

Pihlajalinna Group's restated financials 2018 after the adoption of the new IFRS 16 Leases standard

Pihlajalinna Plc

Stock exchange release

18 April 2019 at 13:00

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The IFRS 16 Leases standard, valid since the beginning of 2019, covers the definition, recognition and valuation of leases as well as other information given in relation to lease arrangements in financial statements. According to the standard, the lessee recognises the asset based on the right of use and the corresponding financial liability in the statement of financial position. The Group has adopted the new standard using the full retrospective method. The effects of the date of transition 1 January 2018 are calculated as if the standard had always been valid. This release and its attachments include the restated financials 2018 of Pihlajalinna Group in accordance with the standard valid since 1 January 2019. Pihlajalinna published preliminary information on the effects of adopting the IFRS 16 Leases standard in its Financial Statements Bulletin on 15 February 2019.

The IFRS 16 Leases standard has a significant impact on the income statement, statement of financial position and the key figures of Pihlajalinna. Adoption of the standard increases considerably the EBITDA and the adjusted EBITDA once the lease payments recognised in the income statement are replaced with the depreciations of the right-of-use-asset as well as the interest costs of liability recognised in the financial items. The change in deferred taxes is also recognised in the income tax. Adopting the standard does not significantly change Pihlajalinna's operating profit, adjusted operating profit, profit for the financial year or earnings per share.

The assets of the statement of financial position are increased by the right-of-use asset calculated for the start of each lease and depreciated during the lease period. The amount of interest-bearing debt in the statement of financial position increases with the discounted amount of lease liability. In addition, the adoption of the new leases standard impacts the consolidated cash flow from operating activities as well as the cash flow from financing activities once the realised lease payments are targeted at the cash flow from financing activities to the extent corresponding to the financial expenses and the amortisation of debt. Overall, the consolidated cash flow remains unchanged, but there are changes in the manner of representation between the different parts of the statement of cash flows. An entry in equity is created regarding the retrospective adoption of the new standard on the date of transition on 1 January 2018 once the values of assets and liabilities recognised in the statement of financial position differ on the date of transition.

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

Key impacts of IFRS 16

- In the opening statement of financial position as per 1 January 2018, the value of right-of-use assets increased by EUR 41.5 million to EUR 73.1 million and the corresponding value of interest-bearing debt increased by EUR 42.2 million to EUR 74.7 million.
- In the statement of financial position as per 31 December 2018, the value of right-of-use assets increased by EUR 86.7 million to EUR 116.0 million and the corresponding value of interest-bearing debt increased by EUR 88.0 million to EUR 118.5 million.
- The operating profit (EBIT) for the financial year 2018 increased by EUR 0.4 million, amounting to EUR 13.2 million.
- The earnings per share for the financial year 2018 decreased by EUR 0.02 per share. The restated earnings per share for financial year 2018 was EUR 0.16.
- The equity ratio as per 31 December 2018 decreased 7.7 points to 29.9 percent.
- Gearing as per 31 December 2018 increased 67.9 points to 136.6 percent.
- The restated net debt to adjusted EBITDA for the financial year 2018 was 3.9.

Pihlajalinna has renewed the presentation of the primary financial statements by adding line items according to IFRS 16. In addition, Pihlajalinna's statement of cash flows will comply with the indirect calculation method in the future.

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

Further information

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Appendices

Consolidated statement of comprehensive income 2018, cumulative
Consolidated statement of comprehensive income 2018, quarterly information
Consolidated opening statement of financial position 1 January 2018
Consolidated statement of financial position 2018 (31 March 2018, 30 June 2018, 30 September 2018, 31 December 2018)
Consolidated statement of changes in equity 2018

Consolidated statement of cash flows 2018, cumulative
Consolidated statement of cash flows 2018, quarterly information
Reconciliations of alternative performance measures 2018

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Nasdaq Helsinki
Major media
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Pihlajalinna in brief

Pihlajalinna is one of the leading private social and healthcare services providers in Finland. The company serves private individuals, businesses, insurance companies and public sector entities, such as municipalities and joint municipal authorities. Pihlajalinna provides general practitioner services, specialised care, emergency and on-call services, a wide range of surgical services, occupational healthcare, dental care and wellbeing services. In addition, the company offers innovative social and healthcare service provision models to public sector entities.