition related expenses, restructuring related expenses, gain on sale of assets, strategic projects including the IPO, new operations and other items affecting comparability.

^{**)} Finance costs related to the previous bank loans had been amortized to the loan period using the effective interest rate method. As part of the IPO, these costs have been expensed.

1) including transaction costs and expenses from integration of acquired businesses as well as IPO related expenses

2) including restructuring of network and business operations, start up losses, provisions for onerous contracts (lease agreements and other contracts)

34. SUBSEQUENT EVENTS

After the end of the review period, Terveystalo increased its dental business by acquiring Hammas Jaarli Oy business in January 2018. The transaction did not have a material financial impact.



Parent company's financial statements, FAS

PARENT COMPANY'S INCOME STATEMENT

In euro	Note	1.1.-31.12.2017	1.1.-31.12.2016
Revenue	1.1	194,043	-
Employee benefit expenses			
Wages and salaries		-979,095	-120,833
Social security expenses			
Pension expenses		-156,124	-
Other social security expenses		-27,531	-
Depreciation, amortization and impairment losses	1.2	-4,768	-
Other operating expenses	1.4	-11,418,287	-213,155
Operating profit or loss		-12,391,761	-333,988
Financial income and expenses	1.5		
Other interest and financial income			
From Group companies		345,570	-
From others		10	-
Other interest and financial expenses			
To Group companies		-3,877	-19,119
To others		-1,455	-10
Profit or loss before appropriations and taxes		-12,051,512	-353,117
Appropriations	1.6		
Increase/decrease in depreciation in excess of plan		-14,702	-
Group contributions		2,000,000	350,000
Taxes		-1,455	-
Profit or loss for the period		-10,067,668	-3,117



PARENT COMPANY'S STATEMENT OF FINANCIAL POSITION

In euro	Note	1.1.-31.12.2017	1.1.-31.12.2016
ASSETS			
Non-current assets			
Property, plant and equipment	2.1		
Machinery and equipment		72,845	-
Investments	2.2		
Holdings in group companies		506,685,344	308,000,000
Total non-currents assets		506,758,189	308,000,000
Current assets			
Receivables from group companies	2.3	15,765,919	350,000
Prepayments and accrued income	2.4	700,315	-
Cash and cash equivalents		2,498,091	10,823
Total current assets		18,964,325	360,823
TOTAL ASSETS		525,722,515	308,360,823

In euro	Note	1.1.-31.12.2017	1.1.-31.12.2016
EQUITY AND LIABILITIES			
Equity			
	2.5		
Share capital		80,000	2,500
Invested non-restricted equity reserve		526,793,461	307,997,500
Retained earnings		-2,323	794
Profit or loss for the period		-10,067,668	-3,117
Total equity		516,803,469	307,997,677
Appropriations			
Depreciation in excess of plan		14,702	-
Total appropriations		14,702	-
Liabilities			
	2.6		
Non-current liabilities			
Loans from financial institutions		56,805	-
Liabilities to group companies		-	141,440
Current liabilities			
Loans from financial institutions		21,207	-
Trade payables		7,631,159	25,352
Liabilities to group companies		175,834	195,614
Other liabilities		82,909	-
Accruals and deferred income		936,429	741
Total liabilities		8,904,344	363,147
TOTAL EQUITY AND LIABILITIES		525,722,515	308,360,823



PARENT COMPANY'S STATEMENT OF CASH FLOWS

In euro	1.1- 31.12.2017	1.1- 31.12.2016
Cash flows from operating activities		
Profit/loss for the period	-10,067,668	-3,117
Adjustments		
Depreciations according to plan	4,768	-
Non-cash transactions	-1,566,665	-350,000
Financial income and expenses	-340,239	19,129
Other adjustments	1,455	-
Change in working capital		
Change in trade and other receivables	-887,278	-
Change in trade and other payables	8,717,182	11,418
Taxes	-1,455	-202
Interest paid	-5,331	-4,452
Net cash from operating activities	-4,145,231	-327,224
Cash flows from investing activities		
Purchase of tangible and intangible items	-77,614	-
Purchase of investments	-115,500,000	-
Net cash from investing activities	-115,577,614	-
Cash flows from financial activities		
Share issue	100,000,000	-
Equity investment without consideration in the invested non-restricted equity reserve	25,000,005	-
Change in group account	-3,391,611	-
Proceeds from short-term borrowings	21,207	320,000
Repayment of short-term borrowings	-820,559	-
Proceeds of long-term borrowings	56,805	-
Proceeds from long-term borrowings	-	-700,000
Received group supports	350,000	700,000
Net cash from financial activities	121,215,846	320,000
Net change in cash and cash equivalents	1,493,002	-7,224
Cash and cash equivalents at 1 January	10,823	18,048
Cash and cash equivalents from acquisitions	994,266	-
Cash and cash equivalents at 31 December	2,498,091	10,823



ACCOUNTING POLICIES OF PARENT COMPANY'S FINANCIAL STATEMENTS

The financial statements of Terveystalo Oyj are prepared in accordance with Finnish Accounting Standards (FAS).

Measurement and recognition principles and methods

Holdings in group companies

The balance sheet value of holdings in group companies consists of historical costs less impairments. If the estimated future cash flows generated by a non-current asset are expected to be permanently lower than the balance of carrying amount, an adjustment to the value must be made to write-down the

difference as an expense. If the basis for the impairment can no longer be justified at reporting date, it must be reversed.

Property, plant and equipment and depreciation

The balance sheet value of property, plant and equipment consists of historical costs less depreciation and other deductions. Property, plant and equipment are depreciated using straight-line depreciation based on the expected useful life of the asset.

The depreciation is based on the following expected useful lives:

Machinery and equipment: 5 years



NOTES TO THE STATEMENT OF INCOME

1.1 REVENUE

In euro	2017	2016
Finland	194,043	-
Total	194,043	-

1.2 DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES

In euro	2017	2016
Depreciation	-4,768	-
Total	-4,768	-

1.3 PERSONNEL

	2017	2016
Average number of personnel during financial year	2	-

1.4 OTHER OPERATING EXPENSES

In euro	2017	2016
External services	-4,052,206	-2,636
ICT expenses	-1,319	-
Other personnel related expenses	-3,432	19,549
Leases	-1,184	-
Travel expenses	-29,033	-16,258
Marketing and communication	-475,962	-
Other costs	-6,855,151	-213,810
Total	-11,418,287	-213,155

AUDITOR'S FEES

In euro	2017	2016
Audit and auditor's statements based on laws and regulations		
Audit, KPMG	-119,065	-34,684
Audit, other offices	-89,000	-
Total	-208,065	-34,684
Non audit services		
Assurance services, KPMG	-92,600	-
Tax services, KPMG	-	-4,076
Other services, KPMG	-516,600	-
Total	-609,200	-4,076
Auditor's fees total	-817,265	-38,760

1.5 FINANCIAL INCOME AND EXPENSES

In euro	2017	2016
Other interest and financial income		
From Group companies	345,570	-
From others	10	-
Total	345,580	-
Other interest and financial expenses		
To Group companies	-3,877	-19,119
To others	-1,455	-10
Total	-5,331	-19,129

1.6 APPROPRIATIONS

In euro	2017	2016
Increase/decrease in depreciation in excess of plan	-14,702	-
Group contributions recieved	2,000,000	350,000
Appropriations total	1,985,298	350,000

NOTES TO THE STATEMENT OF THE FINANCIAL POSITION

2.1 PROPERTY, PLANT AND EQUIPMENT MACHINERY AND EQUIPMENT

In euro	2017	2016
Acquisition cost 1.1	-	-
Additions	77,614	-
Acquisition cost 31.12	77,614	-
Accumulated depreciation and impairment losses 1.1	-	-
Depreciation for the period	-4,768	-
Accumulated depreciation and impairment losses 31.12	-4,768	-
Carrying amount 1.1	-	-
Carrying amount 31.12	72,845	-

2.2 INVESTMENTS HOLDINGS IN GROUP COMPANIES

In euro	2017	2016
Acquisition cost 1.1	308,000,000	308,000,000
Addition	198,685,344	-
Acquisition cost 31.12	506,685,344	308,000,000
Carrying amount 1.1	308,000,000	308,000,000
Carrying amount 31.12	506,685,344	308,000,000

PARENT COMPANY OWNERSHIPS:

Holdings in Group companies	2017	2016
Terveystalo Healthcare Holding Oy	100%	-
Terveystalo Holding I Oy	-	100%

2.3 RECEIVABLES FROM GROUP COMPANIES

In euro	2017	2016
Loan receivables	10,132,900	-
Trade receivables	241,408	-
Group account receivables	3,391,611	-
Prepayments and accrued income	2,000,000	350,000
Total	15,765,919	350,000

2.4 PREPAYMENTS AND ACCRUED INCOME

In euro	2017	2016
VAT receivables	277,976	-
Other	422,339	-
Total	700,315	-



2.5 CHANGES IN EQUITY

RESTRICTED EQUITY

SHARE CAPITAL

In euro	2017	2016
At the beginning of the period	2,500	2,500
Share capital increase	77,500	-
At the end of the period	80,000	2,500
Total restricted equity	80,000	2,500

UNRESTRICTED EQUITY

INVESTED NON-RESTRICTED EQUITY RESERVE

In euro	2017	2016
At the beginning of the period	307,997,500	307,997,500
Directed share issue	93,873,456	-
Share capital increase	-77,500	-
Equity investment without consideration in the invested non-restricted equity reserve	25,000,005	-
Share issue	100,000,000	-
At the end of the period	526,793,461	307,997,500

RETAINED EARNINGS

In euro	2017	2016
Retained earnings at the beginning of the period	-2,323	794
Retained earnings at the end of the period	-2,323	794
Loss for the period	-10,067,668	-3,117
Total unrestricted equity	516,723,469	307,995,177
Total equity	516,803,469	307,997,677

DISTRIBUTABLE EARNINGS

In euro	2017	2016
Invested non-restricted equity reserve	526,793,461	307,997,500
Retained earnings	-2,323	794
Profit or loss for the period	-10,067,668	-3,117
Total	516,723,469	307,995,177

Shares and share capital

The Extraordinary General Meeting (EGM) of Terveystalo held on 26 September, 2017 in Helsinki, resolved to convert the company to public limited liability company and increase the share capital from 2,500 euros to 80,000 euros. In addition, the EGM resolved to convert the previous B, C, D, E and F –share classes to A shares after which the A shares were converted into the company's single class shares. As a result the company has one single share class. The share conversions did not have any effect of the company's registered share capital.

On 31 December, 2017 the amount of shares outstanding is 128,036,531. Then new single share class (TTALO) became subject to public trading on 11 October, 2017. All shares issued have been paid in full. The shares have no nominal value. Each share has one vote at the Annual General Meeting and equal rights to dividend and other distribution of assets. The company does not hold its own shares.

Share issues

As part of the acquisition of Diacor Group, the Board of Directors resolved on the directed share issue to the Helsinki Deaconess Institute Foundation by virtue of an authorization. Total of 4,382,146 class A shares for the price of EUR 8.36 per share and 43,764,100 class D shares for the price of EUR 1.31 per share were issued in order to pay EUR 93.9 million of the purchase price.

Based on the authorization of the EGM, the Board of Directors resolved on 10 October, 2017 on the issuance of new shares without payment in proportion to shareholdings for the purposes of increasing the total number of shares in the company (share split). In the share issue two new shares were issued for each one single class share.

In Terveystalo's Initial Public Offering, 10,281,249 new shares were issued, of which 355,665 new shares were issued to the personnel. The subscription price was EUR 9.76 per share in the

Public and Institutional Offering and EUR 8.79 in the Personnel Offering.

Invested non-restricted equity reserve

Invested non-restricted equity reserve consists of other investments similar to equity and the subscription price of shares to the extent that it has not been recorded in share capital according to specific resolution. According to the current Finnish

Companies Act subscription price of new shares is recognised in the share capital, unless it has not been according to Issuance Resolution fully or partly recognised in invested non restricted equity reserve. Shares issued in 2017 have been fully booked to the invested non-restricted equity fund. In addition, on the basis of the company's pre-listing shareholders' commitments, the shareholders made a total of 25 million euro investment without consideration in the company's invested non-restricted equity reserve.

2.6 LIABILITIES

2.6.1 NON-CURRENT LIABILITIES

In euro	2017	2016
Loans from financial institutions	56,805	-
Loans from Group companies	-	141,440
Total	56,805	141,440

2.6.2 CURRENT LIABILITIES

In euro	2017	2016
Loans from financial institutions	21,207	-
Trade payables	7,631,159	25,352
Other liabilities to Group companies	175,834	195,614
Other liabilities	82,909	-
Accruals	936,429	741
Total	8,847,539	221,706

2.6.3 LIABILITIES TO GROUP COMPANIES

In euro	2017	2016
Non-current loans	-	141,440
Trade payables	175,834	16,495
Accruals and deferred income	-	179,119
Total	175,834	337,054

2.6.4 ACCRUALS AND DEFERRED EXPENSES

In euro	2017	2016
Personnel related accrued expenses	936,164	-
Other	266	741
Total	936,429	741

OTHER NOTES

3.1 COLLATERAL AND OTHER CONTINGENT LIABILITIES

In euro	2017	2016
Contingent liabilities on behalf of Group companies		
Suretyship	257,000,000	-
Guarantees	322,709	-
Pledged deposits	-	18,048
Carrying amount of the pledged shares	-	308,000,000



Signatures to the financial statements and Board of Director's report

Helsinki, 28th February 2018

Fredrik Cappelen
Chairman of the Board of Directors

Vesa Koskinen
Member of the Board of Directors

Ralf Michels
Member of the Board of Directors

Matti Rihko
Member of the Board of Directors

Åsa Riisberg
Member of the Board of Directors

Åse Michelet
Member of the Board of Directors

Olli Holmström
Member of the Board of Directors

Yrjö Närhinen
CEO

Auditor's note

A report on the audit has been issued today.

Helsinki, 28th February 2018

KPMG Oy Ab
Audit firm

Jari Härmälä
Authorized Public Accountant



AUDITOR'S REPORT

To the Annual General Meeting of Terveystalo Plc Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Terveystalo Plc (business identity code 2575979-3) for the year ended 31 December 2017. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in

Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of EU regulation 537/2014. The non-audit services that we have provided have been disclosed in note 9 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.



Valuation of goodwill and intangible assets (Accounting principles for the consolidated financial statements and the notes 15 and 16)

<ul style="list-style-type: none"> At the year-end 2017 the goodwill amounted to 583.3 M€ and accounted for 65 % of the consolidated total assets and for 128 % of the consolidated equity. During the financial period Terveystalo expanded its operations through the acquisitions of Diacor and Porin Lääkäritalo from which goodwill of 133 M€ was recognized. 	<ul style="list-style-type: none"> We assessed the key assumptions used in the calculations, such as profitability, discount rate and long-term growth rate. To analyze the forecasts we applied professional judgement in testing the key assumptions and assessing the resulting effects on the sensitivity analysis.
<ul style="list-style-type: none"> Goodwill is tested for impairment at least annually. An impairment arises when the recoverable amount is less than the carrying value of the asset. 	<ul style="list-style-type: none"> We involved KPMG valuation specialists when assessing the appropriateness of the assumptions used and the technical accuracy of the calculations. This included a comparison to external financial and industry forecasts.
<ul style="list-style-type: none"> Terveystalo determines recoverable amounts for impairment tests based on value in use. Preparation of cash flow projections underlying impairment tests requires management making judgments over profitability, long-term growth rate and discount rate. 	<ul style="list-style-type: none"> In respect of the acquisition-related intangible assets we evaluated the recoverability of these assets by assessing the related calculations and the underlying assumptions.
<ul style="list-style-type: none"> The acquisition-related intangible assets at the year-end 2017 were in total 98.5 M€ of which a substantial part related to recognized assets for trade mark and customer relationships. These assets have finite useful lives and the related amortization periods shall be reviewed annually. 	<ul style="list-style-type: none"> In addition, we considered the appropriateness of the disclosures in respect of goodwill, impairment testing and intangible assets.
<ul style="list-style-type: none"> Given the high level of management judgment related to the forecasts used and the significant carrying amounts involved valuation of goodwill and intangible assets is considered a key audit matter. 	

Revenue recognition (Accounting principles for the consolidated financial statements and the note 4)

<ul style="list-style-type: none"> The consolidated revenue amounted to € 689.5 M€ million and consist of numerous types of individual service transactions generated to various customer and payor groups in multiple business locations. Volumes of sales transactions processed in the IT systems are substantial and Terveystalo also uses a number of service pricing models and client contract templates. 	<ul style="list-style-type: none"> As part of our audit procedures, we evaluated the sales-related internal control environment, as well as tested the effectiveness of the key controls. We also performed substantive audit procedures.
<ul style="list-style-type: none"> Terveystalo has as of 1 January 2017 adopted the new standard IFRS 15 Revenue from Contracts with Customers prior to the obligatory adoption date and the effect on revenue is substantial. Terveystalo applies IFRS 15 retrospectively and has adjusted the comparative information respectively. 	<ul style="list-style-type: none"> We assessed the appropriateness of the IFRS 15 revenue recognition principles and practices as applied by Terveystalo.
<ul style="list-style-type: none"> Given the variety and large number of sales transactions and the adoption of the new standard IFRS 15, the revenue recognition is considered a key audit matter. 	<ul style="list-style-type: none"> We evaluated the IT systems relevant for revenue recognition and the functioning of the related general IT controls.
	<ul style="list-style-type: none"> We tested the effectiveness of the processes to enter and record sales transactions as well as the sales pricing and invoicing processes. We also tested inclusion of relevant transactions in the appropriate period in order to assess the accuracy of revenue recognition.
	<ul style="list-style-type: none"> In addition, we tested controls over cash sales such as reconciliation routines.
	<ul style="list-style-type: none"> We considered the appropriateness of the disclosures provided for revenue in the consolidated financial statements.



Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Other Reporting Requirements

Information on our audit engagement

We have acted as auditors appointed by the Annual General Meeting uninterrupted for 4 years. Terveystalo Plc became a public interest entity on 13 October 2017.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki, 28 February 2018

KPMG Oy Ab

JARI HÄRMÄLÄ

Authorised Public Accountant, KHT



TAX FOOTPRINT

Tax footprint refers to tax revenue and tax-like payments accumulated to society as a result of business activities. In addition to direct and indirect taxes, Terveystalo's tax footprint includes tax-like payments related to the personnel and tax withheld from salaries.

In 2017, Terveystalo's tax footprint totaled EUR 95.0 (79.2 in 2016) million. Of this, taxes comprised over EUR 20.3 (14.5) million, tax-like payments related to the personnel made up EUR 34.5 (29.9) million, and taxes withheld from salaries totaled nearly EUR 40.8 (34.8) million.

In 2017, Terveystalo paid EUR 17.0 (14.0) million in value added tax. Value added tax is an important factor in healthcare, since private healthcare companies are not eligible to deduct value added tax.

For the customer, healthcare services sold by a private service provider are tax free (except other than healthcare services, such as aesthetical surgery). In addition to VAT, Terveystalo has paid property tax, transfer tax and income tax. Terveystalo's losses in previous years have reduced the amount of income tax paid.

The Terveystalo Group and its subsidiaries operate and (with the exception of small fertility clinic in Latvia) pay all their taxes in Finland.

In millions of euro

Taxes paid	2017	2016	2015
Value added tax, VAT	17.0	14.0	13.8
Property tax	0.2	0.2	0.1
Income tax, cash flow based	0.5	0.3	0.2
Transfer tax	2.6	0.1	0.4
Total	20.3	14.5	14.5
Statutory payments related to personnel			
TyEL pension insurance fees (employers share)	27.4	22.2	21.0
Unemployment insurance fees (employers share)	4.9	4.7	3.6
Accident insurance fees	0.4	0.3	0.2
Group life insurance payments	0.1	0.1	0.1
Social security contributions	1.7	2.7	2.5
Total	34.5	29.9	27.4
Personnel (end of period)	4,265	3,463	3,416
Taxes withheld from salaries, in total	40.2	34.8	33.8
Tax footprint in total	95.0	79.2	75.7

In addition, a total of EUR 252.0 (200.6) million was paid in fees to private practitioners. Each private practitioner pays their individual taxes separately.

	2017	2016	2015
Private practitioners' fees	252.0	200.6	182.3



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