



# Pihlajalinna

ANNUAL REPORT 2022



# Contents

Pihlajalinna's Annual Report 2022 comprises five parts: The Year 2022, Sustainability, Remuneration, Corporate Governance and Finances.

In the section The Year 2022, we provide information on Pihlajalinna's business operations and strategy, as well as the operating environment and the trends that shape it. The company's value creation model is also described in the same section. The Sustainability section describes Pihlajalinna's sustainability management and sustainability programme, and discusses the company's sustainability themes. We report on sustainability in accordance with the Global Reporting Initiative (GRI) standard. This report complies with the Core requirements of the GRI Standards.

The Remuneration section includes Pihlajalinna's Remuneration Report. The Corporate Governance section consists of the Corporate Governance Statement and contains more detailed information on the Board of Directors and the Management Team. The Finances section includes the Board of Directors' report, the audited financial statements, the auditor's report and information for shareholders. The statement of non-financial information, pursuant to the Accounting Act, is provided as part of the Board of Directors' report in the Finances section.

Pihlajalinna's Annual Report 2022 is published in Finnish and English.

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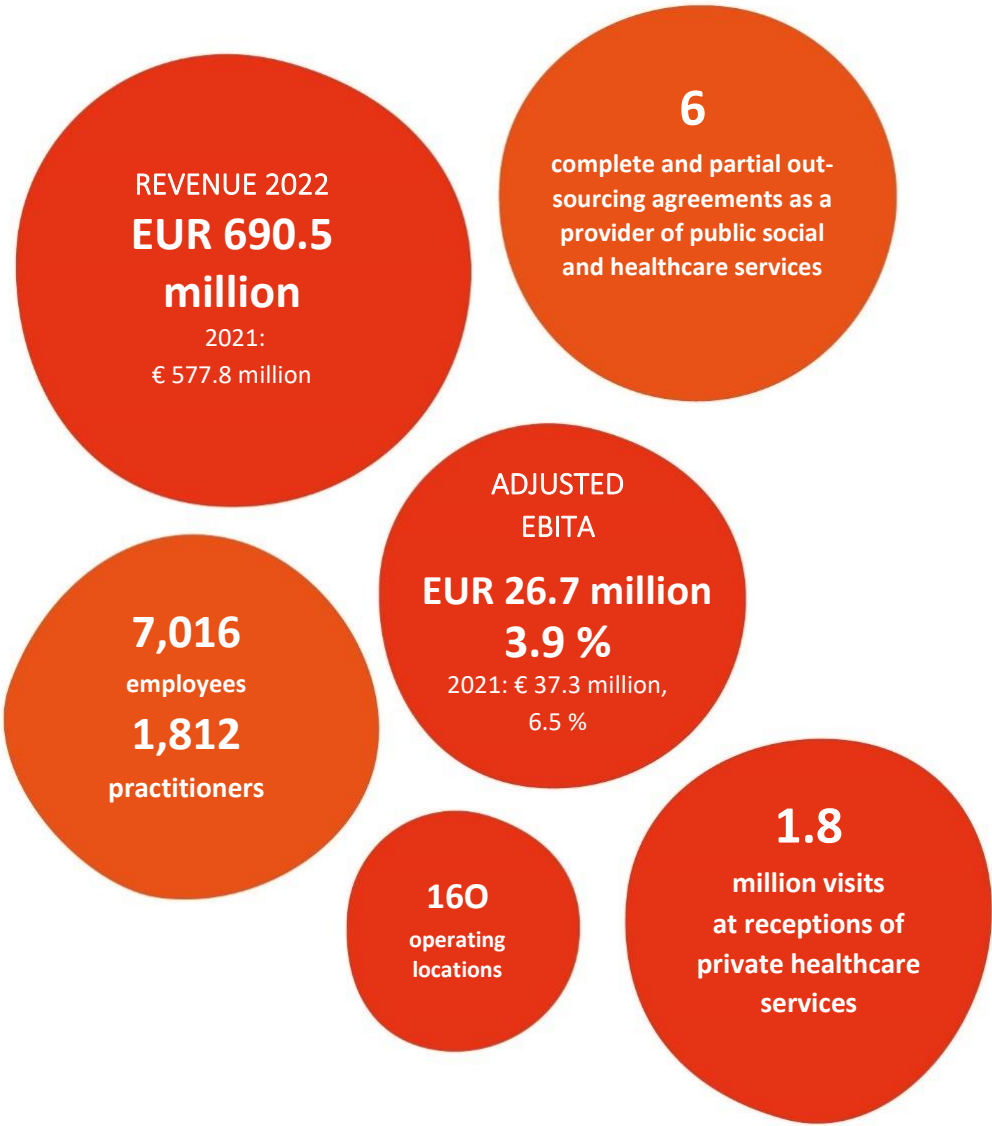
# Pihlajalinna in brief

Pihlajalinna is one of the leading private providers of healthcare and wellbeing services in Finland. The Group provides general practitioner and specialised care services, occupational healthcare and dental care services, residential services and wellbeing services, for example. Pihlajalinna's shares are listed on Nasdaq Helsinki Ltd.

Pihlajalinna Group's customers include private individuals, corporations, insurance companies and wellbeing services counties, for whom we provide a wide range of local, remote and digital services. In the public sector, we provide social and healthcare service production models in which cooperation guarantees high-quality services for citizens.

We contribute to health and wellbeing in Finland, and we pay all of our taxes to Finland. Our head office is located in Tampere.

Our values are **energy, ethics and open-mindedness**. We provide our employees with meaningful work in healthy and high quality conditions. Each employee is important to us as a member of the work community and as a developer of the customer experience and operational quality.





# From the CEO

In line with our strategy, in 2022 we focused on expanding our network of private clinics and hospital services and increasing our supply. During the year, we made several acquisitions supporting the growth of supply, the largest of which took place in February when Pohjola Hospital was transferred to Pihlajalinna. As a result of the acquisition, the company now has a comprehensive service network in hospital services with high added value, as well as diverse emergency and on-call services in all major regional centres. Pihlajalinna's revenue increased significantly by 19.5 per cent to EUR 690.5 million during the year.

We also prepared for the start of the wellbeing services counties at the beginning of 2023. Our joint ventures in the Pirkanmaa, Central Finland and South Ostrobothnia regions became part of the new wellbeing services counties at the turn of the year, and the existing agreements will continue. The development of operations and taking care of customers' health will continue together with the counties.



The growth of remote service usage continued strongly. Remote appointments represented 37 per cent of all appointments at the end of the year. The use of remote services is also growing among our occupational healthcare customers. At the end of 2022, Pihlajalinna's occupational healthcare already covered more than 270,000 people. Together with our corporate customers, we solve the challenges of work ability and the

ability to cope. For example, we have further developed our Mielen huoli (Mental Care) remote service, which offers low-threshold help.

The growth of business has also led to an increase in the number of personnel and practitioners. The changes of the past year have been demanding on our personnel, and one of our strategic priorities in 2023 is to promote and develop wellbeing at work for personnel. At the end of



2022, 7,016 persons and 1,812 practitioners worked for Pihlajalinna.

In many ways, 2022 was also a challenging year for Pihlajalinna, and profitability weakened towards the end of the year due to the decline in COVID-19 services and, in particular, high numbers of sickness absences and the costs of public specialised care. In 2023, we will focus on strengthening our financial position to ensure profitable growth. We have started reviewing, among other things, the prices of our services, the structure of our organisation and our network of business locations from the beginning of the year.

**Responsible operations are the foundation of the company**

In addition to public healthcare partnerships, we have determinedly built private health services to help both work communities and private customers with their needs. Our purpose is to help to live a better life. Responsibility in Pihlajalinna is a way of operating, according to which we offer effective health-promoting and disease prevention services. Corporate responsibility is part of all the Group's operations and requires not only purposeful development but also clear goals, management and reporting. In 2022, we further developed our responsibility work, which is guided by the three themes

of responsibility: responsibility for health and well-being, responsible business and responsibility for personnel. We are reporting for the second time on our responsibility work in accordance with the GRI Standard.

In 2022, we defined our environmental responsibility and environmental policy and reduced our carbon footprint. We will continue this work. We are committed to the UN Global Compact initiative and the UN Sustainable Development Goals.

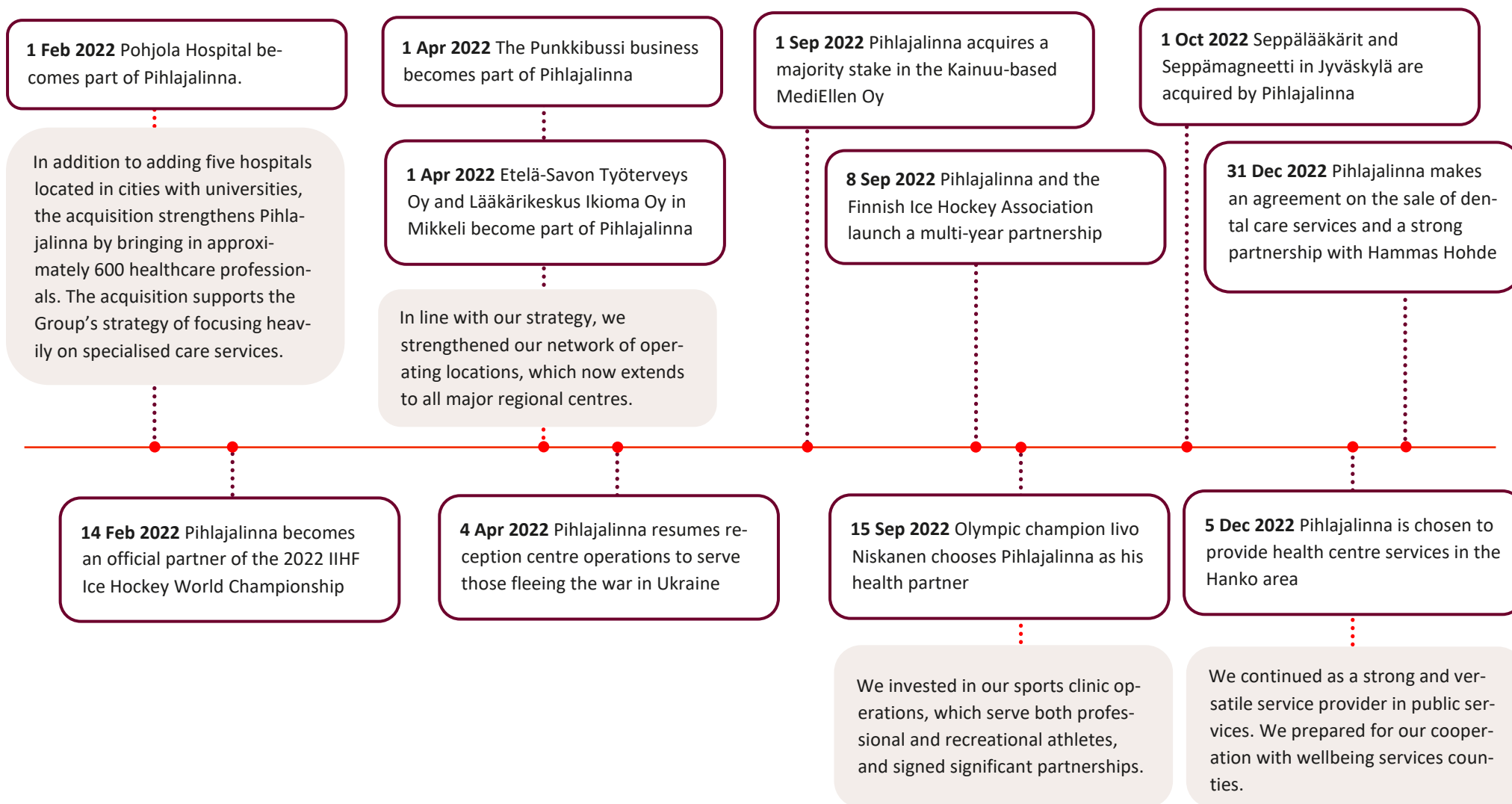
The past year was difficult globally and especially in Europe due to the forces of change caused by the Russian invasion of Ukraine. In spite of the external uncertainties, we purposefully executed our business strategy and were successful in growing and advancing our business in many indicators. I want to take this opportunity to express my gratitude to all of our stakeholders for the past year, and I especially want to express my gratitude to our personnel. You are making it possible for us to be effectively present and to help people live a better life – every day.

**JONI AALTONEN**  
CEO

REVENUE	ADJUSTED EBITA
690.5	26.7
EUR million 2021: 577.8 M€ ↗ +19.5 %	EUR million / 3.9 % 2021: 37.3 M€ / 6.5 %)
ADJUSTED EBITDA	PERSONNEL
64.2	7,016
EUR million 2021: 65.3	2021: 6,297
NET DEBT/ADJUSTED EBITDA	EARNINGS PER SHARE
6.0	0.42
31.12.2022 31.12.2021: 3.0	euro 2021: 0.89



# Timeline 2022







# Pihlajalinna's strategy

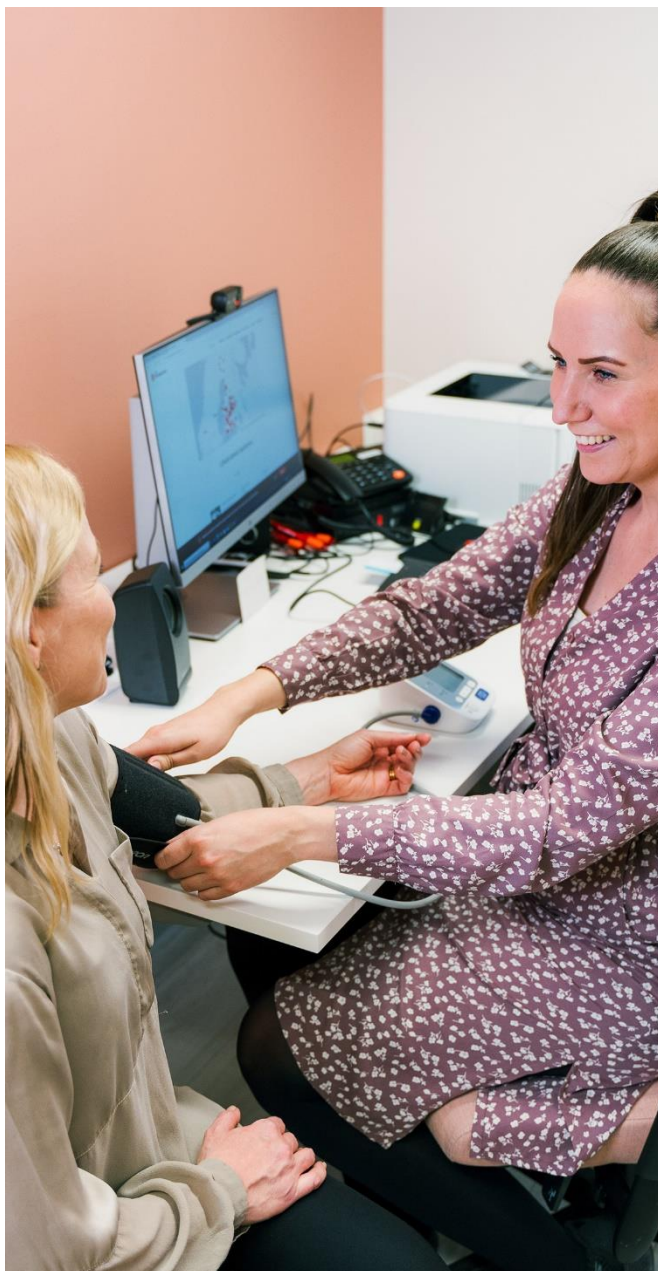
Pihlajalinna's strategic priorities are the renewal of services for private customers and the cooperation in social and healthcare services. The strategy is carried forward under the themes of profitable growth, quality and impact, the customer experience and employee experience, and digital Pihlajalinna. Operating ethically and sustainably is key to achieving the strategic objectives.

In 2022, we launched several strategic spearhead projects that will help us focus heavily on areas such as our multichannel services, cooperation with the wellbeing services counties and digitalisation in the development of personnel, the customer experience and operational performance.

The achievement of goals is measured by, for example, financial indicators, the increase in the number of appointment times and procedures available to customers, and Net Promoter Scores (NPS), which measure the customer experience and employee experience.

## PIHLAJALINNA'S STRATEGY 2021-2025





## Mission

We help people to live a better life.

## Vision

We bring wellbeing to everyone.

## Values

Ethics, energy, open-mindedness.

## Objectives for the strategy period

- Pihlajalinna offers the most attractive and diverse range of services.
- Pihlajalinna is the number one choice of consumers and professionals.
- Pihlajalinna services are easy to access and available without delay.
- Revenue growth of EUR 250 million by the end of 2025, using 2021 as the baseline. One-third of the growth is expected to be derived from the public sector, with the remaining two-thirds derived from corporate and private customers.
- Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA) over 9 per cent of revenue in the long term.
- The long-term target for net debt is less than 3x adjusted EBITDA. At the beginning of the strategy period, the ratio of net debt to adjusted EBITDA will weaken and approach 5x due to the acquisition of Pohjola Hospital.
- Distributing at least one-third of the profit for each financial year to shareholders as dividends or capital repayment.





# The operating environment

The social and healthcare operating environment has remained challenging. At the same time, the industry's general growth drivers, such as population aging and people's interest in health, have remained unchanged.

The COVID-19 pandemic continued to have extensive impacts on healthcare in Finland. In late summer, the Finnish Institute for Health and Welfare announced that the COVID-19 pandemic was moving on to an endemic phase and that the virus was likely to occur from one year to the next in the form of recurring epidemics characterised by seasonal variation. The healthcare system needs to adapt to the new situation so that the provision of other essential care will not suffer. This requires resources from both the public and private sectors.

The queues for non-urgent specialised care continued to grow. In the autumn, over 152,000 customers were waiting for access to non-urgent specialised care at the hospitals operated by the hospital districts. The care backlog was increased not

only due to COVID-19 but also by the general challenge of labour availability in the healthcare sector.

The shortage of social and healthcare professionals is one of the biggest issues facing Finnish society, and labour availability has deteriorated substantially over the past few years. The Ministry of Finance forecasts that the social and healthcare sector needs 70,000 more employees by 2035, compared to the current situation. The increase to the staffing requirement for round-the-clock nursing units for the elderly to 0.7 employees per customer, which has been decided on by the Parliament, was postponed to December 2023. It has been estimated that the number of nurses in the sector needs to be increased by over 3,400 in order to satisfy the higher staffing requirement by the time the change enters into effect.

For service providers in the social and healthcare sector, the labour issues are reflected in recruitment challenges. Consequently, professionally skilled personnel are increasingly viewed as a key resource by companies in the industry.

The significance of successful recruitment and effective cooperation with educational institutions, for example, continued to grow.

Russia began a war of aggression in Ukraine in February 2022. The war has had a major impact on the economy in the euro area as a whole. Economic growth has slowed, inflation has accelerated and market interest rates have risen. The general uncertainty has weakened consumers' purchasing power and reduced investment. The war has increased the likelihood of cyber attacks.

During the year under review, consumer confidence fell to the lowest level on record. The crises affecting society also increased general uncertainty among people, which creates challenges to the promotion of overall health and wellbeing. Mental health problems have increased dramatically. Nearly half of all disability pensions are now granted for reasons related to mental health and behaviour. Employers' social responsibility is growing in significance, and cooperation with occupational healthcare is increasingly important.

The year 2022 was characterised by preparations for the wellbeing services counties starting their operations at the beginning of 2023. The wellbeing services counties' expectations for private service providers are particularly focused on agile and scalable service models as well as digital



solutions that are easy to integrate with the counties’ own platforms. Cooperation between the private and public sectors is essential as the wellbeing services counties start their operations under challenging circumstances.

The ageing population, the reduced level of physical activity among people in general and lifestyle changes are reflected in the higher incidence of illnesses. Efforts to address cost issues in the welfare state must increasingly focus on maintaining health and wellbeing and the prevention of problems.



# Trends and megatrends

**The trends and megatrends in our society are reflected in the operations and development needs of social services and healthcare.**



## Sustainability is growing in significance

The growing awareness of ecological sustainability is reflected in consumption choices. Social sustainability is a matter of not only participation, a sense of community and accessibility, but also the fair distribution of benefits and disadvantages. Social sustainability is reflected in, for example, the wellbeing of companies' employees and maintaining the vitality of different regions.



## Healthcare reform and continued digital transformation

The new social and healthcare service system significantly reshapes healthcare structures and needs as the responsibility for organising services has been transferred from municipalities to wellbeing services counties. The newly established wellbeing services counties are challenged by the treatment backlog in non-urgent specialised care, which has continued to grow. The labour availability challenges in social and healthcare services are among the biggest problems that society needs to solve.

The rapid development of technological solutions is continuing. Health technology is becoming part of daily life, remote consultations are becoming common and people are measuring their health in various ways. The use of artificial intelligence in predicting and diagnosing illnesses is increasingly becoming a part of the care chain. Interest in one's health and wellbeing is growing, especially among younger people. People have higher expectations of living long lives in good health.



## Increasing inequality

The health of Finns has improved on the whole, but the differences between socioeconomic groups are among the largest in the Western world. The differences are related to, for example, the use of health services and lifestyle choices that are relevant to health. Mental health problems have increased particularly among young people.

The population is becoming concentrated in growth centres. According to forecasts, jobs will be concentrated mainly in cities, which also offer the best study opportunities. In municipalities with a negative net migration rate, the population is ageing and the challenges related to the availability of healthcare services are becoming deeper.

People's wealth is reflected in investments in their own health. More and more people have the ability to take out voluntary medical expenses insurance, for example. However, there is a clear concentration of wealth among the older generations, who also have an increased need for healthcare services.



## The population is ageing

The ageing of the population has a significant impact on the dependency ratio in Finland and the increasing prevalence of age-related illnesses. The number of people over 65 years of age is growing relative to other age groups. According to population projections by Statistics Finland, by the end of 2060, the number of deaths would exceed the number of births by 700,000 if the birth rate remains at the current level.

The most common causes of death among Finns are tumours, cardiovascular diseases, dementia and alcohol-related causes. Standardised mortality in the working-age population, relative to the age structure and size of the entire population, is declining.



# Customer groups

Pihlajalinna's customer groups are corporate customers, private customers and public sector customers. In addition to public healthcare partnerships, we have determinedly built private healthcare services to help both work communities and private customers with their needs.

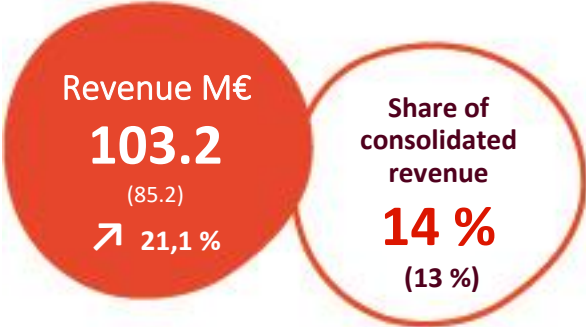
The corporate customer group consists of Pihlajalinna's occupational health customers, insurance company customers and other corporate contract customers. In 2022, the number of people within the scope of Pihlajalinna's occupational health services was approximately 280,000. Revenue from insurance customers, who are categorised as corporate customers, totalled EUR 98.4 million. In 2022, we further deepened our insurance cooperation with our insurance company partners and especially with Pohjola Insurance Ltd., when Pihlajalinna acquired the entire share capital of Pohjola Hospital and signed a new five-year service agreement with Pohjola Insurance Ltd.

Private customers are private individuals who pay for services themselves. We serve private customers at our private clinics, hospitals and fitness centres, for example. Private customers may subsequently seek compensation from their insurance company.

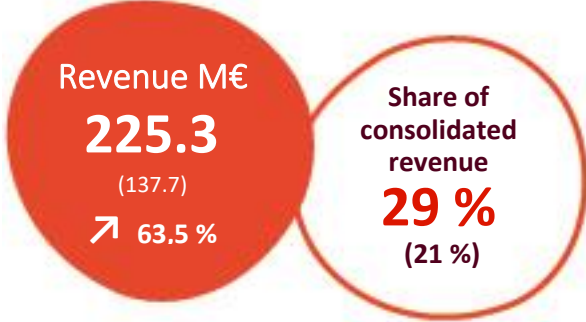
The public sector customer group consists of public sector organisations in Finland, such as well-being services counties, parishes and the public administration when purchasing social and healthcare outsourcing services, residential services, occupational health services and staffing services.

In 2022, Pihlajalinna had various cooperation agreements with nearly a hundred Finnish municipalities, and we prepared for our cooperation with the wellbeing services counties that became operational at the beginning of 2023. Revenue from complete and partial outsourcing agreements with the public sector totalled EUR 303.9 million.

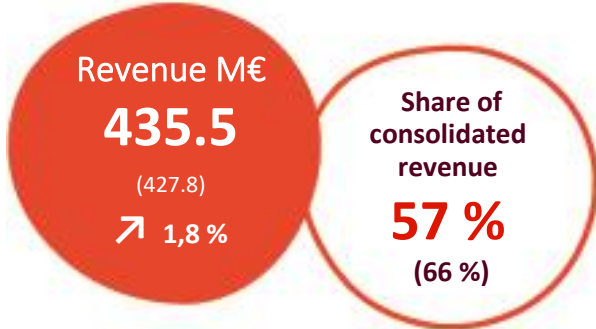
## Private customers



## Corporate customers



## Public sector





# Services

It is easier, more inexpensive and more straightforward for the body to keep a person healthy rather than cure someone who is already ill. This is why we build services that focus on promoting health and prevention of disease. We promote this goal in the development of services for our private and occupational healthcare customers and in all of our public services. We are effectively present.

Pihlajalinna already has more than 160 business locations. Our network covers all of Finland's largest regional centres, where we also have very comprehensive services for specialised care, as well as surgery and on-call services. It is absolutely essential for us that the person in need of help can get treatment quickly and that they are offered the smoothest possible care path, regardless of the channel through which they sought treatment. Ensuring that the care path runs smoothly is the responsibility of the healthcare service provider. This is why in our mental wellbeing services, for example, we have developed our own Mielen huoli

(Mental Care) line, the purpose of which is to ensure that the customer is directed to the right expert and that they are taken care of throughout the care path. The same applies to all of our other services.

In addition to general practitioners, specialists and nurses' appointments and emergency and on-call services, the services we offer to our private and occupational healthcare customers include, among other things, diverse research services and physiotherapy. We have also developed certain tailored solutions that make our experts as easily accessible as possible to target groups. An example of this is the Diabetes Clinic, through which our customers can receive high-quality care from experts specialising in diabetes by combining local and remote services.

A multi-channel approach is our strength, which we have invested heavily in and will continue to invest in going forward. The development of the availability and accessibility of services has been our focus for a long time. At the end of 2022, 37 per cent of all uses of our services were carried out

through Pihlajalinna's remote channels. Remote services equalise regional differences and enable cost-effective service production.

For our occupational healthcare customer companies, we offer services that help maintain working capacity with the aim of supporting organisations and helping them achieve their goals. It is important for us to analyse the needs of the customer company and align the goals of the cooperation so that we can support each company and its personnel in the best possible way. At the end of 2022, we had already served 270,000 occupational healthcare customers.

In our public services, we support the public sector through cooperation in providing diverse and effective social and healthcare services to the population. We offer innovative and diverse services in basic and specialised care, for example. It is also important for us to be a reliable and flexible partner for the wellbeing services counties that have come into effect in 2023, with which we cooperate extensively in our complete outsourcing. We also serve the public sector with other diverse service models, in the development of which we take into account their scalability for different digital platforms as well.





# We engage our stakeholders

Pihlajalinna is a significant operator in the health and wellbeing sector in Finland. The company has a number of stakeholders whose expectations it aims to meet through open dialogue. The company's significant stakeholders include both private-sector and public-sector customers.

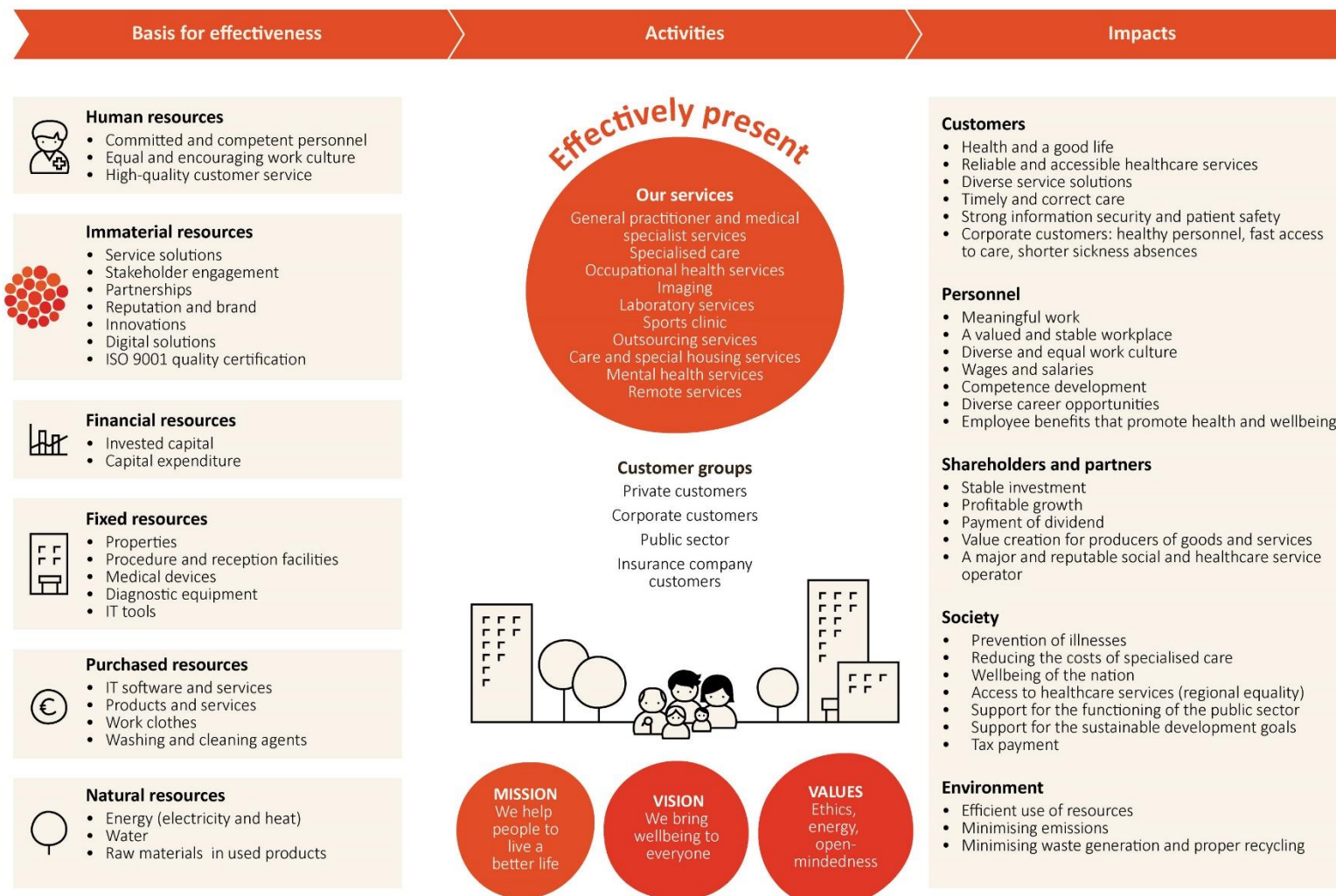
Highly competent and professional personnel are Pihlajalinna's most important resource in responding to the expectations of other stakeholders. Operating in the social services and healthcare sector requires close engagement with the public authorities, decision-makers and industry

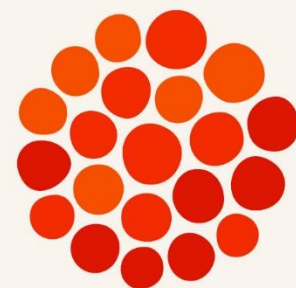
organisations. In addition, as a listed company, Pihlajalinna creates value for its shareholders and engages in open dialogue with the media.

Stakeholder	Stakeholder expectations	Pihlajalinna's response to the expectations	Channels of engagement
Consumers	High-quality and effective treatment and care Competent and professional healthcare personnel Diverse remote services Smooth appointment booking and service use	Professional and competent personnel Adequate resources Personnel training Continuous development of remote channels and the recruitment of experts Multi-channel development of appointment booking services	Interaction in services Customer service channels Customer satisfaction surveys Feedback channels Social media
Customer organisations: municipalities, joint municipal authorities, hospital districts (going forward, the wellbeing services counties and HUS), insurance companies, businesses	Clearly defined objectives and effective flow of information in cooperation Addressing data protection and information security	Professional and competent personnel Adequate resources Personnel training Continuous development of remote channels and the recruitment of experts Preparing for changes in the operating environment	Personal interaction Customer service channels Customer satisfaction surveys
Personnel and practitioners	Clear targets for work Introduction of team development discussions Development of leadership and supervisory work Enhancing collaboration in statutory employer-employee cooperation and the management of occupational wellbeing Occupational safety and health and the threat of violence Equality in all operations	Feedback and development discussions at the individual and team level Development of supervisory work Active communication on the results of personnel surveys and subsequent measures, various changes and other current issues in the company Equality plan and its implementation	Personal interaction Personnel information sessions Development discussions Training and coaching Intranet Pihlis Pulse personnel survey Statutory employer-employee cooperation and occupational safety and health meetings and Together forum Pihlajalinna Academy training portal Anonymous whistleblowing channel
Shareholders	The company's strategic management and increasing shareholder value Transparent and regular communication Sharing of understanding regarding changes in the operating environment and their impacts on business Risk management Development of sustainability and reporting on sustainability	Good leadership, a consistent strategy and a goal-driven roadmap Active communication on the development and progress of business and strategy Extensive scanning and analysis of the operating environment A comprehensive risk management process Appropriate resource allocation for sustainability efforts	Regular reporting and communication in accordance with the requirements for listed companies General Meetings Capital Markets Day and investor meetings Sustainability reporting (GRI, COP and EcoVadis)
The public authorities and decision-makers	Compliance Active dialogue Effective transfer of information	Active dialogue and responding to requirements Cooperation in meetings and events	Cooperation The authorities' channels Reporting and disclosures
Media	Reliability, openness, timeliness and speed of communication	Quick responses to media requests Assigning the right experts to interviews Active dialogue	Open communication and timely disclosures Active cooperation in response to media requests
Industry organisations	Smooth cooperation that promotes the industry's common goals, in which we share our expertise	Open dialogue on topics related to the industry Sharing current themes and ideas	Website Responding to requests for information Personal meetings



# Impact and value creation





# Pihlajalinna

SUSTAINABILITY 2022





# Management of responsibility

Pihlajalinna's operations are based on the company's values, vision and mission. Responsibility is integrated into the strategic and daily planning and management of the business.

Pihlajalinna's responsibility activities have a clear administrative structure, and guidelines and policies based on international principles are followed in the work.

Pihlajalinna's Code of Conduct guides the management and employees. The guidelines describe the way the company operates, based on the principles of good governance and law, transparency, fairness and confidentiality. The procurement principles of Pihlajalinna concerning its partners are recorded in a separate Supplier Code of Conduct. The procurement principles cover five areas: legislation and human rights, the environment, customers' health and safety, workers' rights and ethical business. Service providers, suppliers and partners are obliged to follow the principles.

Pihlajalinna's operations are guided by the following principles, policies and guidelines, among others:

- The UN Global Compact initiative and principles
- Pihlajalinna's Code of Conduct
- Supplier Code of Conduct
- Governance practices
- Quality policy
- Risk management policy
- Patient safety policy
- Equality policy
- Personnel policy
- Environmental policy
- Data protection and information security policy and guidelines
- Disclosure rules of the Nasdaq Helsinki
- Marketing guidelines for medical services





By managing responsibility clearly, Pihlajalinna wants to ensure that the company operates in a responsible and ethical manner and promotes and enables the achievement of the targets set for responsibility. Responsibility and sustainability issues are divided into decision-making and implementation responsibilities as follows:







# Sustainability programme

Pihlajalinna's mission is to help to live a better life. The company plays a significant role in society by providing healthcare services to people through public sector partnerships, occupational healthcare, insurance services and services offered directly to private customers. In practice, this means taking responsibility for health and wellbeing by providing a comprehensive range of services across Finland with a focus on quality, impact and patient safety.

Business sustainability, ethics and looking after the personnel are the cornerstones of good corporate citizenship for Pihlajalinna. They are supported by robust financial solvency, good corporate governance and transparent communication.

The most important aspect of our operations is to ensure social sustainability as a member of society. We look after people's health and recognise our responsibility for our personnel, which enables us to help our customers well.

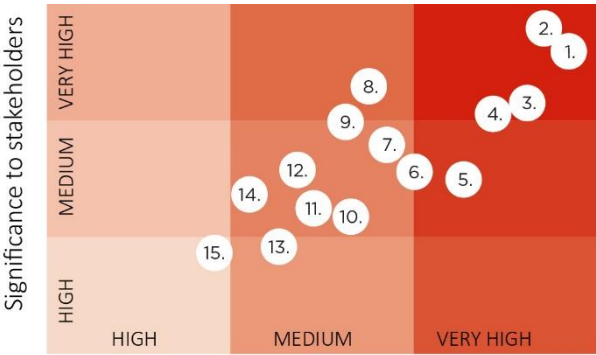
Social sustainability is reflected in, for example, the personnel wellbeing of corporate customers and maintaining the vitality of different regions.

Pihlajalinna's service network has expanded to cover all of Finland, which has further increased the significance of the Group's environmental responsibility. Pihlajalinna's operations create environmental impacts in the form of energy consumption, CO<sub>2</sub> emissions and waste in particular.

## Materiality assessment

Pihlajalinna's materiality assessment was conducted through consultation with the management and stakeholders in 2021 as part of adopting the GRI Standards reporting framework. The company intends to re-assess its material aspects in 2023, taking into account the issue of double materiality.

Three sustainability themes were identified for Pihlajalinna based on a materiality assessment: responsibility for health and wellbeing, sustainable business, and responsibility for personnel.



Impact of Pihlajalinna's operations

### Responsibility for health and wellbeing

- 1. Effectiveness and quality of services
- 2. Patient safety
- 5. Secure processing of patient data and personal data
- 7. Service availability and accessibility
- 8. Prevention of illnesses
- 12. Uninterrupted operation of information systems

### Sustainable business

- 6. Ethics and integrity
- 10. Equality and non-discrimination
- 11. Economic value for society
- 13. Sustainable procurement
- 14. Transparent communications and responsible marketing
- 15. Environmental impacts

### Responsibility for personnel

- 3. Occupational safety
- 4. Employee wellbeing
- 9. Competence development



## Continued development of Pihlajalinna's sustainability strategy and programme

The specification of Pihlajalinna's sustainability began in 2021 with the identification of material sustainability themes and the company's key stakeholders. The company's first sustainability report based on the GRI (Global Reporting Initiative) reporting framework was published in March 2022.

Pihlajalinna's sustainability efforts were then systematically continued in 2022. Pihlajalinna joined the UN Global Compact sustainability initiative, the signatories of which are committed to obligations pertaining to working conditions, human rights, the environment and the prevention of corruption and bribery.

Pihlajalinna achieved the Bronze level in the EcoVadis sustainability rating. The EcoVadis rating framework covers measures related to the environment, employees and working conditions, human rights, ethical business practices and sustainable procurement.

In August 2022, Pihlajalinna appointed its first Vice President of Sustainability, under whose leadership the company's sustainability efforts have been intensified on multiple levels, including

strategy, actions and reporting. These efforts will continue in 2023.

Pihlajalinna has further developed its sustainability reporting and will continue to do so in response to the requirements set out in the EU's Corporate Sustainability Reporting Directive (CSRD). Pihlajalinna will be required to report on the sustainability aspects of its operations in accordance with the Directive from 2024 onwards.



Sustainability theme	Sustainability target	Target and results in 2022	Target for 2023
<b>Responsibility for health and wellbeing</b>	Access to surgical treatment within the target time	The target set for access to surgical treatment was for 66% of customers to have access to treatment within the target time of five (5) days. The target was achieved.	The target for 2023 is 67.5%.
	Customer satisfaction (NPS)	Pihlajalinna aims for an excellent customer experience in all service channels and at all business locations. The NPS for Pihlajalinna's appointments was 77.1 (76.5) and the NPS for complete and partial outsourcing arrangements was 72.6 (70.8).	The overall NPS target for 2025 is 80. The target-setting will be specified further in 2023 to reflect the Group's current structure.
	The share of preventive activities by occupational health physicians in occupational healthcare	Preventive work increases employee wellbeing and reduces employers' costs. The target set for 2022 was 60% and the result was 61.1%.	The target for 2023 is 62.5%.
<b>Responsibility for personnel</b>	Employee Satisfaction (eNPS)	The company's personnel are a key asset and monitoring and responding to job satisfaction are strategic objectives. The eNPS target for the Group as a whole in 2022 was +5, with the result of -1 being short of the target by a clear margin. The Group's eNPS without the complete and partial outsourcings was +11.	The target for 2023 is +8.
	Reducing sickness-related absences among the personnel	Sickness-related absences among Pihlajalinna's own personnel increased by two (2) percentage points to 9.7 due to a difficult year in terms of upper respiratory tract infections.	The aim is to reduce sickness-related absences by continuing to implement our strategic programme. The target will be specified further in connection with this.
<b>Sustainable business</b>	Ethical operating practices	In line with its objective, Pihlajalinna updated the Code of Conduct for employees and partners. For partners, the Code of Conduct was incorporated into all new agreements.	The aim is to start digital training for all of the company's personnel and that 50 % of the personnel completes the training by the end of 2023
	Financial benefit for society	Pihlajalinna's unique joint venture model for wellbeing services counties also offers financial benefits to the counties. In 2022, Pihlajalinna paid 32.5 million euros in taxes to the regions where the Company's six complete and partial outsourcings are located.	Strengthening the well-being in the counties.
	Environmental responsibility	In line with its goal, Pihlajalinna calculated its carbon footprint (Scope 1 & 2 and partly Scope 3) for the first time in 2022 and reported its Scope 1 and Scope 2 emissions. The company also switched to zero-emission electricity in 2022 in line with its goal.	The company will continue to further specify its environmental calculations and set targets according to the calculations. The target is carbon neutrality of business operations.



# Responsible operating practices

For Pihlajalinna, sustainable business means striving for good corporate citizenship. Operating ethically and sustainably is key to achieving the Group’s strategic objectives. The company brings economic value to society by providing efficient and effective social and healthcare services, procuring services and products from local operators, and paying all taxes in Finland. Pihlajalinna offers its personnel meaningful work in safe working conditions.

## Ethics in business operations

Pihlajalinna complies with the currently valid legislation, the orders issued by authorities and the rules and regulations concerning listed companies. In addition, the principles followed in the company's operations are recorded in the Code of Conduct. Training related to the Code of Conduct is part of Pihlajalinna's induction training programme. Pihlajalinna also requires its suppliers and partners to comply with the principles set out in the Code of Conduct.

Pihlajalinna is committed to the UN Sustainable Development Goals and the principles of responsible business of the Global Compact. Pihlajalinna's responsibility work is also based on the materiality definition set in 2021, where management and stakeholders were consulted. The aim is to re-evaluate the materialities from the perspective of the double materiality required by the EU's Corporate Sustainability Reporting Directive (CSRD) during 2023.

In addition to Global Compact reporting and GRI Standards, Pihlajalinna's sustainability work is assessed in accordance with the EcoVadis sustainability assessment. In 2022, Pihlajalinna received a bronze medal in the EcoVadis rating, which assesses corporate responsibility from the perspective of environmental issues, labour and human rights, ethical practices and sustainable sourcing.

Pihlajalinna has a confidential reporting (whistleblowing) channel where it is possible to report activities that violate the Code of Conduct. The channel is an independent reporting channel for employees and external parties to report suspected violations of regulations or the Code of Conduct. All reports are treated confidentially in accordance with the requirements of the Finnish legislation concerning the protection of whistleblowers.

### Incidents and legal action

	2022	2021	2020
Corruption and bribery cases	0	0	0
Competition law violations	0	0	0
Fines or penalties from environmental regulations violations	0	0	0
Fines or penalties from violations of laws and regulations concerning social and economic responsibility	0	0	0



During the 2022 reporting period, a total of four notifications were received via the whistleblowing channel. Each whistle-blower report was investigated and none of them led to any further action. In addition, no activities contrary to legislation or the Code of Conduct or misconduct were identified on the basis of the reports.

For more information on Pihlajalinna's ethical and responsible business operations, you can read the Board of Directors' report in the sections on non-financial information from page 75 onward.

## Equality and respect for human rights

Pihlajalinna is committed to the UN Global Compact initiative and respects internationally recognised principles of human rights and equality. Pihlajalinna does not condone discrimination based on employees' and practitioners' origin, nationality, religious beliefs, ethnicity, gender, age or any other such factor.

Pihlajalinna complies with the currently valid legislation, the orders issued by authorities and the rules and regulations concerning listed companies. In addition, the principles followed in the company's operations are set out in Pihlajalinna's Code of Conduct, as well as in the Supplier Code of Conduct, which guides procurement.

The Group Management Team is responsible for ensuring that the personnel is familiar with the Code of Conduct, and supervisors are responsible for adherence to the Code of Conduct. Pihlajalinna's Code of Conduct is communicated to new supervisors as part of their induction training. The aim is that, during 2023, more than 50 per cent of Pihlajalinna professionals will have completed the remote training on the guidelines, which will be launched in 2023.

**Pihlajalinna applies an operating model aimed at the prevention of inappropriate conduct. Accordingly, all forms of harassment or inappropriate treatment are prohibited. Supervisors are under an obligation to address inappropriate conduct or harassment. In addition, the occupational safety and health delegate, occupational safety manager, shop steward and occupational healthcare provider can also support the workplace and individual employees if necessary.**

## Remuneration

Pihlajalinna complies with the applicable employment legislation and collective agreements. The remuneration of the personnel is based on the competence of each employee and adherence to the principles of equal treatment. In addition to the collective agreements, remuneration also takes into account job-specific responsibility premiums, years of experience and the job location's cost of living category. Gender is not a factor in remuneration under any circumstances. The remuneration of senior salaried employees is determined by the demands of the job and the individual's competence, experience, performance and results.

The remuneration of the management and the Board of Directors can be read about in more detail in the company's Remuneration Report.

In accordance with Pihlajalinna's equality and non-discrimination plan, a balanced gender distribution is sought in the composition of the Board of Directors and the Management Team of the Group's parent company. In 2022, the Board of Directors had a total of six members, three of whom were women and three men. Of the nine members of Pihlajalinna's Management Team, four were women and five men.



## Transparent communications and responsible marketing

As a provider of social and healthcare services and a listed company, Pihlajalinna places a high priority on transparent, timely and reliable stakeholder communications. The cornerstones of Pihlajalinna's marketing and communications are professionalism, reliability, truthfulness and up-to-date medical knowledge.

## Information security

At Pihlajalinna, the purpose of data protection and the management of information security is to ensure the secure processing of patient and personal data as well as the protection of the privacy of patients, customers and the company's personnel. A further goal of information security management is the prevention of disruptions in the functioning of critical information systems endangering service functionality or availability.

## Information security as part of the quality management system

We take into account the continuously increasing information security requirements as the provision of digital services grows. The Group develops information security by means of up-to-date and secure

methods, such as strong authentication practices, external monitoring and continuous testing. Data protection and information security are an important part of Pihlajalinna's ISO 9001 certified quality management system.

The Group's information security principles are documented in Pihlajalinna's data protection and information security policy. Pihlajalinna's information security principles are reviewed regularly, at least once a year. Pihlajalinna's suppliers and external service providers are required to commit to compliance with the information security standards set by Pihlajalinna. Audits are conducted on suppliers. When external services change, information security requirements are reviewed. The sustainability of suppliers is taken into consideration in tendering.

### Information security indicators

	2022	2021	2020
Number of successful intrusion attempts	0	0	0
Number of detected viruses and malware programs	53 automatically removed viruses and 121 automatically removed malware programs	61 automatically removed viruses and 81 automatically removed malware programs	72 automatically removed viruses and 98 automatically removed malware programs
Volume of junk mail: Less than 1% of junk mail gets through	Target achieved	Target achieved	Target achieved
IT security updates are completed	89% of updates are installed within one week from the release	85% of updates are installed within one week from the release	81% of updates are installed within one week from the release



## Information security management

Information security throughout the Group is managed on a centralised basis. The person in charge of data protection is Pihlajalinna's Medical Director, who appoints the company's data protection officers. Information security is managed by Pihlajalinna's Chief Information Officer, the director in charge of information security and the information security officer.

Data protection and information security risks are assessed and analysed regularly and always in the new system specification phase and in connection with significant changes.

The status of data protection and information security is reported in connection with internal and external audits. Technical information security is constantly assessed and separate information security inspections are made to the most critical environments. Work related to data protection is supervised by a steering group and operational action is led by the data protection and IT security team.

The Group has defined procedures and tools for detecting information security deviations. Additionally, action plans are in place for exceptional situations. Each information security deviation is recorded and processed for further action.

Connections to Pihlajalinna Group's data network and associated services are only authorised when hardware and software managed or approved by the IT administration are used.

Customers can report suspected data protection or information security deviations through feedback systems or directly to the personnel. All of Pihlajalinna's operating locations have a reporting system for the personnel to report any observed data protection or IT security deviations.



# Economic responsibility

Under the joint venture model we have developed, Pihlajalinna establishes a joint venture with the municipality or joint municipal authority in question, with Pihlajalinna owning a majority stake and the municipality or joint municipal authority owning the remaining share. With the wellbeing services counties model, operations have transferred to cooperation with wellbeing services counties.

We currently have a joint venture providing public social and healthcare services in four wellbeing services counties. Pihlajalinna's joint ventures are Jämsän Terveys, Kolmostien Terveys, Kuusiolinna Terveys, Laihian Hyvinvointi, Mäntänvuoren Terveys and Selkämeren Terveys. In addition, Pihlajalinna and the wellbeing services county of Central Finland have Jokilaakson Terveys Oy, which is a hospital providing public specialised care.

## Positive economic impacts on municipalities

The joint ventures have significant direct impacts on the economy and regional wellbeing of the participating wellbeing services counties. The joint ventures are domiciled in the partner wellbeing services county, which means that the counties involved receive a share of the joint venture's profits in the form of corporate income taxes. The joint ventures support the vitality of the local economy by employing people in social and healthcare services locally and by purchasing goods and services from local businesses.

## Efficient and sustainable

Sustainable social and healthcare services are efficient. Wellbeing services counties' limited resources and collective tax revenue need to be converted into the highest possible amount of wellbeing. The model developed by Pihlajalinna for municipal services is based on keeping people as

## Pihlajalinna's withholding taxes to the regional governments\* 2022

SOUTH OSTROBOTHNIA	EUR 8.2 million
CENTRAL FINLAND	EUR 7.0 million
PIRKANMAA	EUR 15.3 million
OSTROBOTHNIA	EUR 2.0 million

\* The list consists South Ostrobothnia, Central Finland, Pirkanmaa and Ostrobothnia regional governments in which Pihlajalinna's six complete and partial outsourcings are located.

healthy as possible through prevention, quick and effective primary care as well as immediate specialised care available locally. This reduces the need for expensive specialised care.

Pihlajalinna has studied the impacts of its operating model on counties in primary care and in social and healthcare services for the elderly. Under our operating model, the annual increase in per capita costs has been slower than in the municipalities in the comparison group. During the five-year evaluation period, the costs have decreased. At the same time, service availability has improved and customer satisfaction is excellent.

## Tax responsibility and tax footprint

The most significant direct economic impacts arise from procurement, the remuneration of personnel and practitioners, and the payment of taxes and tax-like charges. Of the goods and services purchased by Pihlajalinna almost all were purchased from Finnish companies.

Pihlajalinna's parent company and all of its subsidiaries are registered in Finland. Consequently, there is no cross-border tax planning involved in Pihlajalinna's operations. Pihlajalinna is a public limited company and 98.6 (96.05) per cent of the company's shares are Finnish-owned.

## Pihlajalinna pays all taxes to Finland

The Group pays all of its taxes to Finland, and its operations also have significant local economic impacts, especially in the municipalities where Pihlajalinna is responsible for the complete outsourcing of public services.

Tax footprint reporting is an established practice at Pihlajalinna. The Group has reported its tax footprint in connection with its annual reporting since 2016. Pihlajalinna openly responds to enquiries concerning its tax responsibility as well as stakeholders' information needs, and the Group

contributes to increasing the transparency of tax responsibility in the social and healthcare sector.

Pihlajalinna complies with Finnish legislation in the collection, remittance and payment of taxes and tax-like charges. In accordance with Pihlajalinna's principles, taxes are remitted and paid in a timely manner and in the correct amounts, and the Group does not participate in artificial arrangements put into place purely for tax-related reasons.

Pihlajalinna's tax footprint illustrates the taxes and tax-like charges paid to society for the Group's operations. In 2022, Pihlajalinna's operations generated a total of EUR 155.7 (131.9) million in payments to society. A large proportion of Pihlajalinna's tax footprint consists of salary taxes, namely withholding taxes and employer's contributions. In addition, Pihlajalinna paid a total of EUR 112.5 (73.0) million in fees to practitioners, for which the practitioners themselves pay the taxes involved. Corporate income tax represented EUR 2.0 (5.3) million of Pihlajalinna's tax footprint.

### Tax footprint

EUR million	2022	2021	2020
<b>Direct tax payable for the period</b>			
Income tax (business income tax)	2.0	5.3	4.2
Employer's pension contributions	42.0	35.3	27.0
Social security contributions	3.3	3.2	2.5
Employer's unemployment insurance contributions	4.3	3.5	2.5
Contribution to accident insurance and group life insurance	1.6	1.6	1.3
Employer contributions, total	51.2	43.7	33.3
Property taxes	0.2	0.1	0.1
Transfer taxes	0.9	0.4	0.4
<b>Direct tax payable for the period, total</b>	<b>54.2</b>	<b>49.5</b>	<b>37.9</b>
<b>Value added tax of acquisitions payable by the company</b>			
Value added taxes, estimate	20.1	14.3	11.3
<b>Tax for the period</b>			
Withholding taxes	57.8	48.0	43.3
Employee pension contributions	18.4	15.8	13.7
Employee unemployment insurance contributions	3.6	2.9	2.2
Payroll tax, total	79.8	66.7	59.2
Net value-added tax	1.5	1.4	1.9
<b>Total tax for the period</b>	<b>81.3</b>	<b>68.1</b>	<b>61.1</b>
<b>Tax footprint</b>	<b>155.7</b>	<b>131.9</b>	<b>110.4</b>



Economic value added and distributed

EUR 1,000	2022	2021	2020
Economic value added			
Revenue and other operating income	695,517	581,102	510,074
Distribution of economic value added			
Operating cost	372,701	280,990	261,280
Employee wages and benefits	298,365	256,991	216,795
Payments to providers of capital	16,839	8,897	4,672
Payments to government	6,921	2,596	3,746
Donations	289	196	252
Economic value retained for the development of operations	402	31,432	23,329

Procurement principles

Pihlajalinna’s procurement principles are documented in a Supplier Code of Conduct, which service providers, suppliers and partners are required to comply with. The document was updated and incorporated into all new cooperation agreements and significant existing agreements in late 2022.

Partners are required to monitor the guidelines and report any related changes to Pihlajalinna. Failure to rectify any deficiencies may lead to the termination of cooperation.

The Group’s procurement unit provides training to the procurement officers of the business areas four times per year on the principles of sustainable procurement.

The Group’s environmental management system was developed during 2022. It is targeted to

apply for the ISO 14001 environmental certificate for some of the business operations in autumn 2023.

Human rights compliance in the supply chain is of vital importance. Unethical practices such as forced labour and the use of child labour are prohibited in all stages of the supply chain. Pihlajalinna and its partners ensure product and patient safety by using only professionally qualified personnel, for example. The Group’s IT security guidelines also cover subcontractors. Pihlajalinna and its cooperation network oppose corruption and bribery and are committed to the principles of fair competition.

The procurement principles cover five topics:

- 1) Legislation and human rights
- 2) The environment
- 3) Customer health and safety
- 4) Employee rights
- 5) Ethics and integrity







# Responsibility for health and wellbeing

Clinical quality and effectiveness have been highlighted as a key priority in the Group's strategy. A development effort covering all of the organisation's functions was launched in 2022 with the aim of enhancing dialogue with customers and stakeholders, listening to the views of the various parts of the organisation and creating systematic structures and a culture of performance measurement to support the management, development and monitoring of quality and effectiveness.

## Guided by the quality policy

Pihlajalinna's quality-related efforts are based on compliance with legislation, instructions issued by the public authorities and official treatment recommendations. In addition, healthcare professionals have their own ethical and operational principles. Pihlajalinna has a Group-wide quality policy that guides activities related to quality and safety.

Pihlajalinna's private clinics, hospitals, dental clinics and residential services use an ISO 9001:2015 certified quality management system.

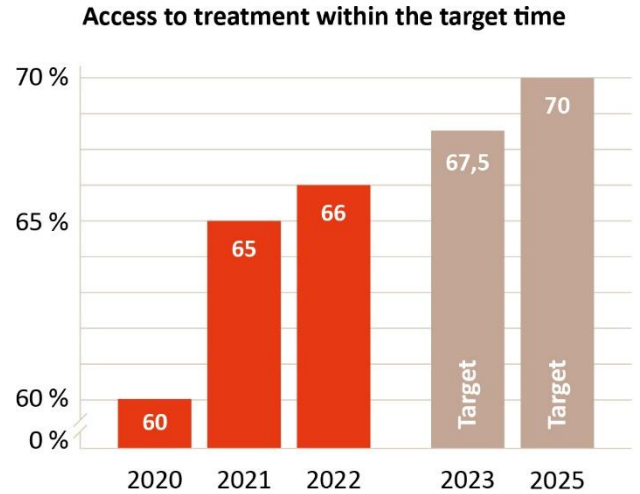
Among Pihlajalinna's municipal companies, departments 2 and 4 of Jokilaakso Hospital have an ISO 9001 quality management certificate.

Responsibility for the quality of social and healthcare services is borne by Pihlajalinna's Medical Director, Quality Director, Medical Management Team and the Regional Directors in charge of healthcare services. At the same time, ensuring quality is everyone's responsibility at Pihlajalinna.

## The objective is a quick chain of care

The objective of surgical operations is to implement a quick and high-quality chain of care, enabling quick recovery and rehabilitation for patients who require surgery. The aim is for the customer to be able to return to work as quickly as possible after the accident or surgery. We continuously develop the care chain in surgical operations. Access to treatment, the duration of sick leave and rehabilitation are monitored with the Pihlajalinna Care tool, which makes it possible to address deviations and comprehensively develop the operations.

Access to treatment within the target time is an important indicator of the effectiveness of surgical operations and chain of care for accident insurance customers. The target time for access to surgical procedures for customers who are unable to work is five weekdays. In 2022, the target was for 66% of customers to have access to treatment within the target time. The target was achieved.



## Patient safety

The professional competence of the personnel is the foundation of patient safety. The professional qualifications of employees are verified during recruitment, and all new employees are trained for their duties in accordance with an induction training programme. We actively develop the professional competence of our personnel.

Pihlajalinna's quality management is based on comprehensive self-monitoring. The self-monitoring plan was updated in 2022. Self-monitoring makes it possible to quickly identify and address risks related to quality or safety. All business locations have a reporting system for the personnel to report any observed deviations. Customers report any problems they observe either directly to the personnel or through Pihlajalinna's feedback systems.

The realisation and development of patient safety is evaluated by measuring, for example, deviations, infection rates, patient injury notifications and the decisions of the Patient Insurance Centre. Pihlajalinna monitors the number of patient injury notifications and the decisions of the Patient Insurance Centre solutions in private services and municipal joint ventures.

With regard to patient safety in surgical operations, Pihlajalinna monitors the number of deep infections in the surgical area, among other things. The number of surgery-related infections has remained low, and the rate was 0.11 per cent in 2022 (0.09 % in 2021).

## Remote services increase equality

With the help of remote services, it is possible to increase the equality of customers by improving

the availability of services even where local services or other expert services in question are not necessarily available. In the same way, it is possible to save the time customers spend on services and the resulting costs, as well as reduce the environmental burden, for example emissions from driving.

We explore opportunities to utilise remote services in promoting public health and preventing diseases together with public sector operators, targeting services particularly at patient groups that generate high costs.

### Patient safety indicators

	2022	2021
Complaints	6*	16,34*
Official complaints	0,22*	0,39*
Patient injury notifications	0,11*	0,08*
Patient injuries	0,06*	0*
Total number of appointments	1 783 662	1 267 010

The number of appointments, complaints, official complaints and patient injury notifications include Pihlajalinna's private healthcare services (private clinics, private hospitals, occupational health centres and dental clinics) and cases that occurred in those services and which the Group was informed of. The Group does not necessarily receive information about complaints, official complaints or patient injury notifications related to the operations of practitioners working at Pihlajalinna's clinics.

\* The number of complaints, official complaints and patient injury notifications is expressed per 100,000 appointments.



Examples of digital care models include the eDiabetes service, which provides diabetes patients with access to the care of an experienced diabetes doctor and diabetes nurse on a location-independent basis. The Weight Management Clinic service is also available remotely throughout Finland. It is a lifestyle guidance service with specialist doctors, weight management nurses and other experts from the Weight Management Clinic team supporting the customer with comprehensive and systematic weight management.

In 2022, 37 (39) per cent of Pihlajalinna's appointments were conducted remotely.

### Investments in preventive healthcare

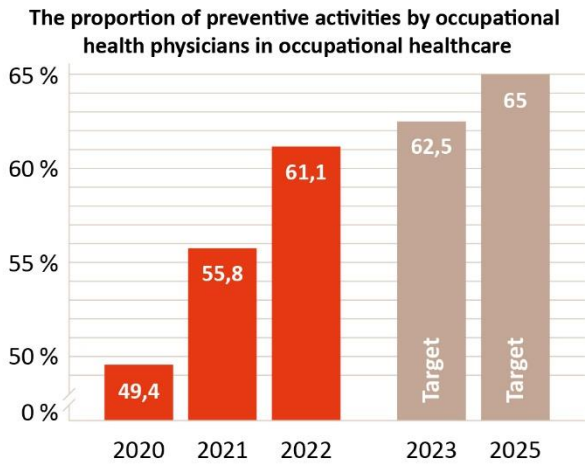
The prevention of illness is in everyone's interest and helps reduce costs in the long term. With this in mind, we invest in services that can help reduce prolonged sickness-related absences, permanent disability and human suffering as well as costs to the employer and society.

Focusing on prevention is a key objective, especially in occupational healthcare. This is monitored on a vocational group-specific basis. Our minimum target for the share of preventive work in the invoicing of occupational health physicians is 60 per cent. The share of preventive work was 61.1 per cent in 2022.

There is a wealth of scientific evidence of the importance of exercise to general wellbeing and the treatment of many illnesses. In spite of this evidence, exercise services in Finnish society are almost entirely separate from healthcare. The Pihlajalinna Exercise Referral is a direct referral made by a physician to refer a customer to Pihlajalinna Group's Forever fitness centres. Based on the referral, a personalised exercise programme is created for the customer, taking into account their current health status. The programme supports the customer in health-related challenges and life management. The customer is supported in their physical exercise with physiotherapy and personal trainer services.

Mental Care (Mielen huoli) is a low-threshold service for mental health issues. The aim is to provide treatment to the customer at an early stage, before the problems accumulate, become chronic and lead to disability. The services of Pihlajalinna's Sleep Clinic are developed according to the same principle: seeking treatment early and with a low threshold reduces the duration of symptoms and improves quality of life.

In our occupational healthcare services, we have supported the transition of client companies back to working in offices and tried to reduce the negative health and well-being effects of working remotely.



### Measuring customer satisfaction

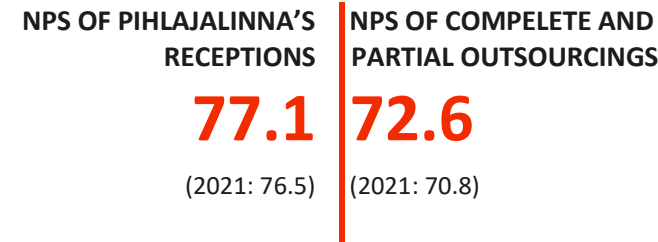
Pihlajalinna aims for an excellent customer experience in all service channels and at all business locations. Pihlajalinna uses the Net Promoter Score (NPS) to measure the customer experience. NPS is expressed in a range between -100 and 100.

For 2022, Pihlajalinna set a target of 74 for the weighted NPS of all of the Group's operations. Pihlajalinna reports the NPS in two parts. The NPS of Pihlajalinna's receptions was 77.1 (76.5) and the NPS of complete and partial outsourcings was 72.6 (70.8). The indicators will be further developed in 2023 to match the Group's current structure. For 2025, Pihlajalinna has set a target of 80.

As part of the comprehensive development of quality and impact, we will reassess our customer



experience measurement tools and feedback processes. Our aim is to expand the measurement of customer satisfaction so that, in the future, the measurement of the customer experience will be complemented by measuring the health benefits received by the customer. The development project will involve creating a model for the more effective utilisation of customer satisfaction measurements and feedback in managing our operations and teams.



### Collecting customer feedback

The systematic collection and processing of customer feedback enables Pihlajalinna to develop services, processes and operating models according to the customers' wishes. Feedback is requested by text message from all customer groups after each interaction with the contact centre, private clinics, dental clinics and hospitals. Customer feedback is also collected in treatment and service situations and through a website feedback form. Feedback is also received from direct contacts and through social media, for example.

Feedback on customer service situations is also collected from the personnel in accordance with Pihlajalinna's feedback process. The responses to open-ended feedback questions highlight the significant role played by nursing staff in creating a positive customer experience. Pihlajalinna's customers appreciate the friendliness, professionalism and people skills of the company's personnel. The most critical feedback concerned delays and waiting. Themes related to booking and cancelling appointments were highlighted as a development area in the feedback.



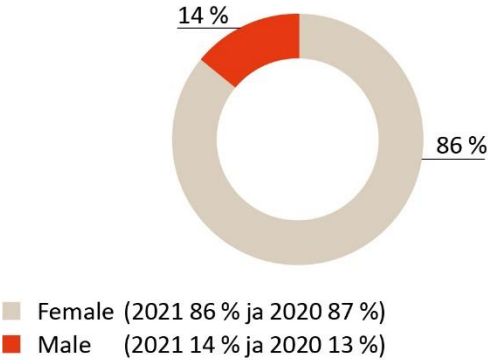


# Responsibility for personnel

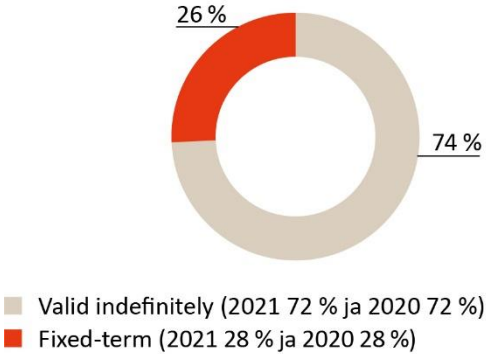
Pihlajalinna wants to be the first choice among professionals in its industry. Our goal is an excellent employee experience. We achieve this by treating experts equally and fairly, by creating a framework for personal and professional growth and by continuously developing the work community, leadership and occupational safety.

In 2022, Pihlajalinna had 7,061 (6,297) employees and 1,812 (1,070) practitioners. The employee exit turnover was 18.9 (16.2) per cent.

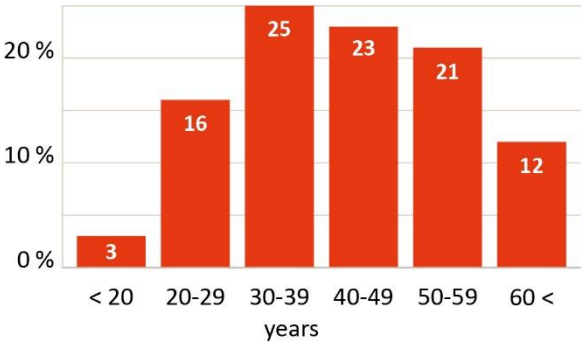
Gender 2022



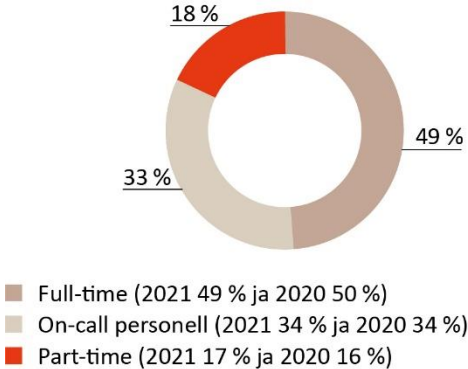
Employment contract 2022



Age distribution



Employment relationship 2022





**eNPS**Target eNPS  
for the Group's  
operations as a whole**+5**

2022

Target eNPS  
for the Group's  
operations as a whole**+15**

2025

The eNPS  
for the group,  
excluding complete and  
partial outsourcings**+11**2022  
(2021 +15)The eNPS for  
the complete  
and partial outsourcings**-17**2022  
(2021 -14)The eNPS for  
the Group's  
operations as a whole**-1**2022  
(2021 +1)

## Employee engagement and feedback

We actively listen to our personnel. Pihlajalinna's Pihlis Pulse personnel survey is carried out four times a year. It is an important tool for assessing, monitoring and developing the state and practices of the work community, as well as for dialogue between personnel and supervisors.

The Pihlis Pulse survey consists of five different indicators, which are perceived work ability, supervisory work, opportunities for influence, team cohesion and competence. The response rate for the Pihlis Pulse survey in 2022 was 41 (42) per cent. The last Pihlis Pulse survey of the year was carried out in December 2022.

Pihlis Pulse also measures the employee experience by means of the eNPS (employee Net Promoter Score) indicator, which is expressed in a range of +100 to -100.

The perceptions of the company of the practitioners working for Pihlajalinna are also monitored during the regular practitioner evenings.

Pihlajalinna is launching a cooperation project with pension insurance companies to develop employees' wellbeing at work. The project involves developing Pihlajalinna's employer image and reputation as a responsible healthcare operator.

The Pihlis Pulse	2022	2021	2020
Response rate of the Pihlis Pulse survey	41 %	42 %	-
Perceived work ability (scale 1–10)	8,0	8,1	8,1
Supervisory work (scale 1-5)	3,7	3,8	3,8
Opportunities for influence (1-5)	3,8	3,9	4,0
Cohesion (1-5)	3,5	3,5	3,6
Competence (1-5)	3,6	3,7	-



## High-quality supervisory work

High-quality supervisory work is essential in the day-to-day management of the Group's personnel and units. Internal training and coaching activities offered to supervisors are Pihlajalinna's most important tool for supporting the performance of supervisors.

Supervisors are provided with regulatory induction training on topics such as processes and tools related to supervisory work.

In addition to induction training, supervisors are provided with coaching focused on themes such as participatory leadership, managing wellbeing at work, business competence, business intelligence and customer experience management. Coaching will be organised for senior management in 2023.

Supervisors are offered training activities in co-operation with educational institutions, leading to a vocational qualification in first-level management. In 2022, a total of 32 Pihlajalinna supervisors started studies aimed at the qualification. Supervisors have the opportunity to receive feedback on their performance through 360-degree evaluations and the Pihlis Pulse survey, for example.

## Recruitment as a spearhead project

One of Pihlajalinna's strategic spearhead projects launched in 2022 is the development of recruitment. The project will continue in 2023. The aim of the project is to enhance the recruitment process and take the importance of a positive candidate experience into account.

The equal and non-discriminatory treatment of candidates and the appropriate processing of personal data is ensured through effective tools, processes and supervisor training. New employees can be recruited by public application processes and direct application processes as well as through internal channels and candidate pools.

We engage in open and transparent recruitment where the selection criteria for each job are predetermined on the basis of the skills required for the position and/or the working conditions, for example. Our supervisors communicate with candidates honestly and transparently throughout the recruitment process.

## Aiming for a diverse work community

The aim of our recruitment activities is to create a diverse work community where candidates of all backgrounds and ages are considered, and candidates are not excluded on inappropriate grounds

when it comes to inviting candidates for interviews, for example. The recruitment system also enables anonymous recruitment, and supervisors have received training on its use.

We invest in international recruitment, which helps increase the diversity of our work community. In November 2022, Pihlajalinna welcomed 20 new employees from the Philippines. We aim to promote the wellbeing at work and integration of employees who relocate to Finland. We have also offered supervisor coaching and sparring in the work communities that receive newly recruited employees with international backgrounds.

### The following principles are observed at Pihlajalinna to promote equality:

- Open and transparent recruitment
- Equal and non-discriminatory placement in various jobs
- Equal terms of employment, especially with regard to pay
- Working conditions that promote equality
- Balancing work and family life through work arrangements
- Preventing discrimination based on the grounds specified in the Non-discrimination Act.



## Induction training

All new employees, internally reassigned employees, employees taking up supervisory positions and those returning from extended leave receive induction training related to the organisation and their specific job. In addition to permanent employees, induction training is also provided to fixed-term employees, agency workers, practitioners and students.

Induction training is carried out in accordance with the Group's induction training plan, which is available on the intranet and the HR system, and in accordance with the unit-specific induction training process where applicable.

## Competence development

By developing the competence of our personnel we ensure that the Group has highly competent, professional and motivated personnel.

All Pihlajalinna employees are within the scope of annual development discussions. Target-setting and development discussions involve two parts: a "Key to Success" team discussion and a brief one-to-one discussion between the supervisor and the employee. The aim of the target-setting and development discussions is to motivate teams and strengthen their collective understanding of the

team's purpose and objectives as well as its development areas and related actions. The discussions are also aimed at ensuring that each team member has the necessary competencies and conditions for success at their work.

Pihlajalinna supports the professional specialisation of healthcare personnel. The physicians employed by Pihlajalinna can undertake specialisation training in, for example, general medicine, occupational healthcare and geriatrics as well as required training in areas related to their specialisation.

We also support the competence and professional development of our employees through various internal and external training activities and by supporting the professional specialisation and degree studies of the employees.

**The total amount of training for the personnel came to 71,085 hours in 2022.**

## Pihlajalinna Academy

Pihlajalinna Academy is an online learning environment for personnel that offers weekly updated content to support competence development, such as general and professional induction training, remote lectures on medical and occupational healthcare-related topics, systems training and in-





dependent study material on many topics. Pihlajalinna Academy is also a key tool in the development and training of supervisors at Pihlajalinna.

### Confidential cooperation

Pihlajalinna respects its employees' right to unionisation and develops cooperation based on trust and openness with employee representatives. Pihlajalinna's Kimpassa ("Together") cooperation organisation covers the entire Group and empowers employees to exercise influence on their jobs and working environments.

The organisation's members include elected employee representatives, occupational safety and health delegates and Together representatives selected by the personnel. The aim of the activities is to create a coherent company culture, develop dialogue based on trust and openness as well as respond to the statutory requirements concerning employer-employee cooperation.

### Employee wellbeing

The objectives of promoting employee wellbeing include healthy employees, a functional work community and the effective prevention of work-related illnesses.

Pihlajalinna employees are covered by statutory occupational health services as well as occupational accident and occupational disease insurance. The practitioners who work for Pihlajalinna are responsible for their own occupational health services and insurance.

Employees who work at least 15 hours per month are provided with occupational health services that exceed the statutory requirements. For employees in a permanent employment relationship, Pihlajalinna also provides wellbeing, sports and cultural benefits (ePassi Flex) as well as comprehensive leisure-time accident insurance that covers all sporting activities and has no ceiling on compensation.

Occupational healthcare at Pihlajalinna is based on prevention and an active caring model, which involves training supervisors to address work ability issues among employees as early as possible. We have emphasised seamless cooperation between employees, occupational healthcare and supervisors.

In the active care model, early support is complemented by return-to-work planning and targeted support, with occupational healthcare, the employee and the supervisor together assessing the risks of the job and seeking appropriate solutions. In managing wellbeing at work and support-

ing work ability, we also engage in active cooperation with pension and insurance companies. Pihlajalinna's employees also have access to the Mielenhuoli mental health service, which provides them with low-threshold discussion-based assistance with mental health issues.

### Strategic priority

We want to help everyone at Pihlajalinna maintain their well-being and succeed in their work. To this end, the development of work ability is one of our most important themes for the current strategy period.

In 2022, we launched a unique cooperation project with pension insurance companies. One of the main objectives of the project is to reduce sickness-related absences and create competitive advantage in business when the model is later offered to our customers as well. The project aims to turn wellbeing at work into a competitive advantage for attracting the leading professionals in the industry to work at Pihlajalinna. The project also involves developing Pihlajalinna's employer image and reputation as a responsible healthcare operator that is there for people.

Pihlajalinna's sickness-related absence rate in 2022 was 9.7 (7.7) per cent. The rise was mostly





due to a difficult year of upper respiratory tract infections. Mental health problems were one of the reasons for sickness-related absences at Pihlajalinna, and the Group invests in their prevention. In 2022, we enhanced our supervisor training related to active caring. Supervisors are encouraged to address mental health problems and their early signs in a timely manner, as receiving assistance as early as possible is essential.

## Occupational safety management

Pihlajalinna manages occupational safety impacts as part of an occupational safety and health organisation that covers all of the Group's activities. The management of occupational safety and health risks aims to identify work-related hazards, risks and adverse effects, and to systematically eliminate or reduce these. Working environment risks are assessed by Pihlajalinna's units in two-year intervals at a minimum and whenever significant changes happen.

The significance to health of the identified risks is also assessed in workplace surveys conducted by Occupational Healthcare. These are carried out in five-year intervals at a minimum and whenever significant changes happen.

## Occupational safety and health action plan

Pihlajalinna has an occupational safety and health action plan based on risk assessments. The action plan sets out responsibilities and performance indicators related to occupational safety. Drafting an occupational safety and health action plan is a legal requirement, and the action plan is reviewed annually. Pihlajalinna's local occupational safety and health committees also prepare local action plans and set local occupational safety targets.

Workplace occupational safety practices and the employees' occupational safety obligations are always covered with the personnel during induction training. The Group administration develops collective operating guidelines related to occupational safety and supports supervisors in their unit-level implementation through communications and supervisor training.





## Occupational safety observation belongs to everyone

Monitoring the working conditions and ensuring safety is every employee's responsibility. Pihlajalinna has a reporting system for the personnel to report any occupational safety deviations they observe.

Employees are encouraged to actively report their safety-related observations. Identifying deficiencies and areas requiring improvement is an important aspect of developing occupational safety and preventing accidents. The number of reported safety observations has increased over the past few years. Reported safety observations are always investigated locally in the unit and discussed by teams. The Group's HR administration also monitors the number of reported safety observations and their processing times.

However, in 2022, the number of safety observation reports in the Group decreased to 1,408 from 1,850 in 2021.

The most common causes of accidents were falling, slipping and the unexpected presence of a customer. The number of serious accidents that resulted in an absence of more than 30 days remained low: five serious accidents were reported in the Group as a whole during the year (2021: 5).

17 per cent of the accidents were caused by violent situations. Pihlajalinna strives to improve operating models and security arrangements to manage the threat of violence.

### Accidents and accident frequency, employees

	2022	2021	2020
Number of accidents	283	359	363
Accident frequency (per one million working hours)	34	49	55
Number of serious occupational accidents*	5	5	7
Serious occupational accidents, accident frequency	0,6	0,7	1,1
Number of accidents resulting in serious injury **	2	0	1
Accidents resulting in serious injury, accident frequency	0,24	0	0,15

The frequency figures are calculated per 1,000,000 hours worked. The figures in the table refer to accidents at work that happened to Pihlajalinna (excluding Forever) employees. Accidents which happened during the commute between the home and the workplace are not included in the figures.

\* Accidents resulting in serious injuries are accidents from which the employee cannot recover to the state of health prior to the accident or from which the employee does not recover or is not expected to recover to the state of health prior to the accident within six months of the accident.

\*\* Accidents at work resulting in an absence of at least 30 days.



# Environmental responsibility

Pihlajalinna is a significant part of the Finnish healthcare system and its service network spans the entire country. With approximately 160 business locations, the Group's operations also have an impact on the environment.

In 2022, Pihlajalinna started the development and implementation of measures that increase the wellbeing of the environment. Pihlajalinna's environmental policy sets out the Group's approach to environmental issues.

The ISO 9001:2015 quality management system certificate covers private clinic services, dental care services, laboratory services, customer service and service housing with 24-hour assistance. The development and auditing of environmental management systems for selected businesses is under way. The plan is to apply for ISO 14001 environmental certification for some of the Group's business functions in autumn 2023.

The calculation of emissions is part of Pihlajalinna's goal-driven environmental responsibility efforts, the aim of which is to create

an honest and transparent overview of the significant greenhouse gas emissions of the company's value chain that can be updated in the future. The calculation enables Pihlajalinna to target its actions at the largest sources of emissions and consequently engage in impactful climate action.

Pihlajalinna's first carbon footprint calculation was carried out in 2022, using data for the year 2021. Based on the first carbon footprint calculations, the calculation methodology was refined with regard to the data for the year 2022. We report on the direct and indirect greenhouse gas emissions (scope 1 and 2) of our operations by using the refined calculation methodology. The calculation was carried out in accordance with the internationally recognised GHG Protocol.

Pihlajalinna will continue to collect data on scope 3 emission sources and further refine the calculation methodology in 2023. The company's goal is to report at least its significant scope 3 emissions in its reporting on the year 2023.

## Aiming for carbon neutrality

The assessment will be used to create a climate roadmap aimed at achieving carbon neutrality in Pihlajalinna's operations. Pihlajalinna switched to zero-emission electricity at the end of 2022. The purchasing of zero-emission electricity is an important part of managing Pihlajalinna's climate impacts.

Over the past two years, Pihlajalinna's patient appointments have shifted to remote channels to a significant degree, with 37 per cent of appointments now taking place remotely. Remote appointments with customers reduce indirect climate emissions by reducing customer and employee traffic to the company's business locations.

## Emissions

In 2022, Pihlajalinna's carbon footprint (scope 1 and 2) was 725 tCO<sub>2</sub>e. The carbon footprint consists mainly of the emissions generated by the consumption of electricity and heating at the company's properties, heating oil and the fuel consumption of the company's cars.

### Scope 1

Pihlajalinna's direct greenhouse gas emissions (scope 1) amounted to 166 tCO<sub>2</sub> in 2022. The emissions consist mainly of heating oil and the diesel and petrol used by the company's vehicles. The consumption of the company's vehicles was calculated on the basis of consumed and purchased fuel, and heating oil was calculated on the basis of reported consumption.

### Scope 2

Indirect greenhouse gas emissions (scope 2) amounted to 559 tCO<sub>2</sub> in 2022. The emissions arise from the electricity and district heating purchased by Pihlajalinna. The emissions have been calculated based on measured property-specific consumption.

Electricity purchases in 2022 totalled 12,440 MWh, with renewable or zero-emission electricity representing 95 per cent of the total consumption. District heating purchases totalled 4,090 MWh.

Pihlajalinna switched to using entirely zero-emission electricity at the end of 2022.

### Total energy consumption, 2022

Total fuel consumption	MWh	%
Non-renewable sources	13,080	75%
Renewable sources	4,278	25%
<b>Total</b>	<b>17,358</b>	

### Total energy consumption, 2022

Total energy consumption	MWh
Electricity	12,440
Heating (district heating+fuel)	4,404
Fuels	513
<b>Total</b>	<b>17,358</b>

### Direct (scope 1) GHG emissions 2022

	MWh	tCO <sub>2</sub>
Non-renewable (oil, gasoline, diesel)	827	166

### Energy Indirect (scope 2) GHG emissions 2022

		tCO <sub>2</sub>	tCO <sub>2</sub>
	MWh	market based	location based
Electricity	12,440	140	1,107
Renewable	4,278		
Non-renewable	8,162		
District heating	4,090	419	724
Total		559	1,831

## Waste sorting and recycling

In 2022, Pihlajalinna focused on assessing and reducing the volume of waste, the appropriate sorting of waste and training the personnel with regard to waste management. The preparation of waste management and sorting plans is under way on the basis of a pilot project. All business locations are required to have a waste management plan by the end of 2023. Decommissioned IT hardware is assessed by Pihlajalinna's IT department. Serviceable and necessary hardware is serviced and reused, while broken hardware is forwarded to electronics recycling.

Persons responsible for environmental matters have been designated for private clinics and business locations in hospital services. They meet once a month with external waste management experts to prepare location-specific environmental plans and instructions. The persons responsible for environmental matters prepare sorting plans for the units, acquire suitable waste collection containers and provide training and guidance to the personnel.



# GRI Content index

GRI	Content	Location	Additional information
<b>GENERAL STANDARD DISCLOSURES 102 (2016)</b>			
<b>ORGANISATIONAL PROFILE</b>			
102-1	Name of the organisation	Contents	
102-2	Activities, brands, products and services	Pihlajalinna in brief	
102-3	Location of headquarters	Pihlajalinna in brief	
102-4	Location of operations	Pihlajalinna in brief	
102-5	Ownership and legal form	Pihlajalinna in brief	
102-6	Markets served	Pihlajalinna in brief	
102-7	Scale of the organisation	Pihlajalinna in brief	
102-8	Information on employees and workers	Responsibility for personnel	
102-9	Supply chain	Economic responsibility	
102-10	Significant changes to the organisation and its supply chain	CEO's Review	
102-11	Precautionary Principle or approach	GRI Content index	Pihlajalinna observes the Precautionary Principle.
102-12	External initiatives	CEO's Review, Sustainability Programme, Board of Directors' Report	
102-13	Memberships in associations	GRI Content index	Pihlajalinna is an employer member of the Finnish Association of Private Care Pro-viders HALI.
<b>STRATEGY</b>			
102-14	Statement from Senior Decision-maker	CEO's Review	
102-15	Key impacts, risks and opportunities	Board of Directors' Report	
<b>ETHICS AND INTEGRITY</b>			
102-16	Values, principles, standards, norms of behaviour	Pihlajalinna in brief, CEO's Review, Sustainability management, Sustainable operating principles	
102-17	Mechanisms for advice and concerns about ethics	Sustainable operating principles	
<b>GOVERNANCE</b>			
102-18	Governance Structure	The Year 2022, Corporate Governance	
102-19	Delegating authority	Corporate Governance	



102-20	Executive-level responsibility for economic, environmental and social topics	Sustainability Management, Corporate Governance	
102-21	Consulting stakeholders on economic, environmental, and social topics	Impact and value creation, Stakeholder engagement, Sustainability programme	
102-22	Composition of the highest governance body and its committees	Corporate Governance	
102-23	Chairman of the Board	Corporate Governance	
102-24	Nominating and selecting the highest governance body	Corporate Governance	
102-26	Role of highest governance body in setting purpose, values, and strategy	Sustainability management, Corporate Governance	
102-28	Evaluating the highest governance body's performance	Corporate Governance	
102-29	Identifying and managing economic, environmental, and social impacts	Corporate Governance	
102-30	Effectiveness of risk management processes	Board of Directors' Report	
102-31	Review of economic, environmental, and social topics	Board of Directors' Report	
102-35	Remuneration policies	Remuneration Report	
STAKEHOLDER ENGAGEMENT			
102-40	List of stakeholder groups	Stakeholder engagement	
102-41	Collective bargaining agreements	GRI Content index	100% of Pihlajalinna's employees are covered by collectively negotiated labour agreements, with the exception of senior salaried employees and the management.
102-42	Identifying and selecting stakeholders	Stakeholder engagement	
102-43	Approach to stakeholder engagement	Stakeholder engagement	
102-44	Key topics and concerns raised	Sustainability programme, Stakeholder engagement	
REPORTING PRACTICE			
102-45	Entities included in the consolidated financial statements	Financial statements, Notes to the consolidated financial statements	
102-46	Defining report content and topic Boundaries	Sustainability programme	
102-47	List of material topics	Sustainability programme	
102-48	Restatements of information	GRI Content index	Changes are reported in connection with relevant performance indicators.
102-49	Changes in reporting	GRI Content index	Changes are reported in connection with relevant performance indicators.
102-50	Reporting period	GRI Content index	Reporting period is 1.1.-31.12.2022
102-51	Date of most recent report	GRI Content index	The previous report was published 21.3.2022
102-52	Reporting cycle	GRI Content index	Annually





102-53	Contact point for questions regarding the report	Information for shareholders	
102-54	Claims of reporting in accordance with the GRI Standards	Contents, GRI Content index	This report has been prepared in accordance with the GRI Standards (2016) Core option. Pihlajalinna will start using the GRI Standards 2021 from reporting year 2023 onwards.
102-55	GRI Content index	GRI Content index	
102-56	External assurance	GRI Content index	The sustainability information has not been assured by a third party. The financial statements presented in Finances have been assured by authorized public accountants.
<b>MANAGEMENT APPROACH</b>			
103-1	Reporting principles and materiality	Impact and value creation, Sustainability programme	
103-2	The management approach and its components	Sustainability programme, Sustainability management	
103-3	Evaluation of the management approach	Corporate Governance	
<b>TOPIC-SPECIFIC DISCLOSURES</b>			
Topic-specific disclosures are reported on aspects identified as relevant			
<b>ECONOMIC IMPACTS 200 (2016)</b>			
<b>201 Economic performance</b>			
201-1	Direct economic value generated and distributed	Pihlajalinna in brief, Economic responsibility, Financial Statement	
<b>203 Indirect economic impacts</b>			
203-2	Indirect economic impacts	Economic responsibility	
<b>204 Ostokäytännöt</b>			
204-1	Proportion of spending on local suppliers	Economic responsibility	
<b>205 Anti-corruption</b>			
205-1	Operations assessed for risks related to corruption	Board of Directors' Report	Risks related to corruption are part of a broader risk analysis process which covers all of Pihlajalinna's operations. The analysis is carried out on a regular basis all year round.
205-2	Communication and training about anti-corruption policies and procedures	Sustainable operating principles	Percentages have not been reported by personnel or supplier groups.
205-3	Confirmed incidents of corruption and actions taken	Sustainable operating principles, Board of Directors' Report	



<b>206 Anti-competitive behaviour</b>			
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	Sustainable operating principles, Board of Directors' Report	
<b>207 Taxes</b>			
207-1	Approach to tax	Economic responsibility	
<b>ENVIRONMENTAL IMPACTS 300 (2016)</b>			
<b>302 Energy</b>			
302-1	Energy consumption within the organisation	Environmental responsibility	
<b>305 Emissions</b>			
305-1	Direct (scope 1) GHG emissions	Environmental responsibility	
305-2	Energy indirect (scope 2) GHG emissions	Environmental responsibility	
<b>307 Environmental compliance</b>			
307-1	Breaches of environmental laws or regulations	Sustainable operating principles	
<b>SOCIAL IMPACTS 400 (2016)</b>			
<b>401 Employment</b>			
401-1	New employee hires and employee turnover	Responsibility for personnel	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Responsibility for personnel	
<b>403 Occupational health and safety</b>			
403-1	Occupational health and safety management system	Responsibility for personnel	
403-2	Hazard identification, risk assessment, and incident investigation	Responsibility for personnel	
403-3	Occupational health services	Responsibility for personnel	
403-4	Worker participation, consultation and communication on occupational health and safety	Responsibility for personnel	
403-5	Worker training on occupational health and safety	Responsibility for personnel	
403-6	Promotion of worker health	Responsibility for personnel	
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Responsibility for personnel	
403-8	Workers covered by an occupational health and safety management system	Responsibility for personnel	Private practitioners are not employed by Pihlajalinna and are thus not covered by the occupational healthcare system.
403-9	Work-related injuries	Responsibility for personnel	Not reported for private practitioners.
403-10	Work-related ill health	Responsibility for personnel	Not reported by illnesses or personnel groups.
<b>404 Training and education</b>			
404-1	Average hours of training per year per employee	Responsibility for personnel	Total training hours are reported, not by employee.



404-2	Programmes for upgrading employee skills and transition assistance programmes	Responsibility for personnel	
404-3	Percentage of employees receiving regular performance and career development reviews	Responsibility for personnel	
<b>405 Diversity and equal opportunities</b>			
405-1	Diversity of governance bodies and employees	Sustainable operating principles, Responsibility for personnel, Corporate Governance	
<b>406 Non-discrimination</b>			
406-1	Incidents of discrimination and corrective actions taken	Sustainable operating principles, Responsibility for personnel	
<b>414 Supplier social assessment</b>			
414-1	New suppliers that were screened using social criteria	Economic responsibility, GRI Content index	Percentages are not reported. The procurement principles and Supplier Code of Conduct includes aspects of social responsibility.
<b>417 Marketing and labelling</b>			
417-3	Incidents of non-compliance concerning marketing communications	GRI Content Index	No incidents in 2022
<b>419 Socioeconomic compliance</b>			
419-1	Non-compliance with laws and regulations in the social and economic area	Sustainable operating principles	
<b>STATEMENT OF NON-FINANCIAL INFORMATION – CONTENT REFERENCES</b>			
Business model description		Pihlajalinna in brief	
Material sustainability themes and risks		Sustainability programme	
Personnel and social issues		Responsibility for personnel	
Environmental responsibility		Environmental responsibility	
Respect for human rights		Sustainable operating principles	
Anti-corruption and bribery		Sustainable operating principles	
Taxonomy		EU Taxonomy	



# Pihlajalinna

## Remuneration report 2022

## REMUNERATION REPORT

## INTRODUCTION

This Remuneration Report of Pihlajalinna Plc ("the Company" or "Pihlajalinna") is a Remuneration Report for Governing Bodies prepared in accordance with the Limited Liability Companies Act, the Securities Markets Act and the recommendations of the Corporate Governance Code 2020. The Remuneration Report contains information on the remuneration of the members of the Board of Directors and the CEO in the financial year 2022. The aim of the Remuneration Report is to provide a clear picture of the implementation of the Company's Remuneration Policy. The Remuneration Policy is available on the Company's investor website at [investors.pihlajalinna.fi](https://investors.pihlajalinna.fi). The Pihlajalinna Board of Directors has approved the Remuneration Report for presentation to the Annual General Meeting in 2023.

The Pihlajalinna Remuneration Policy sets out the principles and decision-making process for the remuneration of the members of the Board of Directors and the CEO. The Company's Remuneration Policy has been approved by the Annual General Meeting on 13 April 2022. The Remuneration Policy is available on the Company's investor website at [investors.pihlajalinna.fi](https://investors.pihlajalinna.fi).

The auditing firm KPMG Oy Ab, which served as Pihlajalinna Plc's auditor during the financial year 2022, has verified, in accordance with Ministry of Finance decree 608/2019, that the information referred to in Section 3 of the decree has been disclosed in this report.

### Development of remuneration in relation to the Company's key financial indicators

The following table and graphs present the development of the remuneration of the Board of Directors and the CEO compared to the development of the average remuneration of the Group's employees and the Group's financial performance in the past five financial years:

	2018	2019	2020	2021	2022
<b>Total remuneration of the Board of Directors <sup>(1)</sup></b>	522 000	487 000	473 000	587 742 <sup>(*)</sup>	491 074
<b>Total remuneration of the CEO <sup>(1)</sup></b>	285 000	285 000	433 000	405 000	338 930
<b>Average employee earnings <sup>(2)</sup></b>	37 000	41 000	42 000	45 000	47 000
<b>Revenue, EUR million</b>	487,8	518,6	508,7	577,8	690,5
<b>Operating profit (EBIT), EUR million</b>	13,2	10,2	18,1	27,9	8,9
<b>Profit for the period, EUR million</b>	6,8	4,5	8,9	19,1	7,7

1) Rounded to the nearest thousand

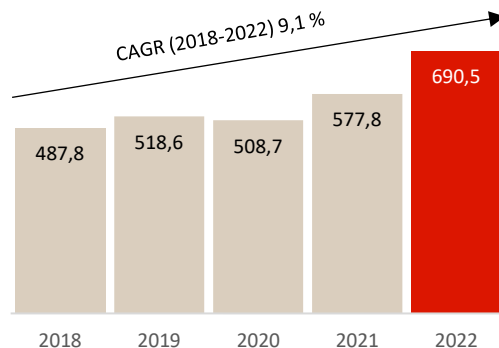
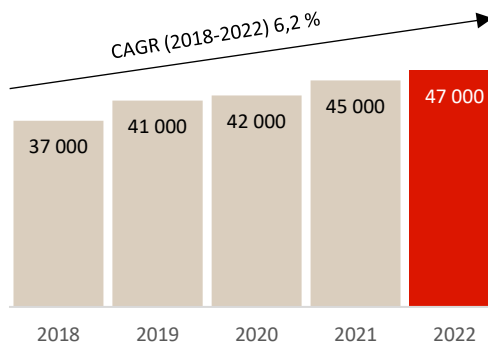
2) Average employee earnings have been calculated by dividing the total wages paid during the financial year by the number of employees as full-time equivalents (FTE), rounded to the nearest thousand

<sup>(\*)</sup> Monthly remuneration paid to the Board of Directors 1–4/2021 for the term 2020–2021 and the annual remuneration paid for the term 2021–2022 as a lump sum in shares and cash on 14 May 2021.

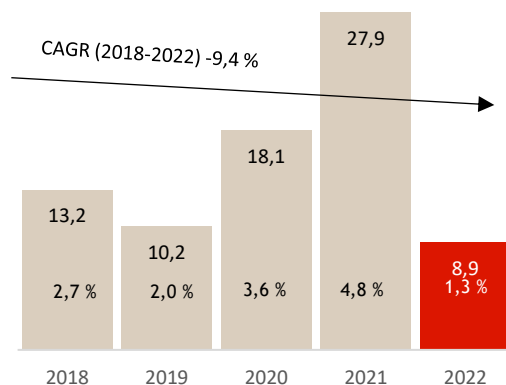
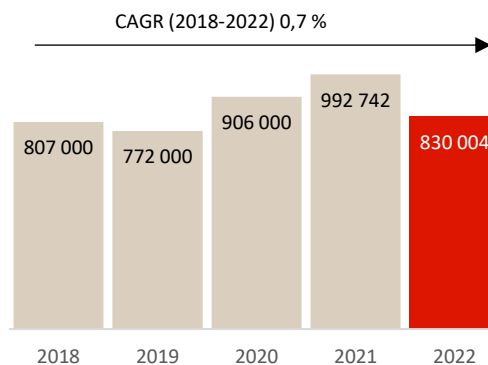




## REMUNERATION REPORT

Revenue,  
MEURAverage employee earnings, EUR<sup>(2)</sup>

Operating profit (EBIT), EUR million

Total remuneration of the Board of  
directors and the CEO, EUR

Pihlajalinna's General Meeting decides on the remuneration paid to the members of the Board of Directors. The proposal for the remuneration of the Board members is prepared by the Shareholders' Nomination Board. Assisting the Board of Directors, the People Committee prepares the principles applied to the remuneration of the CEO. The Company's Board of Directors appoints the CEO and potential Deputy CEO and decides on the terms and conditions of their service.

The remuneration of the Chairman of the Board of Directors has remained unchanged since the 2018 Annual General Meeting. The 2022 Annual General Meeting resolved to increase the annual remuneration of the Chairman of the Audit Committee and the members of the Board of Directors. The annual remuneration of the Vice-Chairman of the Board remained unchanged. In 2022, the Board of Directors was paid a one-time annual fee its the entire term, as in the previous year.

In accordance with the Remuneration Policy, the remuneration of the CEO is based on a fixed monthly salary including fringe benefits and separately decided variable remuneration components, such as long-term or short-term share-based incentive schemes, for example. Pihlajalinna's current CEO, Joni Aaltonen, has been in his position since the end of 2017. In 2020 and 2021, the CEO has been paid a retention bonus and performance-based remuneration in addition to the fixed monthly salary in accordance with the long-term incentive plan.

The development of the average earnings of employees has shown a growing trend. During the 2019 efficiency improvement programme, the number of employees was reduced. During the first COVID-19 pandemic year 2020, the number of employees decreased, while in 2021, as the demand for COVID-19 services went up, the number of employees increased due to recruitment. In 2022, several M&A transactions were carried out and the number of employees increased further. Approximately 81% (2021: 82%) of the Company's employees are within the scope of collective labour agreements. The development of wages for employees in these groups is guided by the general increases defined in the collective agreements.

## REMUNERATION REPORT

## II REMUNERATION OF THE BOARD OF DIRECTORS

Pihlajalinna's Annual General Meeting 2022 decided, in accordance with the Shareholders' Nomination Board's proposal, that remuneration shall be paid as a fixed annual fee as follows: EUR 250,000 to the full-time Chairman of the Board, EUR 39,000 to the Vice-Chairman and the Chairman of the Audit Committee and EUR 26,000 to other members.

The Annual General Meeting resolved that annual remuneration shall be paid in Company shares and in cash, with approximately 40 per cent of the remuneration used to acquire shares in the name and on behalf of the members of the Board of Directors, and the remainder paid in cash. The Company was responsible for the expenses and transfer tax arising from the acquisition of the shares. The remuneration could be paid either entirely or partially in cash if the member of

the Board of Directors was, on the day of the Annual General Meeting, 13 April 2022, in possession of over EUR 1,000,000 worth of Company shares. If the term of a Board member ends before the next Annual General Meeting, the Board is entitled to decide on the possible recovery of the remuneration in a manner it deems appropriate.

The General Meeting also decided that each Board member shall be paid a meeting fee of EUR 500 for each Board and Committee meeting. Reasonable travel expenses will also be reimbursed to the members of the Board in accordance with the Company's travel policy.

In 2022, the fees paid to Pihlajalinna Plc's Board members for Board and Committee work totalled EUR 491,074 (2021: EUR 587,742). The amount paid in 2021 consisted of monthly fees paid to the Board of

Directors in the period 1–4/2021 regarding the Board of Directors' term 2020–2021 and the annual fee paid for the period of 2021–2022, which was paid to the Board members in the form of a lump sum in shares and in cash on 14 May 2021. The amount paid in 2022 consists of the annual fee paid to the Board of Directors for the term 2022–2023, which was paid to the Board members in the form of a lump sum in shares and in cash in May 2022.

The Company does not use any share-based incentive schemes that apply to members of the Board of Directors. The members of the Company's Board of Directors did not receive remuneration during the financial year 2022 from Pihlajalinna Group companies other than the parent company Pihlajalinna Plc.

Remunerations paid to the Board of Directors in 2022, EUR

		ANNUAL FEE (EUR), OF WHICH		MEETING FEES (EUR)	TOTAL REMUNERATION (EUR)	THE NUMBER OF SHARES TRANSFERRED AS PART OF THE ANNUAL FEE
BOARD MEMBER		SHARES (EUR)	CASH (EUR)			
Wirén Mikko	Chairman	0	242 220	18 500	260 720	0
Niemistö Leena	Vice-Chairman	15 602	23 399	13 500	52 500	1 423
Iisakka Heli	Member (from 13 April 2022)	10 405	15 595	8 000	34 000	949
Juvonen Hannu	Member	10 405	15 595	14 500	40 500	949
Manninen Mika	Member	10 405	15 595	10 500	36 500	949
Turunen Seija	Member, Audit Committee Chairman	15 602	23 399	11 000	50 000	1 423
Sulin Kati	Member (until 13 June 2022)	10 405	1 949	4 500	16 854	949
		<b>72 824</b>	<b>337 752</b>	<b>80 500</b>	<b>491 074</b>	<b>6 642</b>



## REMUNERATION REPORT

### III REMUNERATION OF THE CEO

CEO Joni Aaltonen's salary and other taxable benefits for the financial year that ended on 31 December 2022 amounted to a total of EUR 338,930 (EUR 404,765 in 2021). The remuneration of the CEO consisted of a fixed annual salary, a free car benefit and mobile phone benefit totalling EUR 296,293 (EUR 297,083 in 2021), a variable remuneration component in the form of long-term incentives totalling EUR 31,787 (EUR 100,032 in 2021) and meeting fees paid by Pihlajalinna Group companies owned jointly with municipalities based on Board membership totalling EUR 10,850 (EUR 7,650 in 2021). The relative shares of fixed remuneration and variable remuneration were 87% (67%) and 13% (33%), respectively.

In 2022, the CEO was paid a performance-based remuneration for the earnings period of 2021 under the long-term incentive scheme in the gross amount of EUR 31,787, of which EUR 17,801 was paid in the Company's shares (1,540 shares) according to the weighted average share price of EUR 11.56 per share on the payment date, 15 March 2022, and the remaining EUR 13,986 was paid in cash to cover the taxes incurred. The shares are subject to a transfer restriction in accordance with the incentive scheme, but they are not subject to the obligation to return the shares in the event of termination.

According to the CEO's contract, the notice period for dismissal is 3 months. The Company is liable to pay the CEO one-time compensation for termination amounting to six months' total salary.

The Company did not have a Deputy CEO indicated in the Trade Register during the financial year 2022.

#### Performance- and quality-based long-term incentive programme (LTIP 2022)

On 23 March 2022, Pihlajalinna's Board of Directors approved the establishment of a new share-based incentive programme (LTIP 2022) for selected key employees. The key employees selected for the programme are required to make an investment in Pihlajalinna shares as a precondition for participation in the programme. In its entirety, the incentive scheme will form a six-year programme and the share rewards based on the programme cannot be disposed of prior to the year 2025.

The performance- and quality-based share programme comprises four separate performance periods of one year each (the calendar years 2022–2025). The potential share rewards will be paid out after the performance periods in the years 2023, 2024, 2025 and 2026 provided that the performance and quality-based targets set by the Board of Directors are reached. The maximum number of shares (gross amount prior to the deduction of applicable withholding tax) for each one-year performance period is defined in the allocation per participant. The share rewards will be subject to a two-year transfer restriction. The criteria for the performance- and quality-based additional share programme are Pihlajalinna Group's adjusted EBITA and key operative and quality indicators.

A total of 42 key employees are eligible to participate in the share-based incentive programme. If all of the eligible key employees participate in the programme by fulfilling the investment precondition in

full and if the performance targets set for the performance periods are fully achieved, the maximum aggregate amount of share rewards that may be paid out based on the programme is approximately 1,100,000 shares (gross amount before the deduction of the applicable payroll tax) and the total value of the share rewards payable is approximately EUR 12.8 million. If the programme is realised in full, the aforementioned number of shares corresponds to approximately 4.8 per cent of the Company's shares.

No performance- and quality-based share rewards materialised for the first performance period 2022 pursuant to the matching share plan, as the minimum targets set for the programme were not achieved.

The targets set by the Board of Directors for the performance period 2022 were related to the following indicators:

- consolidated adjusted EBITA - weight 60%, result below threshold
- customer satisfaction index (NPS) – weight 10%, result below threshold
- employee Net Promoter Score (eNPS) – weight 10%, result below threshold
- growth of the share of internal production in specialised care – weight 10%, result below threshold
- Growth of supply in private clinic and hospital operations – weight 5%, result above threshold
- The invoicing rate of occupational health nurses – weight 5%, result below threshold



# Pihlajalinna

## CORPORATE GOVERNANCE STATEMENT 2022



## I INTRODUCTION

The Corporate Governance of Pihlajalinna Plc (the Company) is based on effective legislation, the Company's Articles of Association and the rules and regulations applied to companies listed on Nasdaq Helsinki. The Company complies with the Finnish Corporate Governance Code 2020 issued by the Securities Market Association. The Finnish Corporate Governance Code is available on the [www.cgfinland.fi/en](http://www.cgfinland.fi/en) website maintained by the Securities Market Association.

Pihlajalinna did not depart from the recommendations of the Corporate Governance Code in 2022.

This Corporate Governance Statement has been compiled as a separate statement from the annual report and will be published on the Company's website [http://investors.pihlajalinna.fi/corporate-governance.aspx?sc\\_lang=en](http://investors.pihlajalinna.fi/corporate-governance.aspx?sc_lang=en).

This Corporate Governance Statement was approved by Pihlajalinna Plc's Audit Committee on 15 February 2023 and by the Board of Directors on 16 February 2023.

## II CORPORATE GOVERNANCE

### General Meeting

The General Meeting is Pihlajalinna's highest decision-making body. According to the Company's Articles of Association, the Annual General Meeting is held annually within six (6) months of the end of the financial year. The Annual General Meeting decides on the matters determined by the Limited Liability Companies Act and the Articles of Association. These matters include, among other things, the approval of the Financial Statements, the distribution of profit shown in the Balance Sheet and the election of members of the Board of Directors and the auditor and their remuneration. The Annual General Meeting of Shareholders also decides upon discharge of the Board of Directors and of the CEO from liability.

The Board of Directors is responsible for the invitations to the General Meeting and decides its venue and timing.

According to the Articles of Association, the notice of a General Meeting shall be delivered to shareholders no earlier than three (3) months and no later than three (3) weeks prior to the date of the Meeting, but no later than nine (9) days prior to the record date of the Meeting. The notice shall be delivered to shareholders by sending

the notice by post to their addresses registered in the Company's register of shareholders or by publishing a notice on the website of the Company or in at least one national daily newspaper determined by the Board of Directors. The notice of the General Meeting will be published as a separate release. The Agenda, the proposals of the Board of Directors and other General Meeting material will be available on the Company's website at least three weeks prior to the General Meeting.

Each shareholder has the right to have a matter within the remit of a General Meeting, under the Limited Liability Companies Act, to be discussed by the General Meeting if he or she requests this in writing from the Board of Directors by the date announced on the Company website. The date will be announced on the Company's website no later than by the end of the financial year preceding the Annual General Meeting.

The Company's Chairman of the Board, members of the Board of Directors, the CEO and the Auditor attend the General Meeting. In addition, any candidates for the Board of Directors attend the General Meeting that decides on their election. If one or more members of the Board of Directors cannot attend the General Meeting, the Company informs the General Meeting of their absence at the beginning of the Meeting.

After the General Meeting, its decisions are published in a stock exchange release. The minutes of the General Meeting are published on the Company's website within two weeks of the General Meeting. The documents of the General Meeting must be kept on the Company's website for at least five years from the Meeting.

Pihlajalinna's Articles of Association are available on the Company's website at <http://investors.pihlajalinna.fi/corporate-governance/articles-of-association>. Any amendments to the Articles of Association require the decision of the General Meeting.

Pihlajalinna Plc's Annual General Meeting 2022 was held on 13 April 2022. The General Meeting was attended by 66 shareholders in person or by proxy. Approximately 58 per cent of the Company's shares and votes were represented in the meeting.

### Board of Directors

#### The composition and election procedure of the Board of Directors

The Board of Directors is elected on an annual basis by the Annual General Meeting. According to the Company's Articles of Association,

the General Meeting shall appoint a minimum of four (4) and a maximum of ten (10) members on the Board of Directors.

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

### Shareholders' Nomination Board

The Shareholders' Nomination Board is tasked with preparing future proposals on the election and remuneration of the members of the Board of Directors to the General Meetings.

The Nomination Board consists of four members nominated by the shareholders of the Company. In addition, the Chairman of the Board of Directors of the Company participates in the work of the Nomination Board as an expert. The right to nominate members is vested with the four shareholders of the Company having the largest share of the votes represented by all the shares in the Company annually on 1 September based on the Company's shareholders' register held by Euroclear Finland Ltd. However, if a shareholder who has distributed his/her holdings e.g. into several funds and has an obligation under the Finnish Securities Markets Act to take these holdings into account when disclosing changes in his/her share of ownership makes a written request to such effect to the Chairman of the Board of Directors no later than on 31 August. Such shareholder's holdings in several funds or registers will be combined when calculating the share of votes that determines the nomination right. Should a shareholder not wish to exercise his/her nomination right, the right shall be transferred to the next largest shareholder who otherwise would not be entitled to nominate a member.

The Chairman of the Board of Directors shall, on 1 September each year, request the four largest shareholders of the Company, based on their shareholding, to nominate one member each to the Nomination Board. The Nomination Board elects a Chairman from among its members. The term of office of the members of the Nomination Board expires annually when the new Nomination Board has been appointed.

The Charter of the Shareholders' Nomination Board is available on the Company's website at <http://investors.pihlajalinna.fi/corporate-governance/general-meeting/shareholders-nomination-board>.





## CORPORATE GOVERNANCE STATEMENT

## BOARD OF DIRECTORS

## MANAGEMENT TEAM

The four largest registered shareholders of Pihlajalinna Plc (based on the shareholders' register held by Euroclear Finland Ltd on 1 September 2022) appointed the following representatives to the Shareholders' Nomination Board:

- Juha Koponen, Chief Executive Officer and Chairman of the Boards, LocalTapiola General Mutual Insurance Company and LocalTapiola Mutual Life Insurance Company
- Mikko Wirén, Managing Director, appointed by MWW Yhtiö Oy
- Tomi Yli-Kyyny, CEO, appointed by Fennia Mutual Insurance Company
- Carl Pettersson, CEO, appointed by Elo Mutual Pension Insurance Company

The Shareholders' Nomination Board elected Juha Koponen as its Chairman.

The Shareholders' Nomination Board convened 8 times. The attendance rate was 100%. The Nomination Board submitted 8.3.2023 its proposal to Pihlajalinna's Board of Directors for presentation at the Annual General Meeting. The proposals have been published in a stock exchange release.

### The qualifications and independence of the Board members and the diversity of the Board of Directors

The Board of Directors shall have sufficient and versatile expertise and experience with respect to its duties. In preparing a proposal for the composition of the Board of Directors, attention shall be paid to the requirements placed by the Company's operations and its development stage. A person to be elected to the Board of Directors shall have the qualifications required by the duties and the possibility to devote a sufficient amount of time to the work. The number of the members and the composition of the Board of Directors shall make it possible for the Board of Directors to fulfil its duties in an efficient manner.

For the versatile support and development of the Company's business, the composition of the Company's Board of Directors should be sufficiently diverse. Both genders shall be represented on the Board of Directors. The aim of the Company is that there be at least two women and at least two men on the Board of Directors. The overall aim of the Board composition is to achieve sufficiently extensive qualifications, expertise and experience. The sufficient diversity of the Board of Directors, including age and gender, as well as educational

and professional background, is taken into account in the preparation of a proposal for the composition of the Board of Directors.

The majority of the members of the Board of Directors must be independent of the Company. In addition, at least two of the members representing this majority shall be independent of major shareholders of the Company. The members of the Board of Directors must provide the Board of Directors with sufficient information for the evaluation of their qualifications and independence and inform the Board of Directors about any changes in this information. The members of the Board shall not act as representatives of persons who have proposed them to the Board or who otherwise belong to their interest groups.

The duties and responsibilities of the Board of Directors are defined in the Limited Liability Companies Act, the Company's Articles of Association and the Charter of the Board of Directors. The Board of Directors conducts an annual evaluation of its operations and working methods and updates its Charter as needed.

Any matters that are far-reaching from the viewpoint of the Company's business shall be considered and decided by the Board of Directors. According to its Charter, the Board of Directors:

- considers and approves the Company's long-term strategic plan and goals;
- approves the Company's business plan, budget and financing plan and monitors their implementation;
- evaluates the use and presentation of alternative performance measures;
- confirms the principles of the Company's internal control and risk management;
- reviews the material risks affecting the Company's operations and their management, and supervises the adequacy, relevance and efficiency of the Company's administrative processes;
- processes and approves business acquisitions and arrangements and other significant decisions;
- elects the CEO and Deputy CEO, releases them from their duties and decides on the terms and conditions of their service;
- confirms, based on the CEO's proposal, the members of the Group's Management Team, the Heads of Business Operations and other direct subordinates of the CEO;
- approves the incentive schemes of the CEO and other management and the Company's remuneration principles;
- approves the Company's Corporate Governance Statement, Remuneration Report and statement of non-financial information;
- confirms the Company's Insider Guidelines and Guidelines on Related Party Transactions and defines the principles concern-

- ning the monitoring and assessment of transactions with insiders and related parties and supervises compliance with these principles;
- decides on the Company's disclosure policy and monitors compliance with it.

The members of the Board of Directors are provided with sufficient information on the Group's operations, operating environment and financial position, and new Board members must be introduced to the Company's operations at the beginning of their term. The Board of Directors is regularly informed of matters considered by Pihlajalinna Group's Management Team, receives profit and loss reports and auditor's reports and regularly (at least once a year) hears the auditor's opinions of the Company's financial situation and its developments.

The Board of Directors convenes regularly. The timing of the Board Meetings will be confirmed in advance for the Board's entire term of office. When necessary, the Board holds additional meetings that can be organised as conference calls. At least one of the meetings is a strategy meeting and in at least one meeting the Board meets the Company's auditor. In meetings marked on the annual calendar, the Board of Directors conducts an internal discussion without the presence of management.

The proposal for the composition of the Board of Directors was prepared by the Company's largest shareholders in 2022. LocalTapiola Group, MWW Yhtiö Oy (Mikko Wirén), Fennia Mutual Insurance Company and Elo Mutual Pension Insurance Company participated in the preparation of the proposal for the composition of the Board of Directors. The shareholders who were involved in preparing the proposal for the composition of the Board of Directors represented approximately 48% of the shares in the Company.

The principles regarding the composition of the Board of Directors were observed in the Board of Directors elected in 2022. The Board of Directors has three female Board members and three male Board members (four female members until 12 June 2022). The members of the Board represent versatile experience from managerial and board duties. All members of the Board elected in 2022 hold a master's degree and one has a doctoral degree. The members of the Board of Directors have versatile industry-specific expertise as well as economic and business skills. Their age distribution is from 47 to 69 years.

## Members of the Board of Directors in the financial year 2022

The members of the Board of Directors up to the Annual General Meeting of 13 April 2022 were Mikko Wirén (Chairman), Leena Niemistö (Vice-Chairman), Hannu Juvonen, Mika Manninen, Kati Sulín and Seija Turunen.

The Annual General Meeting 2022 decided that the number of members of the Board of Directors shall be seven (7) at a time. The following individuals were elected as members of the Board of Directors: Mikko Wirén, Heli Iisakka, Hannu Juvonen, Mika Manninen, Leena Niemistö, Kati Sulín and Seija Turunen. The General Meeting elected Mikko Wirén as the Chairman of Pihlajalinna Plc's Board of Directors and Leena Niemistö as the Vice-Chairman.

Kati Sulín, who was elected to the Board of Directors at the Annual General Meeting of spring 2022, resigned from the Board of Directors on 12 June 2022.

During the financial year 2022, the Board of Directors convened 19 times. The average attendance rate during the period was 99%.

### Members of the Board of Directors

#### HELI IISAKKA (13.4.2022 alkaen)

Member of the Board since 2022

M.Sc. (Econ.)

Finnish citizen, b. 1968

independent of the Company and its major shareholders

principal occupation: Colliers Finland Oy, Chief Financial Officer



#### HANNU JUVONEN

Member of the Board since 2019

PhD, Specialist, MBA

Finnish citizen, b. 1955

independent of the Company and its major shareholders

principal occupation: practitioner, management consultant



#### MIKA MANNINEN

Member of the Board since 2019

M.Sc. (Econ.)

Finnish citizen, b. 1975

independent of the Company, not independent of major shareholders

principal occupation: Group CFO, Fennia Group



#### LEENA NIEMISTÖ

Member of the Board since 2014

Vice-Chairman of the Board of Directors until 2018 and again since 2019

D.Med.Sc., Specialist in Psychiatry

Finnish citizen, b. 1963

independent of the Company and its major shareholders

principal occupation: Board Professional



#### SEIJA TURUNEN

Member of the Board since 2016

M.Sc. (Econ.)

Finnish citizen, b. 1953

independent of the Company and its major shareholders

principal occupation: Board Professional



#### MIKKO WIRÉN

Chairman of the Board of Directors since 2016

Lic.Med.

Finnish citizen, b. 1972

not independent of the Company, not independent of major shareholders

principal occupation: Chairman of Pihlajalinna Plc's Board of Directors



More information on the Members of the Board of Directors is available in the Investors section of the Pihlajalinna website at <http://investors.pihlajalinna.fi>.

Information on the remuneration of the members of the Board of Directors is presented in a separate Remuneration Report for Governing Bodies.

## Board Committees

The Board of Directors may appoint committees, management groups and other permanent or temporary bodies to perform duties specified by the Board of Directors. The Board of Directors confirms the charters of the Company's committees and Management Team as well as the guidelines and authorisations of any other bodies appointed by the Board of Directors. The Board of Directors has established from among its members an Audit Committee and a People Committee. These committees have written charters approved by the Board of Directors.

### Audit Committee

Pihlajalinna Plc's Board of Directors has established from among its members an Audit Committee which monitors the Company's reporting process of financial statements and the efficiency of the Company's internal control, potential internal audit and risk management systems. The Audit Committee also reviews the description of the main features of the internal control and risk management systems in relation to the financial reporting process, which is included in the Company's Corporate Governance Statement, monitors the statutory audit of the financial statements and consolidated financial statements and evaluates the independence of the statutory auditor or audit firm, particularly the provision of related services to the Company. The members of the Audit Committee must have the expertise and experience necessary to perform the responsibilities of the Committee and at least one of the members must have special expertise in accounting or auditing.

The Audit Committee comprises three to five members who are elected from among the members of the Board of Directors. The majority of the members of the Audit Committee must be independent of the Company, and at least one member must be independent of major shareholders of the Company.

The Board of Directors has confirmed a written Charter for the Audit Committee, according to which the Committee has the following duties, among other things:

- to monitor the Company's financial standing and financing situation;
- to evaluate the effects of exceptional or extensive business transactions;
- to monitor the Company's financial statements reporting process;
- to monitor the Company's financial reporting process and M&A processes;
- to monitor the Company's internal control, potential internal audit and risk management systems, plans and reports as well as the efficiency of these functions;
- to review the Corporate Governance Statement, including the description of the main features of the internal control and risk management systems related to the financial reporting process;
- to monitor the statutory audit of the financial statements and consolidated financial statements;
- to evaluate the independence of the statutory auditor or audit firm and the provision of related services;
- to prepare a proposal for a resolution on the election of the auditor;



## CORPORATE GOVERNANCE STATEMENT

## BOARD OF DIRECTORS

## MANAGEMENT TEAM

- to maintain communication with the auditor and review the reports prepared by the auditor for the Audit Committee; and
- to evaluate compliance with laws and regulations.

The Audit Committee regularly provides the Board of Directors with a summary of matters considered by the Committee.

Work on the committee is subject to remuneration as determined by the General Meeting.

On 13 April 2022, the Board elected Seija Turunen (Chairman), Heli Iisakka, Hannu Juvonen and Mika Manninen as the members of the Audit Committee.

The Audit Committee convened six times during the financial year 2022. The attendance rate of the Committee members was 100%.

### People Committee

Pihlajalinna Plc's Board of Directors has established from among its members a People Committee, which assists the Board by preparing matters pertaining to the remuneration and nomination of the Company's CEO and other management, as well as the Company's remuneration principles, organisational development and training.

The People Committee comprises three to five members who are elected from among the members of the Board of Directors. The majority of the members of the People Committee must be independent of the Company. The CEO or other executives of the Company may not be appointed to the People Committee.

On 13 April 2022, the Board of Directors confirmed a written Charter for the People Committee, according to which the Committee has the following duties, among other things:

- to prepare matters related to the remuneration and other financial benefits of the CEO and other management;
- To prepare proposals related to the Company's incentive plans;
- to evaluate the remuneration of the CEO and other management and to ensure the appropriateness of the Company's remuneration systems;
- to answer any questions related to the remuneration report at the General Meeting;
- to prepare matters related to the nomination of the CEO and other management and to look for prospective successors for them; and

- to plan the remuneration of other personnel and organisational development.

Work on the committee is subject to remuneration as determined by the General Meeting.

On 13 April 2022, the Board of Directors elected Mikko Wirén (Chairman), Leena Niemistö and Kati Sulin as the members of the People Committee. On 12 June 2022, Hannu Juvonen was elected to the People Committee to replace Kati Sulin following her resignation from the Board of Directors.

The People Committee convened 11 times during the financial year 2022. The attendance rate of the Committee members was 100%.

### Attendance at Meetings by the Board of Directors and Committee Members in 2022:

Name	Position	Board meetings	Audit Committee Meetings	People Committee meetings
Mikko Wirén	Chairman	19 / 19	6 / 6 <sup>(1)</sup>	11 / 11
Leena Niemistö	Vice-Chairman	19 / 19	-	11 / 11
Heli Iisakka (from 13 April 2022)	Member	13 / 13 <sup>(2)</sup>	5 / 5 <sup>(2)</sup>	-
Hannu Juvonen	Member	19 / 19	6 / 6	8 / 8 <sup>(3)</sup>
Mika Manninen	Member	18 / 19	6 / 6	-
Seija Turunen	Member	19 / 19	6 / 6	-
Kati Sulin (until 12 June 2022)	Member	8 / 8	-	3 / 3

- Mikko Wirén is not a member of the Audit Committee*
- Heli Iisakka joined the Company's Board of Directors on 13 April 2022 and has participated in all possible meetings since then*
- Hannu Juvonen has been a member of the People Committee since 13 June 2022*

Pihlajalinna holdings of the members of Pihlajalinna Plc's Board of Directors on 31 December 2022

Direct and indirect Pihlajalinna holdings of the Board of Directors	Number of shares on 31 December 2022
Mikko Wirén, total	2 314 010
MWW Yhtiö Oy	2 309 010
Mikko Wirén	5 000
Leena Niemistö	706 110
Seija Turunen	2 635
Hannu Juvonen	1 757
Mika Manninen	1 757
Heli Iisakka	949

### CEO

The Board of Directors appoints the Chief Executive Officer and decides on the terms and conditions of his or her service contract. The CEO is in charge of the Company's operational management and Pihlajalinna Group's business in accordance with the instructions and orders issued by the Board of Directors. The CEO is responsible for ensuring that the Company's accounting practices comply with the law and that the financial matters are handled in a reliable manner. The Management Team assists the CEO in leading the Company's operations.

Joni Aaltonen was the CEO of Pihlajalinna Plc during the financial year 2022. Pihlajalinna Plc does not have a Deputy CEO.

### Group Management Team

Pihlajalinna Group's Management Team assists the CEO in the operative business management. The Management Team prepares and steers the development of the Group's business, processes and joint Group functions and promotes cooperation and the flow of information between the various parts of the organisation. It also prepares the Group's strategic planning and budgeting, monitors the implementation of plans and reporting and prepares acquisitions and other major investments. In addition, the Management Team monitors and evaluates the profitability of the Company's businesses as well as the functioning of its internal control and reporting systems. The Management Team convenes regularly by invitation of the CEO. The Management Team conducts an annual evaluation of its operations and working methods.



In 2022, Pihlajalinna strengthened its Management Team's structure to correspond to the company's strategic development and growth. The Group discontinued the position of Group Chief Operating Officer and appointed two new COOs, each in charge of one of the Company's two business segments.

#### Group Management Team (31 December 2022):

##### Joni Aaltonen

b. 1970, BBA  
employed by the Company since 2008  
Chief Executive Officer



##### Tarja Rantala

b. 1972, M.Sc. (Econ.)  
employed by the Company since 2014  
Chief Financial Officer



##### Marko Savolainen

b. 1967, LL.M with court training  
employed by the Company since 2017  
Chief Legal Officer



##### Antti-Jussi Aro

b. 1983, M.Sc. (Tech.)  
employed by the Company since 2021  
Chief Information Officer



##### Sari Riihijärvi

b. 1977, D.Med.Sc., Specialist  
employed by the Company since 2021  
Chief Medical Officer



##### Sari Nevanlinna (1.3.2022 alkaen)

b. 1981, M.Sc. (Econ.), M.Soc.Sc.  
Employed by the Company since 2022  
Chief Commercial Officer



##### Eetu Salunen (1.8.2022 alkaen)

b. 1969, Lic.Med., Specialist in general practice,  
Master of Arts, Executive MBA  
Employed by the Company since 2022  
Chief Operating Officer, Public services



##### Timo Harju (1.11.2022 alkaen)

b. 1976, M.Sc. (Econ.)  
Employed by the Company since 2022  
Chief Operating Officer, Private clinics and hospitals



**Kati Raassina (1.11.2022 alkaen)**  
b. 1979, M.Sc. (Econ.)  
Employed by the Company since 2022  
Chief People and Culture Officer



In 2022, the Group Management Team also included Group Chief Operating Officer Teija Kulmala (until 31 March 2022), Chief People and Culture Officer Elina Heliö (until 31 March 2022) and Juha-Pekka Halttunen, whose membership of the Group Management Team ended in connection with the restructuring of the Group Management Team on 31 October 2022.

The Management Team has met regularly, on a weekly basis.

The table below presents the Pihlajalinna shareholdings of the CEO and other members of Pihlajalinna Group's Management Team (31 December 2022).

Direct and indirect shareholdings of Pihlajalinna shares by the Management Team	Number of shares (31 December 2022)
Joni Aaltonen, CEO	43 464
Tarja Rantala	17 142
Marko Savolainen	10 694
Antti-Jussi Aro	4 001
Riihijärvi Sari	4 004
Nevanlinna Sari (member from 1 March 2022)	4 001
Salunen Eetu (member from 1 August 2022)	5 088
Harju Timo (member from 1 November 2022)	4 500
Raassina Kati (member from 1 November 2022)	4 002





### III INTERNAL CONTROL AND RISK MANAGEMENT MECHANISMS

#### Internal Control

The purpose of the Group's internal control systems is to ensure that the Company's operations comply with the applicable laws and regulations and the Company's business principles. The goal of internal control associated with the financial reporting process is to ensure that the financial reports published by the Company are prepared in accordance with the accounting principles applied by the Company and that they provide materially correct information regarding the Group's financial position and that financial reporting is accurate and reliable.

The Group's financial development is monitored by Group-wide reporting systems. The systems cover financial information, the budget approved by the Board of Directors, monthly financial forecasts and operational performance indicators. The Group Management Team analyses the result and deviations, is responsible for budgeting and forecasting together with the CEO, monitors the integration and development of completed M&A transactions and other investments. The business controller function and financial management analyse and produce financial reports as well as prepare separate analyses for use by the management, the Audit Committee and the Board of Directors. The Group has a centralised finance function.

The Group's financial management issues guidelines and instructions on the preparation of the financial statements and interim financial statements and, together with the Group communications function and the Chief Legal Officer, is responsible for the Group's regular disclosure obligations.

Pihlajalinna's financial and HR management functions have defined and documented control targets and control points (process-specific control catalogues) related to financial management, reporting and HR administration processes. The appropriateness and effectiveness of control targets and control points are evaluated at least once a year in cooperation with auditors. Internal control observations are analysed and, as a result, guidelines, practices and potentially also control points are updated.

The control measures consist of automated and manual reconciliation of processes, controls, analytical checks and instructions aimed at ensuring the accuracy of financial reporting. Further key control mechanisms include the administration of access rights to information systems and reporting systems as well as the controlled implementation

of authorisations and changes to systems. The financial management function processes and regularly reports to the Board of Directors on exceptional items and items subject to management judgment, and analyses the underlying reasons behind changes to forecasts.

The CEO and the chief executives of the subsidiaries are in charge of ensuring that accounting and administration in the areas they are responsible for comply with the law and that the Group's guidelines are adhered to. The Group's legal department is in charge of issuing operational guidelines and instructions in its area of responsibility. The auditors audit the accounting and administration of the parent company and the subsidiaries annually. In all Group companies, auditing is conducted by a firm of authorised public accountants. The auditor of the parent company is responsible for the coordination of audit focus areas, the analysis of audit observations from the point of view of consolidated financial statements and communication with the Group's financial management and the CEO. The detailed auditing results are reported annually to the Group management, the Audit Committee and the Board of Directors.

The Audit Committee verifies that accounting, financial administration, finance, the internal audit and auditing are organised appropriately. The Board of Directors reviews and approves half-year reports, interim reports and financial statements bulletins.

#### Internal audit

The purpose of Pihlajalinna's internal audit is to assess the appropriateness and performance of the Company's internal control system, risk management, management processes and administrative processes. The internal audit supports organisational development and enhances the fulfilment of the Board of Directors' supervisory duty.

The internal audit assists the organisation in achieving its objectives by evaluating and surveying its functions and supervising compliance with Company guidelines and instructions. To this end, the internal audit produces analyses, estimates, recommendations and information for use by the Board of Directors and senior management. The assessments are reported upon completion to the CEO, the CFO and the management in charge of the function being assessed. They are also reported regularly to the Board's Audit Committee.

The internal audit function is based on internal standards (IIA). The internal audit function is independent of the rest of the organisation. The point of departure for the internal audit is primarily management-oriented, and the work is coordinated in cooperation with the external audit. The annual audit plan and audit report are presented

to the Audit Committee. The internal audit function also audits other areas by request of the Board of Directors and Pihlajalinna's Management Team.

Pihlajalinna's internal audit activities continued in 2022 in accordance with the cooperation previously organised with PwC. PwC evaluated the integration plan pertaining to the Pohjola Hospital acquisition, the implementation of the plan, the accuracy of invoicing processes, and the current state of access rights management and data protection. A follow-up audit was conducted on information security and the technical threat analysis.

#### Risk management

In its risk management, Pihlajalinna's aim is to operate as systematically as possible and incorporate risk management in normal business processes. Furthermore, the group invests in management of occupational safety and health risks and in quality management systems like ISO9001. Pihlajalinna's Risk Management Policy defines goals of risk management, risk management principles, operating methods and responsibilities.

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

In 2022, Pihlajalinna reviewed and further specified the previously developed and implemented comprehensive Enterprise Risk Management process, which involves classifying risks according to the 2021 strategy which are profitable growth, quality and impactfulness, customer and personnel experience and digitalisation of Pihlajalinna. Inside these themes risk are reviewed as strategic, operational, financial risks. In addition, the comprehensive risk management process includes a review of sustainability risks, which are reported as part of the section Statement of non-financial information.

Under the profitable growth has been gathered strategic and business risks that refer to uncertainty related to the implementation of the Group's short-term and long-term strategy. An example is structural changes in society that can affect Pihlajalinna as a private provider of social and healthcare services. In addition, risks related to profitability, business transactions, financing and other financial activities, such as contractual partnerships, are processed under the theme.

Under the theme of quality and impactfulness have been gathered comprehensive patient safety, operational quality and safety, as well





as risks related to the uninterrupted continuity of operations, including unforeseen and surprising information security risks.

Pihlajalinna has identified under the theme of customer and personnel satisfaction, in particular, the risks related to the availability and retention of personnel, as well as the risks related to work ability and sickness absence. In addition, risks related to the company's values, ethics and uniform operating methods are taken into account under this theme.

The use of digitalisation and the risks associated with the strong growth of multi-channel transactions have been gathered under to the theme of digitalisation of Pihlajalinna. In addition for example the compromise of risks related to data security or protection may lead to financial losses, claims for compensation and loss of reputation.

The goal of Pihlajalinna risk management is to promote the achievement the Group's strategic and operational targets, shareholder value, the Group's operational profitability and the realisation of responsible operating methods. Risk management seeks to ensure that the risks affecting the company's business operations are known, assessed and monitored as well as taking care of practical measures and real-time monitoring to anticipate and mitigate risks.

The Group and operative management are responsible for risk management according to reporting responsibilities. In addition, risk management specialists guide and develop the group's risk management. The Group Management Team regularly discusses the key risks related to the Group's business operations. Everyone working at Pihlajalinna must also know and manage risks related to their responsibilities. The internal audit function evaluates the appropriateness and performance of the Company's risk management as part of its annual audit plan.

## IV OTHER INFORMATION REQUIRED

### Insider administration and principles

Pihlajalinna Plc complies with the Nasdaq Helsinki Ltd Guidelines for Insiders in effect at any given time, subject to the additional specifications concerning Pihlajalinna and referred to in Pihlajalinna's Insider Guidelines. The Pihlajalinna insider guidelines, which specify the insider guidelines of Nasdaq Helsinki Ltd, are approved annually by the Board of Directors.

The Company's insider information and the managers' and their related parties' transactions in Company's financial instruments are administered according to applicable legislation and the Insider Guidelines

of the Company. When necessary, the Company sets up project-specific insider lists which includes every person who receives project-specific inside information.

The insider lists are not public. The Company's insider lists are maintained in the SIRE register of Euroclear Finland Ltd.

In addition to the insider lists, the Company creates and maintains a list of persons discharging managerial responsibilities and related parties (natural or legal persons) who have the duty to notify their transactions related to Company's financial instruments to the Company and the Financial Supervisory Authority within three business days after the transaction. The Company publishes transactions notified to it with a release within the same time limit. Persons discharging managerial responsibilities include Pihlajalinna's members of the Board of Directors and members of the Management Team.

Executives at Pihlajalinna and non-executive persons defined by the Company are prohibited from all trading in the Company's securities or related derivatives and other financial instruments on their own account or for the account of a third party during the period of 30 calendar days before the publication of the Company's annual financial statements, interim report and half year financial report (closed window).

Pihlajalinna Plc has published its insider principles (insider and related party principles) on the Company's website.

### Related parties and principles for related party transactions

Pihlajalinna complies with the legislation pertaining to related party transactions and, in accordance with the Corporate Governance Code for listed companies, ensures compliance with the requirements for the monitoring, assessment, decision-making and disclosure of related-party transactions. Pihlajalinna's Guidelines on Related Party Transactions, which describe the principles for the monitoring and assessment of related party transactions, is approved annually by Pihlajalinna's Board of Directors, which is responsible for monitoring and assessing related party transactions.

The purpose of Pihlajalinna Plc's Guidelines on Related Party Transactions is to ensure that any business transactions involving persons belonging to the Company's related parties are made independently and based on market terms. The Company assesses and verifies that any related party transactions are in the best interests of the Company overall and that any conflicts of interest are duly taken into account

when making decisions on related party transactions. The principles of the Guidelines on Related Party Transactions are observed throughout the Group and in the decision-making concerning all of the Group companies.

Pihlajalinna Plc's related parties include the Group's executives, such as the members, deputy members (if any) and secretary of the Board of Directors, the CEO, Deputy CEO and members of the Management Team, and the aforementioned persons' spouses and common-law spouses and other people living in the same household. In addition, related parties include organisations in which an above-mentioned related party, either alone or together with other related parties, exercises significant influence or control. Related parties also include the Company's subsidiaries, associated companies and joint ventures and their CEOs, Board members and potential deputy members, as well as any organisations in which the above-mentioned parties exercise significant influence or control. Furthermore, related parties include the Company's shareholders holding at least 10 per cent of the Company's shares or the total votes carried by the Company's shares.

Pihlajalinna Plc maintains a related party register of major business transactions between the Company and its related parties, the parties involved and the key terms of such transactions. The information entered in the register is collected annually from the persons belonging to the Company's related parties by means of control surveys. The Company's related party register is not public, and any information entered in it will not be disclosed to third parties, with the exception of any authorities and the auditor entitled to receive such information. Persons considered as related parties are obliged to notify the Company's related party administration of any related party transactions which are being planned or which have come to their knowledge. Such notification must be made without delay after receiving such information. The results of the monitoring of related party transactions are regularly reported to the Board's Audit Committee.

Pihlajalinna may carry out transactions with related parties provided that the transactions are part of Pihlajalinna's ordinary course of business and implemented under arms-length terms in compliance with the decision-making procedure specified in Pihlajalinna's internal policies and guidelines. Related party transactions that are not part of Pihlajalinna's ordinary course of business or are not implemented under arms-length terms are decided on by Pihlajalinna's Board of Directors, with due consideration given to the regulations concerning conflicts of interest.

Any related party transactions will be processed in accordance with the Guidelines on Related Party Transactions approved by Pihlajalinna's Board of Directors. Any major transactions to be executed



with Pihlajalinna's management and its related parties shall always be approved by the Board of Directors.

Pihlajalinna reports on related party transactions annually in its financial statements. Related party transactions that are of material significance from the shareholder's perspective and are not part of the Company's ordinary course of business or are not implemented under arms-length terms are disclosed in accordance with the Securities Markets Act and the rules of the Nasdaq Helsinki Ltd stock exchange.

Pihlajalinna Plc has published its principles concerning related party transactions (insider and related party principles) on the Company's website.

## Auditors and auditing

According to the Articles of Association, the Company shall have one (1) Auditor that shall be a firm of authorised public accountants with an APA-certified Auditor acting as the Auditor with principal responsibility.

The auditor will annually submit an auditor's report to Pihlajalinna's Annual General Meeting. When the Company's Board of Directors reviews the financial statements, the principal auditor provides a statement on the implementation of the audit and on their audit observations.

Pihlajalinna Plc's Annual General Meeting on 13 April 2022 resolved, in accordance with the Board's proposal, to appoint KPMG Oy Ab as the Company's auditor for a term ending at the conclusion of the Annual General Meeting 2023. The responsible auditor appointed by KPMG Oy Ab was Lotta Nurminen, APA.

KPMG Oy Ab has been the auditor of Group companies during the financial year 2022. The following fees have been paid to the auditor (amounts in thousands of euros):

Auditor's fees	2022	2021
Auditing, KPMG Oy Ab	343	288
Statements, KPMG Oy Ab	20	10
Non-audit services, KPMG Oy Ab	51	0
<b>Total</b>	<b>414</b>	<b>298</b>



# Pihlajalinna

REPORT BY THE BOARD OF DIRECTORS  
AND FINANCIAL STATEMENTS 2022

2022



# Report by the Board of Directors for the financial year 1 Jan–31 Dec 2022

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# Report by the Board of Directors for the financial year 1 Jan–31 Dec 2022

## Joni Aaltonen, CEO of Pihlajalinna

In the year 2022 we focused on expanding our network of private clinics and hospital services and increasing our supply in line with our strategy. We also prepared for the start of the wellbeing services counties' operations by improving the efficiency of our operations in public services. Pihlajalinna's revenue increased by a notable 19.5 per cent to EUR 690.5 million (EUR 577.8 in 2021). Organic growth was 6.0 per cent. At the same time, the past year was a challenging period in many ways, with profitability weakening due to the decline of COVID-19 services and the continued high rate of sickness-related absences and high costs in public specialised care. Our adjusted EBITA for the year was EUR 26.7 million (EUR 37.3 million in 2021).

We made several acquisitions during the year that supported the growth of supply. In February, Pohjola Hospital became part of Pihlajalinna. Following the acquisition, Pihlajalinna has a comprehensive service network in high-value added hospital services as well as diverse emergency and on-call services in all of Finland's largest regional centers. In April, we acquired Etelä-Savon Työterveys and Lääkärikeskus Ikioma. At the beginning of September, we acquired MediEllen, a Kainuu-based provider of private medical services and leased physician and nurse services. The Jyväskylä-based private clinic Seppälääkärit and Seppämagneetti imaging centre were acquired by Pihlajalinna at the beginning of October. In addition, we acquired the Punkkibussi® vaccination business in April.

The integration of the acquired operating locations and services was completed, but the synergy benefits were delayed. The synergies will become fully evident in 2023. We will also focus on ensuring economies of scale for the acquired businesses. Pihlajalinna is also clarifying its service portfolio. One example of this is the agreement signed in

late 2022 regarding the sale of the Group's private dental care services. The plan is to complete the divestment by the end of March 2023.

The strong growth of remote services continued, having been accelerated by the COVID-19 pandemic. Remote appointments represented 37 per cent of all appointments at the end of the year. We started strategic projects in 2022 to further strengthen our multi-channel services. The use of remote services is also growing among our occupational healthcare customers. The number of people within the scope of Pihlajalinna's occupational healthcare services was over 270,000 at the end of 2022.

We carried out efficiency improvement measures in public services in 2022 in response to rising costs. We will continue to implement efficiency improvement programmes in our complete outsourcing agreements. Negotiations are continuing with the wellbeing services counties regarding service referrals and cost sharing in the context of urgent and demanding specialised care, for example. Our joint venture agreements in the regions of Pirkanmaa, Central Finland and South Ostrobothnia were transferred under the newly established wellbeing services counties at the turn of the year.

The growth of business has also led to an increase in the number of personnel and practitioners. Successful recruitment has enabled us to increase our supply and expand our emergency and on-call services in particular. The changes have been demanding on our personnel, and one of our strategic priorities in 2023 is to promote and develop wellbeing at work by making job duties clearer and developing leadership. At the end of 2022, Pihlajalinna had 7,016 (6,297) employees and 1,812 (1,070) practitioners.

There were many changes in our operating environment in 2022. Russia's invasion of Ukraine further accelerated the general rise in costs.

COVID-19 restrictions were widely lifted during the year. Nevertheless, COVID-19 and other respiratory infections significantly increased the rate of sickness-related absences among Pihlajalinna's personnel during the financial year, which caused both costs and operational challenges throughout the year.

We cannot be satisfied with the development of our profitability in 2022. Acquisitions increased the Company's indebtedness significantly, but their financial benefits have not yet been fully realized. We have initiated a number of measures to strengthen our profitability and financial position. Effective from the beginning of 2023, we increased service prices by 5–10 per cent on average and continued to improve operational efficiency in all of the Group's operations. Pihlajalinna commenced change negotiations in early January. We are considering the potential partial downscaling, combining or closure of individual operating locations and assessing the structure of the organisation. The effects of the measures taken to improve profitability will become evident gradually starting from the first quarter of 2023.

In spite of the external uncertainties, we purposefully executed our strategy and were successful in growing our business. I want to take this opportunity to thank all of our stakeholders for the past year, and I especially want to express my gratitude to our personnel. In 2023, we will focus on strengthening our financial position to ensure profitable growth.

## Pihlajalinna's strategy 2023–2025

Pihlajalinna is one of the leading private social and healthcare service providers in Finland and the Group's mission is to help people to live better lives. The service selection includes general practitioner and medical specialist services, occupational healthcare and residential





services and staffing services. The Group serves private persons, companies, insurance companies and public sector entities. Pihlajalinna's vision is to bring wellbeing to everyone and be impactfully present.

Pihlajalinna's values are ethics, energy and open-mindedness.

### Strategic priorities

#### 1. The renewal of services for private customers

Pihlajalinna will strengthen its multichannel services and consumer business through new service concepts and digital innovation.

#### 2. Cooperation in social and healthcare services

Pihlajalinna will engage in close cooperation with the future wellbeing services counties and build a strong market position in public healthcare.

#### 3. Enhancing digitalisation

Pihlajalinna has a strong focus on digitalisation in the development of personnel, the customer experience and operational performance.

### Objectives for the strategy period

- Pihlajalinna offers the most attractive and diverse range of services.
- Pihlajalinna is the number one choice of consumers and professionals.
- Pihlajalinna services are easy to access and available without delay.
- Revenue growth of EUR 250 million by the end of 2025, using 2021 as the baseline. One third of the growth is expected to arise from the public sector and the rest two thirds from corporate and private customers.
- Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA) over 9 per cent of revenue in the long term.
- Long term target for net debt is less than 3x adjusted EBITDA.
- Distributing at least one-third of the profit for each financial year to shareholders as dividends or capital repayment.

### Performance indicators

The achievement of goals is measured by, for example, financial indicators, an increase in the number of appointment times and procedures available to customers, and in the Net Promoter Score (NPS), which measures the customer and employee experience.

### Revenue by customer group

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

- The Group corporate customers consist of Pihlajalinna occupational healthcare customers, insurance company customers and other corporate customers. The number of people within the scope of the Group's occupational healthcare services is approximately 200.000 in the corporate customers group.
- The Group private customers are private individuals who pay for services themselves and may subsequently seek compensation from their insurance company.
- The Group public sector customers consist of public sector organisations in Finland, such as municipalities, joint municipal authorities, congregations, hospital districts and the public administration when purchasing either social and healthcare outsourcing services or residential, occupational healthcare and staffing services. The number of people within the scope of the Group's occupational healthcare services is over 70.000 in the public sector customers group.

### January–December 2022

Revenue from corporate customers amounted to EUR 225.3 (137.7) million, an increase of EUR 87.5 million, or 63,5 per cent. Sales to insurance company customers increased by EUR 57.2 million, or 162.7 per cent. M&A transactions contributed EUR 54.8 million to the increase in revenue. Organic growth was EUR 32.7 million, or 23.8 per cent. In the corporate customer group, revenue from COVID19-ser-

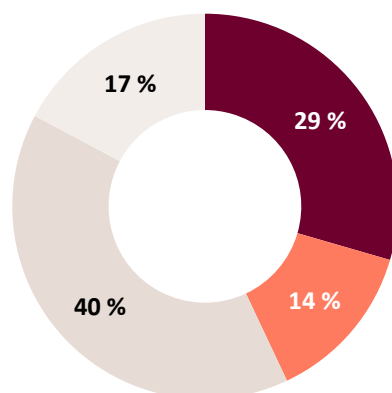
vices amounted to EUR 7.8 (8.4) million, a decrease of EUR -0.6 million. The customer volumes of Pihlajalinna's private clinics increased by 54 per cent year-on-year. Without the effect of M&A transactions, customer volumes would have increased by 21 per cent year-on-year.

Revenue from private customers amounted to EUR 103.2 (85.2) million, an increase of EUR 18.0 million, or 21.1 per cent. M&A transactions contributed EUR 15.2 million to the increase in revenue from private customers. Organic growth was EUR 2.8 million, or 3.3 per cent. In the private customer category, revenue from COVID19-services amounted to EUR 1.6 (2.3) million, representing a decrease of EUR -0.7 million. The customer volumes of Pihlajalinna's private clinics increased by 30 per cent. Without the effect of M&A transactions, customer volumes would have increased by 15 per cent year-on-year. The streamlining of insurance companies' financial obligations and direct payment practices reduces the reported sales for the private customer segment.

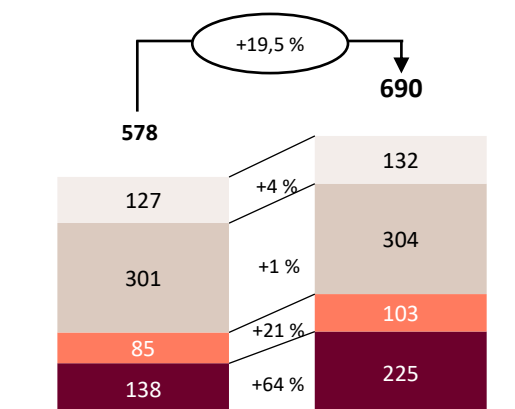
Revenue from the public sector amounted to EUR 435.5 (427.8) million, an increase of EUR 7.7 million, or 1.8 per cent. M&A transactions increased revenue from public sector by EUR 7.8 million. Revenue from COVID-19 services amounted to EUR 7.3 (28.2) million, representing a decrease of EUR -20.9 million. The factors that compensated for the decrease included price adjustments of EUR 3.0 million to complete and partial outsourcing agreements and, in particular, revenue from remote services, residential services and surgical operations for the public sector growing by EUR 12 million. The customer volumes of Pihlajalinna's private clinics increased by 37 per cent year-on-year. Without the effect of M&A transactions, customer volumes would have been increased by 7 per cent year-on-year.

## January-December 2022

EUR million	2022	2021	change	change %
Corporate customers	225.3	137.7	87.5	63.5 %
of which insurance company customers	98.4	35.1	63.3	180.2 %
Private customers	103.2	85.2	18.0	21.1 %
Public sector	435.5	427.8	7.7	1.8 %
of which complete and partial outsourcing agreements	303.9	300.8	3.1	1.0 %
of which staffing	24.8	26.1	-1.3	-4.9 %
of which occupational healthcare and other services	106.8	100.9	5.9	5.8 %
Intra-Group sales	-73.5	-73.0	-0.5	0.7 %
<b>Total consolidated revenue</b>	<b>690.5</b>	<b>577.8</b>	<b>112.7</b>	<b>19.5 %</b>

REVENUE BY CUSTOMER GROUP  
YTD Q4 2022, %

- Corporate customers
- Private customers
- Complete and partial outsourcing
- Other services to public sector

REVENUE BY CUSTOMER GROUP  
YTD Q4, EUR MILLION

- Other services to public sector
- Complete and partial outsourcing
- Private customers
- Corporate customers

## Seasonal variation

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

## Consolidated revenue and result

## January–December 2022

Pihlajalinna's revenue totalled EUR 690.5 (577.8) million, an increase of EUR 112.7 million, or 19.5 per cent. Revenue from COVID-19 services came to EUR 16.7 (38.9) million, representing a decrease of EUR -22.2 million. Organic growth was EUR 34.8 million, or 6.0 per cent. Organic growth would have been EUR 59.4 million, or 10.3 per cent, excluding the effect of COVID-19 services and the EUR -2.4 million adjustment to revenue in accordance with the District Court decision on the case between Jämsän Terveys Oy and the City of Jämsä. M&A transactions accounted for EUR 77.9 million, or 13.5 per cent, of the growth in revenue.

Organic revenue growth during the financial year was based on the strong growth of supply throughout the network of operating locations. The organic growth of appointments, surgical operations, remote services and occupational health services has compensated for the significant decline of COVID-19 services.

Some 37 (36) per cent of all customer appointments, excluding complete outsourcing arrangements, vaccinations and COVID-19 testing, took place via remote services during the financial year. The number of remote appointments increased by 40 per cent year-on-year. The total number of appointments increased by 33 per cent.



## REPORT BY THE BOARD OF DIRECTORS

## AUDITED FINANCIAL STATEMENTS

## INFORMATION FOR SHAREHOLDERS

EBITDA was EUR 54.4 (62.6) million, a decrease of EUR -8.2 million, or -13.1 per cent. Adjusted EBITDA was EUR 64.2 (65.3) million, a decrease of EUR -1.1 million, or -1.7 per cent. EBITDA adjustments totalled EUR 9.8 (2.7) million. The adjustment recognised due to the outcome of the District Court hearing concerning the dispute between Jämsän Terveys Oy and the City of Jämsä had an effect of EUR -4.7 million on EBITDA. This item was treated as an adjustment item. Other adjustment items included EUR 1.8 million in integration expenses related to M&A transactions, EUR 1.1 million in IFRS 3 expenses, EUR 0.7 million in retrospective cost adjustments with no cash flow effect, and EUR 1.2 million in other expense items.

Employee benefit expenses were exceptionally high during the financial year. The share of various respiratory infections in the sickness-related absences among Pihlajalinna's personnel increased in particular. Substitutes and recruitment services have been used to compensate for shortages in personnel. The increased sickness-related absences are estimated to have had an effect of approximately EUR 4.0 million on employee benefit expenses for the financial year.

Profitability has been significantly weakened by the decline of COVID-19 services. Furthermore, the growth of supply has increased costs in occupational health services and private clinic operations. The profitability of surgical operations and remote services was higher than in the previous financial year due to higher volumes. The costs of complete and partial outsourcing arrangements remained at a high level, but profitability improved during the financial year due to efficiency improvement programmes, price adjustments stipulated by outsourcing agreements, COVID-19 cost compensation and refunds of the South Ostrobothnia Hospital District's service fees.

Depreciation, amortisation and impairment amounted to EUR 45.5 (34.7) million. Adjustments to depreciation, amortisation and impairment amounted to EUR -0.1 (-0.3) million. Depreciation of intangible assets amounted to EUR 7.7 (6.7) million, of which depreciation related to purchase price allocations amounted to EUR 2.7 (3.0) million. Depreciation, amortisation and impairment of property, plant and equipment amounted to EUR 10.6 (9.2) million, and depreciation and impairment of right-of-use assets totalled EUR 27.2 (18.8) million.

The acquisition of Pohjola Hospital increased Pihlajalinna's depreciation of right-of-use assets, i.e. leased business premises, by EUR 6.6 million.

Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA) was EUR 26.7 (37.3) million. The adjusted EBITA margin was 3.9 (6.5) per cent. Adjustments to EBIT amounted to EUR 9.7 (2.4) million.

Pihlajalinna's EBIT was EUR 8.9 (27.9) million, a decrease of EUR -19.0 million. Adjusted EBIT amounted to EUR 18.6 (30.3) million, a decrease of EUR -11.7 million.

The Group's net financial expenses amounted to EUR -7.4 (-3.7) million. The acquisition of Pohjola Hospital increased Pihlajalinna's interest expenses associated with leases by EUR 1.8 million. The financing rearrangements in March and the waiver expenses paid in the latter part of the year due to a temporary increase to financial covenants caused non-recurring financial expenses totalling EUR 0.8 million. M&A transactions have also increased Pihlajalinna's debt and interest expenses. Profit before taxes amounted to EUR 1.5 (24.2) million. Taxes in the income statement amounted to EUR 6.1 (-5.1) million.

The Finnish Tax Administration granted Pihlajalinna the right to deduct Pohjola Hospital Ltd's confirmed tax losses for previous fiscal years and confirmed tax losses for the fiscal years 2021–2022. The deferred tax asset in question, amounting to EUR 6.3 million, was recognised through the income statement during the financial year, as the plan concerning the use of tax losses has now been completed.

Profit came to EUR 7.7 (19.1) million. Earnings per share (EPS) was EUR 0.42 (0.89).

## The operating environment

### COVID-19 and queues for treatment

The COVID-19 epidemic continued to have extensive impacts on healthcare in Finland. In late summer, the Finnish Institute for Health and Welfare announced that the COVID-19 pandemic was moving on

to an endemic phase and that the virus was likely to occur from one year to the next in the form of recurring epidemics characterised by seasonal variation. The healthcare system needs to adapt to the new situation so that the provision of other essential care will not suffer. This requires resources from both the public and private sectors.

The queues for non-urgent specialised care continued to grow. In the autumn, over 152,000 customers were waiting for access to non-urgent specialised care at the hospitals operated by the hospital districts.

### Labour availability and the development of wages in the social and healthcare sector

The shortage of social and healthcare professionals is one of the biggest issues facing Finnish society, and labour availability has deteriorated substantially over the past few years. The Ministry of Finance forecasts that, by 2035, the social and healthcare sector will need 70,000 more employees compared to the current situation.

The increase to the staffing requirement for round-the-clock nursing units for the elderly to 0.7 employees per customer, which has been decided on by the Parliament, was postponed to December 2023. It has been estimated that the number of nurses in the sector needs to be increased by over 3,400 in order to satisfy the higher staffing requirement by the time the change enters into effect. For service providers in the social and healthcare sector, the labour issues are reflected in recruitment challenges. Consequently, professionally skilled personnel are increasingly viewed as a key resource by companies in the industry. The significance of successful recruitment, effective co-operation with educational institutions and international recruitment projects, for example, continued to grow.

The collective agreement for the healthcare service sector (TPTES) entered into effect in May 2022. The agreement is valid for two years. According to the agreement, individual monthly wages and pay scales were raised by 2 per cent at the beginning of October 2022, with a further general increase of at least 1.9 per cent to take effect on 1 June 2023.



The collective agreement for the private social services sector (SOSTES) is valid for a period of 1+1 years, and that agreement also entered into effect in May 2022. Wages were increased by 2 per cent at the beginning of September 2022. Pay scales were also subject to lower boundary increases of 0.8 per cent targeted at the minimum wages of the wage groups. Wage increases for 2023 will be determined by the wage increases in the benchmark sectors, but the increase in wages will be at least 1.9 per cent.

After an industrial dispute, municipal and wellbeing services county employers and the nurse unions Tehy and Super approved a proposal for a new collective agreement on 3 October 2022. The agreement, together with the municipal sector agreement approved earlier in the summer, will increase the earnings of the personnel by at least 13 per cent on average during the agreement period 2022–2024. The SOTE collective agreement covers some 180,000 employees whose annual labour costs amount to approximately EUR 8.6 billion.

#### Economic forecasts and inflation

Russia began a war of aggression in Ukraine in February 2022. The war has had a major impact on the economy in the euro area as a whole. Economic growth has slowed, inflation has accelerated and market interest rates have increased. According to Statistics Finland, the year-on-year increase in consumer prices in December 2022 was mainly driven by the higher price of electricity, the average interest rate of housing loans and the interest rates of consumer credit, and higher diesel prices. According to a forecast published by the Bank of Finland in December 2022, the Finnish economy will drift into a slight recession in 2023, with GDP contracting by 0.5 per cent. The forecast projects a short-lived recession followed by a recovery of economic growth to 1.1 per cent in 2024.

The general uncertainty has weakened consumers' purchasing power and reduced investment. During the year under review, consumer confidence fell to the lowest level on record. The consumer confidence indicator's balance figure was -18.5 in December 2022, compared to -3.5 at the corresponding time last year.

Russia's invasion of Ukraine has also increased the likelihood of cyber attacks.

#### Wellbeing services counties and ensuring the provision of social and healthcare services for the population

The year 2022 was characterised by preparations for the wellbeing services counties starting their operations at the beginning of 2023. The wellbeing services counties' expectations for private service providers are particularly focused on agile and scalable service models as well as digital solutions that are easy to integrate with the counties' own platforms. Cooperation between the private and public sectors is essential as the wellbeing services counties started their operations under challenging circumstances.

The ageing population, the reduced level of physical activity among people in general and lifestyle changes are reflected in the higher incidence of illnesses. The number of people over the age of 75 will increase by 250,000 in Finland during this decade. This will have a direct impact on service demand and costs: the costs of social and healthcare services for the 75–84 age group are approximately three times higher than the population average. For people over the age of 85, these costs are nearly seven times higher than the population average.

The crises affecting society also increased general uncertainty among people, which creates challenges to the promotion of overall health and wellbeing. Mental health problems have increased dramatically. Half of all disability pensions are now granted for reasons related to mental health. Employers' social responsibility is growing in significance, and cooperation with pension insurance companies is increasingly important.

Efforts to address cost issues and cost responsibilities in the welfare state must increasingly focus on maintaining health and wellbeing and the prevention of problems.

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

Pihlajalinna Group's total statement of financial position amounted to EUR 661.6 (457.1) million. The growth is mainly attributable to business acquisitions. Consolidated cash and cash equivalents amounted

to EUR 13.1 (4.3) million. The Group's interest rate swap fair value was EUR 5.1 million at the end of the financial year.

Net cash flow from operating activities during the financial year amounted to EUR 64.9 (56.9) million. Taxes paid amounted to EUR -6.9 (-2.6) million. The change in net working capital was EUR 16.8 (-3.3) million. Working capital totalling EUR 24.2 (14.7) million was released from trade and other payables. Working capital amounting to EUR -6.0 (-16.8) million was tied up in trade receivables and other receivables and EUR -0.8 (-0.3) million in inventories. Changes in provisions tied up EUR -0.7 (-0.9) million in working capital.

Net cash flow from investing activities totalled EUR -83.4 (-32.1) million for the financial year. Acquisitions of subsidiaries had an impact of EUR -52.3 (-16.4) million on net cash flow from investing activities. Investments in tangible and intangible assets amounted to EUR -29.0 (-14.8) million, and the proceeds from the disposal of tangible assets amounted to EUR 0.4 (0.5) million. Pihlajalinna redeemed the clinical equipment lease liabilities of Pohjola Hospital EUR 5.8 million on the acquisition date 1 February 2022. During the financial year the Group has invested an extraordinary amount in expanding and renewing its service network.

The Group's cash flow after investments (free cash flow) was EUR -18.6 (24.9) million for the financial year.

Net cash flow from financing activities during the financial year totalled EUR 27.4 (-33.9) million. The change in financial liabilities, including changes in credit limits, amounted to EUR 75.2 (-1.6) million. Payments for financial lease liabilities amounted to EUR -29.0 (-19.8) million, and interest paid and other financial expenses amounted to EUR -8.3 (-4.0) million. Pihlajalinna rearranged its long-term debt financing in March 2022. A total of EUR -1.8 (-0.4) million in dividends was paid to non-controlling interests. Pihlajalinna Plc distributed in April dividends of EUR -6.8 (-4.5) million for the financial year 2021. The Group has acquired its own shares for its incentive scheme and remuneration of the Board of Directors in the amount of EUR -1.5 (-0.6) million.



The Group's gearing was 313.8 (158.8) per cent. Interest-bearing net debt amounted to EUR 385.7 (194.7) million, an increase of EUR 190.9 million. The M&A transactions increased the amount of financial debts by EUR 56.1 million. Also, the M&A transactions increased the amount of Pihlajalinna's lease liabilities by EUR 129.5 million.

Return on capital employed was 2.3 (8.8) per cent and return on equity was 6.2 (16.1) per cent.

## Financing arrangements

Pihlajalinna rearranged its long-term debt financing with a sustainability-linked financing arrangement on 22 March 2022. The EUR 200 million unsecured financing arrangement, for three years with an option for a further two years, was concluded with Danske Bank, OP Corporate Bank and Swedbank (the creditor banks). The financing comprises a long-term loan of EUR 130 million and a revolving credit facility of EUR 70 million for general financing needs and acquisitions. It also includes an opportunity to later increase the total amount by EUR 100 million (to EUR 300 million), subject to separate decisions on a supplementary loan from the funding providers.

The financing arrangement includes the customary financial covenants concerning leverage (ratio of net debt to pro forma EBITDA) and gearing. IFRS 16 lease liabilities are not taken into account in the calculation of the covenants (Frozen GAAP). The loan margin of the financing is additionally linked to Pihlajalinna's annual sustainability objectives related to patient satisfaction (NPS), employee engagement (eNPS) and access to surgical treatment within the target time. At the end of the financial year, the sustainability targets linked to the financing arrangement caused no changes in the loan margins.

Due to the acquisition of Pohjola Hospital Ltd, Pihlajalinna and the creditor banks agreed on increasing the gearing covenant to 140 per cent and the leverage covenant to 4.00 for 2022.

Pihlajalinna and the creditor banks agreed on a temporary adjustment to the covenants of the financing arrangement twice in the latter part of the year. According to the acquired waivers, the leverage covenant was set at 5.5 for the fourth quarter of 2022, 4.5 for the first quarter of 2023, and 4.0 for the second quarter of 2023. For the

fourth quarter of 2022 and the first three quarters of 2023, gearing must not exceed 140 per cent. The financing arrangement's original gearing covenant of 115 per cent will enter into effect on the fourth quarter of 2023. Starting from the beginning of the third quarter of 2023, the leverage covenant according to the financing arrangement will be 3.75.

At the end of the financial year, leverage in accordance with the financing arrangement stood at 5.23 and gearing was 139.95 per cent. The Group met the set covenants on 31 December 2022. Had the Group's profit after taxes been lower by approximately EUR 40 thousand, the gearing covenant would have been breached. At the same time, however, the company's interest rate swap had a fair value of EUR 5.1 million on the financial statements date. Had the interest rate swap been sold on the financial statements date, gearing would have fallen to 136.0 per cent and the leverage ratio would have fallen to 5.08. Breaching the covenants can lead to the financing arrangement falling due.

Under the waiver agreement, the highest margin level of the financing arrangement increased to one percent units from the beginning of 2023 until the third quarter of the year. The increase to the highest margin level and the other waiver terms will be discontinued by the end of 2023. If the company proposes to remain below the original covenant levels for the next 12 months, the additional provisions described above may be discontinued earlier.

The Group has credit limit agreements valid until further notice, totaling EUR 10 million. The notice period of the credit limit agreements is one month. At the end of the financial year, Pihlajalinna had EUR 43 million in unused committed credit limits. Furthermore, an additional credit limit of EUR 100 million, which is subject to a separate credit decision, is unused.

The company has an interest rate swap agreement with a nominal value of EUR 65 million, which is used to convert the interest on a floating rate financing arrangement to a fixed rate. Cash flow hedge accounting is applied to the interest rate swap agreement, which

means that the effective portion of the change in fair value is recognised in other comprehensive income. The interest rate swap starting date is in March 2023 and it is valid until 25 March 2027.

## Acquisitions and capital expenditure

Gross investments, including acquisitions, amounted to EUR 234.5 (44.8) million. Gross investments in M&A transactions including right-of-use assets (e.g. lease commitments) amounted to EUR 176.6 (44.8) million. The share of lease commitments amounted to EUR 106.6 million. The Group's gross investments in property, plant and equipment and intangible assets, which consisted of development investments, additional investments and replacement investments required for growth, amounted to EUR 25.4 (13.8) million. Pihlajalinna redeemed Pohjola Hospital's clinical equipment leasing liabilities for EUR 5.8 million on the acquisition date 1 February 2022. Gross investments in connection with the opening of new units amounted to EUR 6.1 (1.1) million. Gross investments in right-of-use assets amounted to EUR 26.5 (9.8) million, including investments in the opening of new units.

Investment commitments for the Group's development, additional and replacement investments amounted to approximately EUR 3.5 (2.0) million. The investment commitments are related to additional and replacement investments in clinical equipment, change of premises and information system projects.

On 1 February 2022, Pihlajalinna acquired the entire share capital of Pohjola Hospital Ltd from Pohjola Insurance Ltd. The net debt-free purchase price, paid in cash, was EUR 35.2 million.

Pihlajalinna acquired, on 1 April 2022, the entire share capital of Etelä-Savon Työterveys Oy and the majority interest of Lääkärikeskus Ikioma Oy. In addition, on 1 April 2022, Pihlajalinna acquired the Punkkibussi® business from Saariistolääkärit Oy.

On 1 September 2022, Pihlajalinna acquired a majority interest in MediEllen Oy.

The deed of sale concerning the acquisition of the entire share capital of Seppälääkärit Oy and Seppämagneetti Oy was completed on 1 October 2022.





## Research and development

Increases to intangible assets totalled EUR 7.4 (4.0) million during the financial year. During the financial year 2022 new digital appointment booking system was released together with general improvements regarding the usage and appearance of the system. A wider range of remote services has been added for example with new chat services and by renewing transaction paths. Pihlajalinna Health App (Terveysovellus) -mobile application has received new appearance and significant content improvements have been made to the application.

The service offering through the occupational health portal was further expanded for example with digital workplace survey, secure messaging and reporting. In hospital business a new ERP system was deployed in surgical operations. A new PihlajalinnaPRO-mobile application was released for healthcare professionals working in Pihlajalinna. Other deployments were also made for information security, document management system and marketing related solutions and new imaging archive and communications system (PACS) was taken into use.

During the financial year 2023 private customer services development will be continued in all channels in digital appointment booking system as well as in the remote services.

New features will be added into our portal for the occupational healthcare care customers to benefit and application to support work ability will be developed. New features are developed continually in PihlajalinnaPRO-mobile application based on feedback received and needs of the healthcare professionals. The ERP system in surgical operations is developed more for example in reporting related to insurance company customers. A new ERP system will be deployed for HR management.

## Personnel

At the end of the financial year, the number of personnel was 7,016 (6,297), an increase of 719 persons, or 11 per cent. The Group personnel averaged 5,167 (4,746) persons as full-time equivalents, an increase of 421 persons, or 9 per cent. The Group employee benefit expenses totalled EUR 296.6 (255.2) million, an increase of EUR 41.4 million, or 16 per cent.

## Complete and partial outsourcing agreements

Company	Pihlajalinna's holding 31 Dec 2021	Pihlajalinna's holding 30 Jun 2022	First year of service production under the current contract	Duration of contract (years)
Jokilaakson Terveys Oy	90%	90%	internal service provision	internal service provision
Jämsän Terveys Oy	51%	51%	2015	10
Kuusiolinna Terveys Oy	97%	97%	2016	15
Mäntänvuoren Terveys Oy	91%	91%	2016	15
Kolmostien Terveys Oy	96%	96%	2015	15
Bottenhavets Hälsa Ab - Selkämeren Terveys Oy	75%	75%	2021	15–20 years

More information on the profitability of complete outsourcing agreements is presented in this report in the section Items that may, according to the management estimate, influence the profitability of complete outsourcing agreements with a delay.

Summary of the revenue and profitability of complete and partial outsourcing agreements (intra-Group sales eliminated):

Complete and partial outsourcing agreements	2022	2021
<b>INCOME STATEMENT</b>		
Revenue, EUR million	281.4	277.0
EBITDA, EUR million	6.0	6.6
EBITDA, %	2.1	2.4
Adjusted EBITDA, EUR million	11.5	6.7
Adjusted EBITDA, %	4.1	2.4
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA), EUR million	8.8	4.1
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA), %	3.1	1.5



Acquisitions increased the number of personnel by approximately 450 persons year-on-year. In Pihlajalinna's network of operating locations, the number of personnel increased by approximately 150 persons. The number of personnel in residential services and complete outsourcing arrangements increased by just over 100 persons.

Employee benefit expenses were exceptionally high during the financial year. Sickness-related absences among Pihlajalinna's personnel were increased particularly by various respiratory infections. Sickness-related absences increased by two percent units year-on-year. Substitutes and recruitment services have been used to compensate for shortages in personnel. Increasing supply and strengthening the company's governance have also contributed to higher employee expenses.

Pihlajalinna is assessing its operations and organisation. On 10 January 2023, the company announced it will commence change negotiations. The aim is to use open dialogue with personnel representatives to find long-term solutions for the company. The company is also considering the potential partial downscaling, combining or closure of individual operating locations.

The change negotiations concern the network of private clinics, regional management and the Group's general management. Approximately 650 persons are within the scope of the functions in question. With a few minor exceptions, the negotiations do not concern healthcare professionals engaged exclusively in clinical work with customers. Other areas excluded from the negotiations include remote services, digital development, the medical unit, recruitment and public services functions, with the exception of the Group's general administration.

According to a preliminary estimate, the negotiations may lead to a reduction of 40–60 positions in Pihlajalinna, and the administrative duties of 30–40 employees may be discontinued or reduced.

The provision of health advisory services for the ports of Helsinki ended on 3 April 2022. The change negotiations concerning those operations concerned 40 persons. In February 2022, change negotiations were commenced to improve the efficiency of operations in Jämsän Terveys, concerning all of the personnel, and in Jokilaakson Terveys, concerning approximately 50 persons. The change negotiations in Jämsä did not lead to reductions in personnel. Change negotiations

concerning operational efficiency improvements in Kolmostien Terveys commenced in March 2022 and were completed in May. The change negotiations did not lead to reductions in personnel.

### Management Team

CEO Joni Aaltonen serves as the Chairman of the Management Team. The Management Team also includes CFO Tarja Rantala, CLO Marko Savolainen, CIO Antti-Jussi Aro, CMO Sari Riihijärvi, CCO Sari Nevanlinna, COO Public Services Eetu Salonen, COO Private Clinic and Hospital Services Timo Harju and Chief People and Culture Officer Kati Raassina.

### Board of Directors

The Annual General Meeting on 13 April 2022 resolved that the number of the members of the Board of Directors shall be seven members instead of the previous six. Hannu Juvonen, Mika Manninen, Leena Niemistö, Kati Sulín, Seija Turunen and Mikko Wirén were re-elected to serve as members of the Board of Directors until the next Annual General Meeting. Heli Iisakka was elected as a new Board Member.

The Annual General Meeting elected Mikko Wirén as the Chairman of the Board and Leena Niemistö as the Vice-Chairman of the Board.

Kati Sulín resigned from the Board of Directors as of 12 June 2022.

### Shareholders' Nomination Board

The Shareholders' Nomination Board is comprised of the following representatives:

- Juha Koponen, Group Director and Chairman of the Board of Directors, LocalTapiola General Mutual Insurance Company and LocalTapiola Mutual Life Insurance Company
- Mikko Wirén, Managing Director, MWW Yhtiö Oy
- Antti Kuljukka, CEO, Fennia Mutual Insurance Company
- Hanna Hiidenpalo, deputy CEO, Elo Mutual Pension Insurance Company

### Committees nominated by the Board

Pihlajalinna Plc Board of Directors appointed the following members to its committees at its constitutive meeting on 13 April 2022:

- Audit Committee: Seija Turunen (chairman), Mika Manninen, Hannu Juvonen and Heli Iisakka
- People Committee: Mikko Wirén (chairman), Leena Niemistö, Kati Sulín (until 12 June 2022) and Hannu Juvonen (from 13 June 2022 onwards)

It was agreed that all members of the Board of Directors may join any of the committee meetings.

### Remuneration of the members of the Board of Directors

The Annual General Meeting of 13 April 2022 resolved that the remuneration of the Chairman of the Board of Directors will remain unchanged and that the remuneration is increased for Vice-Chairman of the Board of Directors and the Chairman of the Audit Committee along with the members of the Board of Directors. The following annual remuneration will be paid to the members of the Board of Directors elected for the term of office ending at the 2023 Annual General Meeting: EUR 250,000 per year to the full-time Chairman of the Board of Directors, EUR 39,000 per year to the Vice-Chairman and to the Chairman of the Audit Committee, and EUR 26,000 per year to the other members.

The AGM resolved that annual remuneration shall be paid in company shares and in cash, with approximately 40 per cent of the remuneration used to acquire shares in the name and on behalf of the members of the Board of Directors, and the remainder paid in cash. The remuneration could be paid either entirely or partially in cash if the member of the Board of Directors was, on the day of the AGM, 13 April 2022, in possession of over EUR 1,000,000 worth of company shares. The company was responsible for the expenses and transfer tax arising from the acquisition of the shares. The share-based remuneration can be paid by distributing company's own shares to the members of the Board of Directors or by acquiring shares directly on behalf of the board members after three weeks of the release of the

Share-related information, outstanding shares	2022	2021
No. of shares outstanding at end of period	22,549,644	22,594,235
Average no. of shares outstanding during period	22,560,271	22,589,383
Highest price, EUR	13.18	12.98
Lowest price, EUR	8.48	9.26
Average price, EUR <sup>1)</sup>	11.06	11.18
Closing price, EUR	8.52	12.64
Share turnover, 1,000 shares	3 770	6 929
Share turnover, %	16.7	30.7
Market capitalisation at end of period, EUR million	192.1	285.6

<sup>1)</sup> average rate weighted by trading level

interim report for 1 January–31 March 2022. If this is not possible for legal or other statutory reasons, such as taking insider regulations into account, at the earliest possible time after this. Alternatively, the remuneration is then paid in cash. If the term of a Board member ends before the Annual General Meeting of 2023, the Board is entitled to decide on the possible recovery of the remuneration in a manner it deems appropriate.

The AGM decided that each Board member shall be paid a meeting fee of EUR 500 for each Board and Committee meeting. Reasonable travel expenses will also be reimbursed to the members of the Board in accordance with the company's travel policy.

## Board authorisations

The Annual General Meeting of 13 April 2022 authorised the Board of Directors to decide on the acquisition of a maximum of 2,061,314 shares, which is approximately 9 per cent of the Group's current number of shares. Own shares may be repurchased on the basis of the authorisation only by using unrestricted equity. Targeted share acquisition is possible. The authorisation is effective until the next Annual General Meeting, or until 30 June 2023 at the latest.

The Annual General Meeting also authorised the Board of Directors to decide on a share issue and other special rights conferring an entitlement to shares under Chapter 10, Section 1 of the Limited Liability

Companies Act. The number of shares to be issued cannot exceed 3,091,971 shares, which corresponds to approximately 14 per cent of all the shares in the Group. The authorisation concerns both the issuance of new shares and the sale or transfer of the Group's own shares. The authorisation permits a targeted share issue. The authorisation is effective until the next Annual General Meeting, or until 30 June 2023 at the latest.

## Auditors and auditing

At Pihlajalinna's Annual General Meeting held on 13 April 2022, KPMG Oy Ab, a firm of authorised public accountants, was elected as the company's auditor for the financial year 1 January–31 December 2022. Lotta Nurminen, APA, is the principal auditor.

## Shares and shareholders

At the end of the financial period, Pihlajalinna Plc's share capital entered in the Trade Register amounted to EUR 80,000 and the total number of shares was 22,620,135, of which 22,549,644 were outstanding and 70,491 were held by the company. The company has one share series, with each share entitling its holder to one vote at the Annual General Meeting. All of the outstanding shares bestow their holders with equal rights to dividends and other distribution of the company's assets. At the end of the review period, the company had 15,811 (15,126) shareholders. A list of the largest shareholders is

available on the company's investor website at [investors.pihlajalinna.fi](https://investors.pihlajalinna.fi).

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

## Risk management

In its risk management, Pihlajalinna's aim is to operate as systematically as possible and incorporate risk management in normal business processes. Furthermore, the group invests in management of occupational safety and health risks and in quality management systems like ISO9001. Pihlajalinna's Risk Management Policy defines goals of risk management, risk management principles, operating methods and responsibilities.

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

In 2022, Pihlajalinna reviewed and further specified the previously developed and implemented comprehensive Enterprise Risk Management process, which involves classifying risks according to the 2021 strategy which are profitable growth, quality and impactfulness, customer and personnel experience and digitalisation of Pihlajalinna. Inside these themes risks are reviewed as strategic, operational and financial risks. In addition, the comprehensive risk management process includes a review of sustainability risks, which are reported as part of the section Statement of non-financial information.

Under the profitable growth has been gathered strategic and business risks that refer to uncertainty related to the implementation of the Group's short-term and long-term strategy. An example is structural changes in society that can affect Pihlajalinna as a private provider of social and healthcare services. In addition, risks related to profitability, business transactions, financing and other financial activities, such as contractual partnerships, are processed under the theme.



Under the theme of quality and impactfulness have been gathered comprehensive patient safety, operational quality and safety, as well as risks related to the uninterrupted continuity of operations, including unforeseen and surprising information security risks.

Pihlajalinna has identified under the theme of customer and personnel satisfaction, in particular, the risks related to the availability and retention of personnel, as well as the risks related to work ability and sickness absence. In addition, risks related to the company's values, ethics and uniform operating methods are taken into account under this theme.

The use of digitalisation and the risks associated with the strong growth of multi-channel transactions have been gathered under to the theme of digitalisation of Pihlajalinna. In addition for example the compromise of risks related to data security or protection may lead to financial losses, claims for compensation and loss of reputation.

The goal of Pihlajalinna risk management is to promote the achievement the Group's strategic and operational targets, shareholder value, the Group's operational profitability and the realisation of responsible operating methods. Risk management seeks to ensure that the risks affecting the company's business operations are known, assessed and monitored as well as taking care of practical measures and real-time monitoring to anticipate and mitigate risks.

The Group and operative management are responsible for risk management according to reporting responsibilities. In addition, risk management specialists guide and develop the group's risk management. The Group Management Team regularly discusses the key risks related to the Group's business operations. Everyone working at Pihlajalinna must also know and manage risks related to their responsibilities. The internal audit function evaluates the appropriateness and performance of the Company's risk management as part of its annual audit plan.

### Risks and uncertainties in business operations

Pihlajalinna's operations are affected by strategic risks, operational risks, financial risks and damage risks. In its risk management, Pihla-

jalinna's aim is to operate as systematically as possible and incorporate risk management in normal business processes. The Group invests in quality management systems and the management of occupational safety and health risks. Pihlajalinna aims to limit the potential adverse impacts of risks. The assessment of sustainability-related risks plays an important role in risk management.

Pihlajalinna operates only in Finland. Russia's invasion of Ukraine has indirect impacts on the Group's operations due to the slowing economic growth, supply chain disruptions, high inflation and rising market interest rates. Pihlajalinna has also taken steps to prepare for potential disruptions in energy distribution. Pihlajalinna will refrain from all business activities with parties subject to economic sanctions.

In all of its operations, Pihlajalinna takes into account data protection, information security and related requirements. Information security threats and jeopardised data protection can lead to significant reputational damage and claims for compensation, among other consequences. Pihlajalinna has taken steps to prepare for the elevated risk of cyber attacks related to the war in Ukraine.

The COVID-19 pandemic has had a twofold impact on Pihlajalinna's business: on the one hand, the demand for COVID-19 services has at times driven the growth of Pihlajalinna's business but COVID-19 restrictions have at times led to weaker demand for services. The increase in respiratory infections has led to a higher rate of sickness-related absences among the personnel, which reduces the company's profitability and complicates service provision.

Pihlajalinna has recognised risks associated with projects related to the company's growth, including acquisitions, digital development and information system projects. The successful implementation of these projects is a precondition for growth in accordance with the company's strategy.

Monitoring and forecasting financial covenants included in the Company's financing agreements is a significant part of the Company's risk management. The situation concerning the company's financing agreement is discussed in more detail in the section *Financing arrangements*.

The company has identified uncertainties related to the availability of personnel in the social and healthcare sector. In addition, the costs of wage harmonisation in the social and healthcare sector in relation to the creation of the wellbeing services counties remain uncertain to some degree.

The development of the Finnish economy, general cost inflation, wage inflation and rising market interest rates have a negative impact on the cost level and, consequently, on Pihlajalinna's business operations, profitability and potentially the availability of additional financing.

### Complete and partial outsourcings

The reforms concerning the organisation of social, healthcare and rescue services may lead to changes in Pihlajalinna's outsourcing agreements for social and healthcare services.

Processes stipulated by the legislation concerning the reform of healthcare and social services are being carried out in cooperation with the wellbeing services counties to ensure the application of the service agreements as part of the organisation and production of services in the wellbeing services counties. This may affect the term of validity of Pihlajalinna's service agreements and the scope of the services provided. Pursuant to the legislation concerning the reform of social and healthcare services, the wellbeing services counties are required to indicate the possible changes to their subcontracting agreements by the end of October 2023. The new contract terms will however enter into force at the beginning of 2026 at the latest. According to the assessment of the company's management, its fixed-term service agreements will remain in effect, as agreed, with the wellbeing services counties until the end of the term for each agreement.

Determining the annual profitability of the Group's fixed-term complete social and healthcare services outsourcing agreements may become accurate with a delay. The group may not always know the actual costs of the agreements at the time of preparing the financial statements, and the agreements include variable elements of compensation. The cost accumulation of public specialised care involves random fluctuation. In addition, individual cases falling within the scope of the hospital districts' pooling system for high-cost care may



influence the costs of specialised care during the financial year, and between financial periods, in Pihlajalinna's municipal companies.

The fixed-term service agreements for the Group's complete outsourcing arrangements are highly similar with regard to their principles and basic terms. Pihlajalinna has calculated and recognised the variable compensation components and cost compensation under the agreements using the same criteria and model for all clients. Demands for the compensation of cost increases due to changes in services corresponding to the actual costs and investment costs that serve operations after the end of the term of the contract being the client's responsibility constitute the majority of costs and variable compensation components that are specified with a delay.

The management has assessed the impact of the decision handed down on 4 April 2022 by the District Court of Central Finland on Pihlajalinna's other service agreements. The District Court did not deny the validity of the grounds for the variable charges in Jämsän Terveys' service agreement, but the District Court found that the evidence presented regarding the realisation of the costs was insufficient. The ruling is not final.

Pihlajalinna has recognised only part of its legally justified claims in its income statement. The parties to the agreements are bound by an obligation to negotiate and negotiation is the primary procedure. If the obligation to negotiate does not lead to payment, the receivables are sought through legal action, which may further delay the collection of items presented in current receivables in the financial statements.

**Items that may, according to the management's estimate, influence the profitability of complete out-sourcing agreements with a delay:**

On 4 April 2022, the District Court of Central Finland handed down its ruling on the dispute concerning the service agreement between Jämsän Terveys Oy and the City of Jämsä. The ruling is not final.

As a result of adjustment items in accordance with the court's ruling, the profit attributable to the owners of Pihlajalinna Group's parent company decreased by EUR 2.8 million during the financial year. The

ruling decreased revenue by EUR 2.4 million, and EBITDA was encumbered by EUR 4.6 million. The City of Jämsä owns 49 per cent of the company and Pihlajalinna 51 per cent. Earnings per share were weakened by EUR 0.12 per share by the ruling. The ruling did not have an immediate material impact on cash flow. For the sake of comparability, the effects of the District Court's ruling have been processed as adjustment items. Jämsän Terveys has filed an appeal regarding the District Court's ruling to the Court of Appeal. The operating preconditions for Jämsän Terveys' service production have been secured with an efficiency improvement programme and temporary parent company funding.

During the financial year, Jämsän Terveys Oy has recognised as revenue and recorded in its receivables EUR 1.2 million, mainly COVID-19-related costs for the current year, which the client has not paid in breach of the service agreement. In addition, a difference of opinion has emerged between the company and the City during the financial year on the impact of the transfer of personnel on the annual fee under the service agreement. The parties are actively engaged in negotiations with a view to resolving outstanding issues. The above matters have been agreed with the new client, i.e. the Wellbeing Services County of Central Finland, as presented to the City of Jämsä as of 1 January 2023.

The total amount of contractually and legally justified variable compensation from the City of Mänttä-Vilppula that Mäntänvuoren Terveys Oy has recognised as revenue and recorded in its receivables amounts to EUR 4.3 (4.1) million. The variable compensation recognised as revenue in accordance with the agreement includes an estimate of compensation for specialised care costs to the service provider of the Pirkanmaa Hospital District's investment costs allocated to the client. The receivables from variable compensation components are also related to cost increases caused by service changes and compensating such increases in accordance with the actual costs. A preliminary agreement has been made with the new client representatives, i.e. the Wellbeing Services County of Pirkanmaa, to transfer the cost liability of demanding specialised care away from the company.

The total amount of contractually and legally justified variable compensation from the City of Parkano that Kolmostien Terveys Oy has recognised as revenue and recorded in its receivables amounts to EUR 1.3 (1.7) million. The amount has been influenced by the decision of the Parkano City Council on 26 September 2022 to allocate an additional appropriation to the budget of the basic welfare committee for 2022. The variable compensation recognised as revenue in accordance with the agreement includes an estimate of compensation for specialised care costs to the service provider of the Pirkanmaa Hospital District's investment costs allocated to the client. Other receivables from variable compensation are mainly related to COVID-19 cost compensation for the year 2022. The client has already previously approved cost increases arising from changes to services for the elderly as part of the annual fee under the service agreement. A preliminary agreement has been made with the new client representatives, i.e. the Well-being Services County of Pirkanmaa, to transfer the cost liability of demanding specialised care away from the company.

The total amount of contractually and legally justified variable compensation that the lead contracting partner for complete outsourcing Pihlajalinna Terveys Oy has recognised as revenue and recorded in its receivables amounts to EUR 0.6 (0.2) million.

The Group's receivables include the above-mentioned items totalling EUR 7.4 (9.8) million.

**Pending legal processes:**

On 4 April 2022, the District Court of Central Finland handed down its ruling on the dispute concerning the service agreement between Jämsän Terveys Oy and the City of Jämsä, as mentioned above in the section Items that may, according to the management's estimate, influence the profitability of complete out-sourcing agreements with a delay. Jämsän Terveys has filed an appeal regarding the District Court's ruling to the Court of Appeal.

The City of Jämsä has criticised the decision of Jämsän Terveys Oy's Annual General Meeting 2022 concerning an increase in working capital in accordance with the shareholder agreement. The case is pending in the District Court of Central Finland.





Pihlajalinna is involved in certain pending legal proceedings concerning employment relationships, but they are not expected to have a significant financial impact on the Group.

#### Impairment testing of goodwill:

At the end of the financial year, goodwill on Pihlajalinna's statement of financial position amounted to EUR 251.0 (188.9) million. Pihlajalinna checks annually, and whenever necessary, that the carrying amount of goodwill does not exceed the fair value. The annual impairment testing was conducted on the situation on 30 November 2022. Pihlajalinna observed no indications of the carrying amount of goodwill being greater than its estimated recoverable amount. The cash-generating unit's recoverable amount exceeded the carrying amount by approximately EUR 223 million. If permanent negative changes were to occur in the development of Pihlajalinna's profit and growth, this could lead to an impairment of goodwill.

#### Flagging notifications

The company did not receive any flagging notifications under Chapter 9, Section 5 of the Securities Markets Act during the financial year.

#### Share-based incentive schemes

At its meeting on 23 March 2022, the Board of Directors approved the terms of a share-based incentive program (LTIP 2022) for the key persons of the company. In its entirety the incentive scheme is to form a six-year program and the share rewards based on the program are not allowed to be disposed of prior to year 2025. In addition, in order to participate to the program, a key person must invest into Pihlajalinna shares.

Performance and quality-based share program shall comprise of four separate performance periods of one year each (calendar years 2022, 2023, 2024 and 2025). Potential share rewards shall be paid out after the performance periods in years 2023, 2024, 2025 and 2026 provided that the performance and quality-based targets as set by the board are reached. The maximum number of shares (gross amount prior to deduction of applicable withholding tax) for each one year performance period is defined in the allocation per participant.

Shares paid off as share rewards shall be subject to a two-year transfer restriction. The criteria for the performance and quality based additional share program are adjusted EBITA as well as key operative and quality indicators of Pihlajalinna Group.

A total of 42 key persons are entitled to participate to the share-based incentive program. In case all the persons entitled to participate do participate to the program by meeting the condition of investment in full and in case the performance targets set to the program are achieved in total, the total amount of the share rewards payable under the program is a maximum of approximately 1,100,000 shares (gross amount prior to the deduction of applicable withholding tax) and the total value of the share reward program is approximately EUR 12.8 million. In case the program materializes in full, the above amount of shares equals approximately to 4.8 per cent of the total amount of the shares of the company.

No performance- and quality-based share rewards materialised for the first performance period 2022 pursuant to the incentive plan, as the minimum objectives set for the programme were not achieved.

#### Repurchase of own shares

Pihlajalinna has repurchased, between 24 March and 20 April 2022, its own shares totaling 120,000 shares with an average price of EUR 12.2896 per share.

Pihlajalinna conveyed, in March, a total of 8,867 own shares to the key employees in accordance with the earlier incentive program (LTIP 2019). Pihlajalinna conveyed, in April, a total of 59,900 own shares as consideration in a transaction to redeem non-controlling interests of its subsidiary. Pihlajalinna conveyed, in May, a total of 6,642 own shares as part of the remuneration of the Board of Directors.

The number of own shares was 70,491 at the end of the review period, corresponding to approximately 0.31 per cent of the total number of shares and votes.

Own shares can be used for payments for the incentive program currently in effect.

### The Board of Directors' proposal for profit distribution and the Annual General Meeting 2022

The Board of Directors proposes no dividend distribution for the financial year that ended on 31 December 2022.

On the balance sheet date, the number of shares outstanding was 22,594,644.

Pihlajalinna Plc's Annual General Meeting will be held on 4 April 2023 in Tampere. The Board of Directors will decide on the notice of the General Meeting and the included proposals at a later date.

The annual report for 2022, including the Board of Directors' report and the financial statements, will be published on the company's investor website at [investors.pihlajalinna.fi](https://investors.pihlajalinna.fi) in week 11.

#### Calculation of the parent company's distributable funds:

EUR	31 Dec 2022
Reserve for invested unrestricted equity	183,190,483.50
Retained earnings	32,547,508.75
Profit for the period	-4,503,903.60
Capitalised development costs	-258,323.20
<b>Total</b>	<b>210,975,765.45</b>

#### Pihlajalinna's outlook for 2023

In 2023, Pihlajalinna will focus on improving its profitability and financial position.

- The Group expects the consolidated revenue to increase from the previous year's level (EUR 690.5 million in 2022).
- The Group expects the adjusted operating profit before the amortisation and impairment of intangible assets (EBITA) to improve from the previous year's level (EUR 26.7 million in 2022).
- The Group has initiated a number of measures to strengthen its financial position. Change negotiations commenced in January 2023 and efficiency improvement programmes in complete outsourcing



agreements are expected to improve Pihlajalinna's profitability. Price increases are expected to compensate the effects of inflation.

The outlook for 2023 involves uncertainty related to the high inflation in the euro area, development of costs in general and the development of wages in particular. The impacts of the commencing wellbeing services counties and COVID-19 on the social and healthcare sector also remain uncertain. Slowed economic growth, weakened consumer confidence and rising market interest rates may affect Pihlajalinna's service demand and financial result more than expected.

### Corporate Governance Statement

Pihlajalinna publishes its Corporate Governance Statement separately on the company's investor website at [investors.pihlajalinna.fi](https://investors.pihlajalinna.fi) at the same time as the Board of Directors' report during week 11. Up-to-date information about compliance with and deviations from the Corporate Governance Code is maintained on the investor site at [investors.pihlajalinna.fi](https://investors.pihlajalinna.fi).

### Statement of non-financial information

Pihlajalinna reports non-financial information in accordance with the Finnish Accounting Act and the EU Taxonomy Regulation. Pihlajalinna's annual reporting also includes information on social, economic and environmental responsibility reported in accordance with the Core level of the GRI (Global Reporting Initiative) reporting framework.

This statement of non-financial information included in the Board of Directors' report covers the operating principles, risks, results and indicators related to Pihlajalinna's sustainability themes.

### Values, business and value creation

Pihlajalinna is one of the leading private providers of healthcare and wellbeing services in Finland. The Group provides general practitioner and specialised care services, occupational healthcare and dental care services, and residential services, for example. Pihlajalinna's shares are listed on Nasdaq Helsinki.

Pihlajalinna's customers include private individuals, corporations, insurance companies and wellbeing services counties, for whom the company provides a wide range of local, remote and digital services. In the public sector, the company provides social and healthcare production models in which cooperation guarantees high-quality services.

The company's values are energy, ethics and open-mindedness. Pihlajalinna offers its personnel meaningful work in safe working conditions. Each employee is important as a member of the work community and as a developer of the customer experience and operational quality.

Pihlajalinna has an impact on, and generates value for, its various stakeholders ranging from societal operators to customers, the personnel, shareholders and the environment. The more detailed value creation framework, including the basis of impact and the company's impacts, is described in Pihlajalinna's Annual Report. Pihlajalinna's Annual Report will be published on the company's investor website at [investors.pihlajalinna.fi](https://investors.pihlajalinna.fi) at the same time as the Board of Directors' report in week 11.

### Material themes, key indicators and management of sustainability

Pihlajalinna is committed to the UN Sustainable Development Goals and the Global Compact principles of responsible business, which guide the company's business planning and sustainability efforts. Pihlajalinna respects internationally recognised human rights and equality. Pihlajalinna does not condone discrimination based on employees' and practitioners' origin, nationality, religious beliefs, ethnicity, gender, age or any other such factor.

Pihlajalinna's responsibility work is also based on the materiality definition set in 2021, where management and stakeholders were consulted. The aim is to re-evaluate the materialities from the perspective of the double materiality required by the EU's Corporate Sustainability Reporting Directive (CSRD) during 2023.

Three sustainability themes have been identified for Pihlajalinna based on materiality: responsibility for health and wellbeing, responsibility for personnel, and sustainable business. The key indicators specified for the themes are access to surgical treatment within the target time, the share of preventive work in occupational healthcare, customer satisfaction, and employee satisfaction. The themes and results are described in more detail in the section Sustainability themes and key results. Some of the indicators are also incorporated into the company's long-term loan agreement signed in 2022. Pihlajalinna monitors the GRI reporting framework indicators in its Annual Report, which is published in week 11, simultaneously with the Board of Directors' report on the company's investor pages at [investors.pihlajalinna.fi](https://investors.pihlajalinna.fi). A more comprehensive overview of sustainability indicators is provided in the Annual Report. Pihlajalinna will continue to specify and promote its sustainability strategy in 2023.

In addition to Global Compact reporting and the GRI Standards, Pihlajalinna's sustainability efforts are also assessed in accordance with the EcoVadis sustainability assessment. In 2022, Pihlajalinna achieved a bronze medal in the EcoVadis rating, which assesses companies' sustainability from the perspective of environmental issues, labour and human rights, ethical operating practices and sustainable sourcing.

Pihlajalinna's sustainability actions have a clear administrative structure, and they are carried out in accordance with guidelines and policies drawn up on the basis of international principles. Pihlajalinna's sustainability efforts are led by the Group's communications and sustainability team and a corporate responsibility working group led by the Vice President for Communications and Sustainability, which consists of representatives of the Group's businesses as well as medical experts and specialists in Group functions such as finance, properties and law. The working group prepares and ensures measures in line with the company's sustainability targets and reports to the Management Team on the progress of sustainability efforts four times per year. The Management Team approves and monitors the sustainability strategy and related actions, and ensures that the necessary resources are available. The highest decision-making body concerning the company's sustainability is the Board of Directors, which also



monitors progress on the chosen themes at the annual level. The Board of Directors also decides on guidelines and policies.

Pihlajalinna respects internationally recognised human rights and equality. Pihlajalinna does not condone discrimination based on employees' and practitioners' origin, nationality, religious beliefs, ethnicity, gender, age or any other such factor. Pihlajalinna's Code of Conduct describes the way the company operates, based on the principles of good governance and law, transparency, fairness and confidentiality. The Code of Conduct also includes the company's commitment to the prevention of bribery and corruption, compliance with competition law and cooperation with stakeholders. Training on the Code of Conduct is part of the induction training programme, and all Pihlajalinna professionals are required to complete the training.

Pihlajalinna has a confidential whistleblowing channel that can be used for reporting activities that violate the Code of Conduct. Pihlajalinna's Board of Directors monitors compliance with the Code of Conduct. During the 2022 reporting period, a total of four notifications were received via the whistleblowing channel. Each whistleblower report was investigated and none of them led to any further action. In addition, no activities contrary to legislation or the Code of Conduct or misconduct were identified on the basis of the reports.

Pihlajalinna manages sustainability in a clear manner to ensure that the company operates in a responsible and ethical manner and promotes and enables the achievement of the set targets.

### Sustainability risks and opportunities

The most significant risks associated with the material sustainability themes are assessed and efforts are made to limit their potential impacts as part of the company's general risk management process. The most material identified sustainability risks are related to clinical quality and safety, the availability and retention of highly competent professionals, information security and values, ethics and consistent operating practices.

Limiting risks related to clinical quality, patient safety, values, ethics and consistent operating practices is among Pihlajalinna's most significant risk management measures. Pihlajalinna also has an ISO

9001:2105 quality management system certificate. Promoting the continuous training of the company's professionals as well as promoting consistent operating practices by means of Pihlajalinna's quality and patient safety policy and Code of Conduct play a key role. This ensures consistent quality and impactful services for the company's customers. The development of operations enables the development of new innovations for work with patients. Pihlajalinna participates in research to promote clinical quality and impact.

Pihlajalinna has identified uncertainties related to the availability of personnel in the field of social and healthcare services. By promoting the employee experience through good leadership, career development and equality, the company aims to attract and retain healthcare professionals – both experienced professionals and those who are in the early stages of their career. Pihlajalinna also participates in projects that promote international recruitment.

In all of its operations, Pihlajalinna takes into account data protection, information security and the related requirements. The company has taken preparations for the risk of cyber attacks, which has been elevated by Russia's invasion of Ukraine. The aim is to ensure the secure processing of patient and personal data as well as the protection of the privacy of patients, customers and the company's personnel. A further goal is the prevention of disruptions in the functioning of critical information systems that could jeopardise service availability. Data protection and information security are an important part of Pihlajalinna's ISO 9001 certified quality management system.

Due to the nature of its operations, the company's carbon intensity is low. Pihlajalinna has not identified significant environmental or climate related risks that directly impact its operations. However, the company is aware of long-term and medium-term environmental and climate-related risks related to, for example, the availability of financing and operating costs. The company is preparing to introduce an ISO 14001 environmental management system in part of its operations during 2023 and will continue to assess climate risks in 2023.

### Sustainability themes and key results

Pihlajalinna's key sustainability themes are responsibility for health and wellbeing, responsibility for personnel, and sustainable business.

### Responsibility for health and wellbeing

Clinical quality and impact are among the company's highest priorities. The professional competence of the personnel is the foundation of patient safety. The qualifications of employees are verified during recruitment and they receive induction training in accordance with the applicable induction training programme. We actively develop the professional competence of our personnel.

Pihlajalinna's quality management is based on comprehensive self-monitoring. The self-monitoring plan was updated in 2022. Self-monitoring makes it possible to quickly identify risks related to quality or safety. The business locations have a reporting system for the personnel to report any deviations. Customers report any problems they observe either directly to the personnel or through Pihlajalinna's feedback systems.

Pihlajalinna is a significant operator in specialised care. The objective of surgical operations is to implement a quick and high-quality chain of care, enabling quick recovery and rehabilitation for patients. Access to surgical treatment within the target time has been highlighted as one of the company's key sustainability indicators. With regard to access to surgical procedures for customers who are unable to work, Pihlajalinna aims to offer the first available surgical appointment within five weekdays. In 2022, the target for this was set at 66 per cent, and the target was achieved.

In occupational health services, the prevention of illness is in everyone's interest and helps reduce costs. The emphasis on preventive activities in occupational healthcare is monitored on a professional group-specific basis. Pihlajalinna's minimum target for the share of preventive work in the invoicing of occupational health physicians was 60 per cent in 2022. In 2022, preventive work accounted for 61.1 per cent of invoicing.

Pihlajalinna aims for an excellent customer experience in all of its services. The systematic collection and processing of feedback enables the company to develop services, processes and operating models according to the customers' wishes. Pihlajalinna uses the Net Promoter Score (NPS) to measure the customer experience. Pihlajalinna reports NPS in two parts. The NPS for Pihlajalinna's appointments was 77.1



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(76.5) and the NPS for complete and partial outsourcing arrangements was 72.6 (70.8). The NPS target for 2025 is 80. The performance indicators will be developed further in 2023 to correspond to the Group's current structure.

Customer equality can be increased by improving the availability of services through the provision of remote services, even in areas where in-person services or the expert in question may not be available. In 2022, some 37 (36) per cent of Pihlajalinna's appointments (excluding complete outsourcing arrangements and COVID-19 testing) were conducted remotely.

**Responsibility for personnel**

Pihlajalinna systematically promotes its responsibility for personnel. The company has a comprehensive equality and non-discrimination policy and a general HR policy. Pihlajalinna wants to be the first choice among professionals in its industry.

The number of personnel at Pihlajalinna grew substantially in 2022 due to a number of M&A transactions. The increase in Pihlajalinna's supply also increased the number of practitioners. At the end of the year, the company had 7,016 (6,297) employees and 1,812 (1,070) practitioners. Key personnel indicators are reported in more detail as part of the Annual Report.

Employees are a key asset for the company: their expertise and competence are the basic conditions for an excellent customer experience, the fulfilment of the strict quality requirements in the social and healthcare sector and sustainability in business. Investments in the development and wellbeing of the personnel also help to ensure Pihlajalinna's competitiveness in a rapidly changing market. The development of work ability is one of the company's key themes for the current strategy period. In 2022, Pihlajalinna launched a unique cooperation project with pension insurance companies. One of the main objectives of the project is to reduce sickness-related absences. Pihlajalinna's sickness-related absence rate in 2022 was 9.8 (7.8) per cent.

The company actively listens to the personnel to obtain information on the state of the work community. Employee satisfaction is meas-

ured by the eNPS indicator, which is also one of Pihlajalinna's key sustainability indicators. Pihlajalinna's eNPS for 2022 was -1.5 (+1.0), while the target set for 2022 was +5. The Group's eNPS excluding complete and partial outsourcing arrangements in 2022 was +11 (+15) and the eNPS of the Group's complete and partial outsourcing arrangements in 2022 was -17 (-14).

All Pihlajalinna employees are within the scope of annual development discussions. Pihlajalinna Academy is an online learning environment for the company's personnel that offers weekly updated content to support competence development. The total amount of training for the personnel came to 71,085 hours in 2022.

At Pihlajalinna, the management of occupational safety is aimed at maintaining a healthy and safe working environment and the effective prevention of accidents through training and the improvement of operating practices, for example. The most common causes of accidents were falling, slipping and unexpected behaviour by a customer. The number of serious accidents that resulted in an absence of more than 30 days remained low in 2022: 5 (5) serious accidents were reported in the Group as a whole during the year. The accident frequency was 34.4, below the industry average of 35 and representing a significant improvement when compared to the previous year (49.0). The accident frequency indicates the number of accidents leading to an absence of at least one day per million hours worked.

**Sustainable business**

Pihlajalinna was founded more than 20 years ago to solve regional labour availability challenges in healthcare. The company continues to operate under the joint venture model it has developed, in which Pihlajalinna establishes a joint venture with the municipality or joint municipal authority – or, effective from the beginning of 2023, the wellbeing services county – in question, with Pihlajalinna owning a majority stake. Effective from the beginning of 2023, all agreements have been transferred to the newly established wellbeing services counties.

Pihlajalinna's operations generate economic added value in Finland, especially in the regions of Pirkanmaa, South Ostrobothnia and Central Finland. The most significant direct economic impacts arise from

procurement, the remuneration of personnel and practitioners, and the payment of taxes and tax-like charges. As a rule, all of the goods and services purchased by Pihlajalinna are purchased from Finnish companies.

Pihlajalinna's parent company and all of its subsidiaries are registered in Finland. Pihlajalinna is a public limited company and 98.6 (98.6) per cent of the company's shares are owned by Finnish shareholders. Pihlajalinna complies with Finnish legislation in the collection, remittance and payment of taxes and tax-like charges. The Group pays all of its taxes to Finland. In 2022, Pihlajalinna's operations generated a total of EUR 155.7 (131.9) million in payments to society. In addition, Pihlajalinna paid a total of EUR 112.5 (73.0) million in fees to practitioners, for which the practitioners themselves pay the taxes involved.

**Tax footprint**

EUR million	2022	2021
<b>Direct tax payable for the period</b>		
Income tax (business income tax)	2.0	5.3
Employer's pension contributions	42.0	35.3
Social security contributions	3.3	3.2
Employer's unemployment insurance contributions	4.3	3.5
Contribution to accident insurance and group life insurance	1.6	1.6
Employer contributions, total	51.2	43.7
Property taxes	0.2	0.1
Transfer taxes	0.9	0.4
<b>Direct tax payable for the period, total</b>	<b>54.2</b>	<b>49.5</b>
<b>Value added tax of acquisitions payable by the company</b>		
Value added taxes, estimate	<b>20.1</b>	<b>14.3</b>
<b>Tax for the period</b>		
Withholding taxes	57.8	48.0
Employee pension contributions	18.4	15.8
Employee unemployment insurance contributions	3.6	2.9
Payroll tax, total	79.8	66.7
Net value-added tax	1.5	1.4
<b>Total tax for the period</b>	<b>81.3</b>	<b>68.1</b>
<b>Tax footprint</b>	<b>155.7</b>	<b>131.9</b>

Pihlajalinna's procurement principles are documented in a Supplier Code of Conduct, which service providers, suppliers and partners are required to comply with. The document was incorporated into all new cooperation agreements and significant existing agreements in late 2022.

For Pihlajalinna, the management of data protection and information security is of vital importance, and its purpose is to ensure the secure processing of patient and personal data as well as the protection of the privacy of patients, customers and the company's personnel. A further goal of information security management is the prevention of disruptions in the functioning of critical information systems that could jeopardise service functionality or availability. Pihlajalinna's target for data protection is zero successful attempts to gain unauthorised access. This target was achieved in 2022. A further target is for 100 per cent of information security updates to be installed within the first week of their release. The result in 2022 was approximately 89 per cent. More information on information security is provided in the Annual Report.

In 2022, Pihlajalinna began developing measures to increase the well-being of the environment. The company's environmental policy sets out the approach to environmental issues. The environmental impacts of Pihlajalinna's operations arise mainly from energy consumption, carbon dioxide emissions and waste. Due to the nature of its operations, the company's carbon intensity is low.

Pihlajalinna began assessing and calculating its carbon footprint in 2022. An emission calculation for the greenhouse gas emissions of Pihlajalinna's operations and value chain was carried out in accordance with the internationally recognised GHG Protocol (Scope 1, 2 and 3). The emission accounting model can be used to report the significant direct and indirect greenhouse gas emissions of the value

chain. More details on the emission calculation are included in the Annual Report. In 2023, Pihlajalinna will continue to improve the calculations and draft a climate roadmap that will support the setting of climate targets throughout the Group. Pihlajalinna is also preparing for the partial deployment of an ISO 14001 environmental management system in the Group in 2023.

As the company's first climate action, Pihlajalinna switched to zero-emission electricity at the end of 2022. The purchasing of zero-emission electricity is an important part of managing Pihlajalinna's climate impacts.

**EU taxonomy reporting**

The EU taxonomy is a classification system for environmentally sustainable economic activities.

At this stage, the scope of Pihlajalinna's operations covered by the climate regulations is limited to the economic activities that have the greatest need and potential to substantially contribute to climate change mitigation and adaptation. The company's interpretation is that its business activities are not within the scope of the classification system, as the production of social and healthcare services is not among the industries with the highest emissions.

Pihlajalinna has assessed the taxonomy eligibility of its economic activities and concluded that the taxonomy-eligible share of turnover (totalling EUR 690.5 million), capital expenditure (totalling EUR 234.5 million) and operating expenditure (totalling EUR 22.15 million) is 0% for all three. Accordingly, the non-eligible share of turnover, capital expenditure and operating expenditure is 100%. Information on taxonomy-aligned activities is presented in the tables below.





Proportion of turnover from products or services associated with Taxonomy-aligned economic activities - disclosure covering year 2022

				Substantial contribution criteria						DNSH criteria (‘Does Not Significantly Harm’)											
Economic activities	(2) Code(s)	(3) Absolute turnover MEUR	(4) Proportion of turnover %	(5) Climate change mitigation %	(6) Climate change adaptation %	(7) Water and marine resources %	(8) Circular economy %	(9) Pollution %	(10) Biodiversity and ecosystems %	(11) Climate change mitigation Y/N	(12) Climate change adaptation Y/N	(13) Water and marine resources Y/N	(14) Circular economy Y/N	(15) Pollution Y/N	(16) Biodiversity and ecosystems Y/N	(17) Minimum safeguards Y/N	Taxonomy-aligned proportion of turnover 2022 (18) %	Taxonomy-aligned proportion of turnover 2021 (19) %	Category (enabling activity) (20) E	Category (transitional activity) (21) T	
A. TAXONOMY-ELIGIBLE ACTIVITIES																	%				
A.1. Environmentally sustainable activities (Taxonomy-aligned)																					
Activity 1 [1]											N/A	N/A	N/A	N/A	N/A	N/A					
Activity 2										N/A	N/A		N/A	N/A	N/A	N/A					
Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)																					
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																					
Activity 1																					
Activity 3																					
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)																					
Total (A.1 + A.2)		0	0%																		
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																					
Turnover of Taxonomy-non-eligible activities (B)		690.5	100%																		
Total (A + B)		690.5	100%																		



Proportion of CapEx from products or services associated with Taxonomy-aligned economic activities - disclosure covering year 2022

				Substantial contribution criteria							DNSH criteria ('Does Not Significantly Harm')												
Economic activities (1)	Code(s) (2)	Absolute CapEx (3) MEUR	Proportion of CapEx (4) %	Climate change mitigation (5) %	Climate change adaptation (6) %	Water and marine resources (7) %	Circular economy (8) %	Pollution (9) %	Biodiversity and ecosystems (10) %	Climate change mitigation (11) Y/N	Climate change adaptation (12) Y/N	Water and marine resources (13) Y/N	Circular economy (14) Y/N	Pollution (15) Y/N	Biodiversity and ecosystems (16) Y/N	Minimum safeguards (17) Y/N	Taxonomy-aligned proportion of CapEx 2022 (18) %	Taxonomy-aligned proportion of CapEx 2021 (19) %	Category (enabling activity) (20) E	Category (transitional activity) (21) T			
A. TAXONOMY-ELIGIBLE ACTIVITIES																							
A.1. Environmentally sustainable activities (Taxonomy-aligned)																							
Activity 1 [1]										N/A	N/A	N/A	N/A	N/A	N/A	N/A							
Activity 2										N/A	N/A	N/A	N/A	N/A	N/A	N/A							
CapEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)																							
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																							
Activity 1																							
Activity 3																							
CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)																							
Total (A.1 + A.2)		0	0%																				
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																							
CapEx of Taxonomy-non-eligible activities (B)		234.5	100%																				
Total (A + B)		234.5	100%																				

Proportion of OpEx from products or services associated with Taxonomy-aligned economic activities - disclosure covering year 2022

				Substantial contribution criteria						DNSH criteria (‘Does Not Significantly Harm’)													
Economic activities (1)	(2) Code(s)	(3) Absolute OpEx MEUR	(4) Proportion of OpEx %	(5) Climate change mitigation %	(6) Climate change adaptation %	(7) Water and marine resources %	(8) Circular economy %	(9) Pollution %	(10) Biodiversity and ecosystems %	(11) Climate change mitigation Y/N	(12) Climate change adaptation Y/N	(13) Water and marine resources Y/N	(14) Circular economy Y/N	(15) Pollution Y/N	(16) Biodiversity and ecosystems Y/N	(17) Minimum safeguards Y/N	Taxonomy- aligned pro- portion of OpEx 2022 (18) %	Taxonomy- aligned pro- portion of OpEx 2021 (19) %	Category (enabling activity) (20) E	Category (transitional activity) (21) T			
A. TAXONOMY-ELIGIBLE ACTIVITIES																							
A.1. Environmentally sustainable activities (Taxonomy-aligned)																							
Activity 1 [1]										N/A	N/A	N/A	N/A	N/A	N/A	N/A							
Activity 2										N/A	N/A	N/A	N/A	N/A	N/A	N/A							
OpEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)																							
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																							
Activity 1																							
Activity 3																							
OpEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)																							
Total (A.1 + A.2)		0	0%																				
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																							
OpEx of Taxonomy-non-eligible activities (B)		22.15	100%																				
Total (A + B)		22.15	100%																				



Events after the financial period

On 10 January 2023, the Group announced it would commence change negotiations. The change negotiations are still under way and the aim is to complete them within the target time of six weeks. The change negotiations concern the network of private clinics, regional management and the Group's general management. Approximately 650 persons are within the scope of the functions in question. According to the company's preliminary estimate, the negotiations may lead to a reduction of 40–60 positions in Pihlajalinna, and the administrative duties of 30–40 employees may be discontinued or reduced. The allocation of the planned measures and their impacts in the personnel will be discussed in more detail during the negotiations.

## Key financial figures

Scope of operations	2022	2021	2020	2019	2018
Revenue, EUR million	690.5	577.8	508.7	518.6	487.8
Change, %	19.5	13.6	-1.9	6.3	15.0
Organic revenue growth, EUR million*	11.3	58.1	-11.3	13.4	-2.0
Change, %	2.0	11.4	-2.2	2.8	-0.5
Gross investments, EUR million*	234.5	44.8	25.4	44.1	160.0
% of revenue	34.0	7.8	5.0	8.5	32.8
Capitalised development costs, EUR million*	0.0	0.0	0.4	0.5	1.3
% of revenue	0.0	0.0	0.1	0.1	0.3
Employee benefit expenses, EUR million	296.6	255.2	214.2	222.0	208.4
Personnel at the end of the period (NOE)	7,016	6,297	5,550	5,815	5,850
Average number of personnel (FTE)	5,167	4,746	4,308	4,649	4,868
Profitability	2022	2021	2020	2019	2018
EBITDA, EUR million	54.4	62.6	52.2	47.8	44.8
EBITDA, %	7.9	10.8	10.3	9.2	9.2
Adjusted EBITDA, EUR million*	64.2	65.3	54.8	55.7	45.9
Adjusted EBITDA, %	9.3	11.3	10.8	10.7	9.4
Operating profit (EBIT), EUR million	8.9	27.9	18.1	10.2	13.2
Operating profit, %	1.3	4.8	3.6	2.0	2.7
Adjusted operating profit (EBIT), EUR million*	18.6	30.3	21.1	21.4	14.4
Adjusted operating profit, %	2.7	5.3	4.2	4.1	3.0
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA), EUR million*	26.7	37.3	27.4	28.9	21.6
Adjusted EBITA, %	3.9	6.5	5.4	5.6	4.4
Net financial expenses, EUR million	-7.4	-3.7	-4.4	-3.9	-2.8
% of revenue	-1.1	-0.6	-0.9	-0.8	-0.6
Profit before tax, EUR million	1.5	24.2	13.8	6.3	10.0
% of revenue	0.2	4.2	2.7	1.2	2.0
Income tax, EUR million	6.1	-5.1	-4.8	-1.8	-2.7
Profit for the period	7.7	19.1	9.0	4.5	7.2
Cash flow after investments, EUR million	-18.6	24.9	42.8	17.4	-18.8
Return on equity (ROE), %*	6.2	16.1	8.1	3.8	5.7
Return on capital employed (ROCE), %*	2.3	8.8	5.7	3.1	5.9

Funding and financial position	2022	2021	2020	2019	2018
Interest-bearing net financial debt, EUR million	385.7	194.7	194.8	192.7	178.0
% of revenue	55.9	33.7	38.3	37.2	36.5
Equity ratio, %*	18.6	26.9	26.1	24.3	29.9
Gearing, %*	313.8	158.8	170.6	181.7	136.6
Net debt/adjusted EBITDA*	6.0	3.0	3.6	3.5	3.9

## Share related information

	2022	2021	2020	2019	2018
Earnings per share (EPS)	0.42	0.89	0.38	0.16	0.16
Equity per share, EUR*	5.50	5.27	4.82	4.44	5.36
Dividend per share, EUR (the Board of Directors' proposal)	0.30	0.20			0.10
Dividend per share, % (the Board of Directors' proposal)*	33.72	52.00			63.96
Effective dividend yield, % (the Board of Directors' proposal)*	0.00	2.37	2.13	1.20	1.16
Number of shares at year-end	22 549 644	22,594,235	22,617,841	22,620,135	22,620,135
Average number of shares	22 560 271	22,589,383	22,586,212	22,620,135	22,224,236
Market capitalisation, EUR million	192.1	285.6	212.2	345.6	195.0
Dividends paid, EUR million (the Board of Directors' proposal)	6.8	4.5			2.3
P/E ratio*	0.05	0.07	0.04	0.01	0.02
Highest quotation, EUR	13.18	12.98	15.66	15.88	15.28
Lowest quotation, EUR	8.48	9.26	8.72	8.70	8.56
Average quotation, EUR	11.06	11.18	12.09	12.77	12.18
Closing price at year-end, EUR	8.52	12.64	9.38	15.28	8.62
Trading volume of shares, 1,000 shares*	3 770	6,929	6,620	4,062	6,182
Trading volume of shares, %*	16.7	30.7	29.3	18.0	27.8

\* Alternative performance measure





## Quarterly information

EUR million	Q4/22	Q3/22	Q2/22	Q1/22	Q4/21	Q3/21	Q2/21	Q1/21
<b>INCOME STATEMENT</b>								
Revenue	188.4	165.2	173.7	163.1	154.7	140.6	142.5	139.9
Other operating income	0.9	0.4	1.8	1.7	1.6	0.7	0.2	1.1
Materials and services	-74.8	-61.8	-66.5	-64.2	-56.3	-49.3	-50.7	-53.2
Employee benefit expenses	-80.4	-68.4	-74.6	-73.2	-69.3	-60.5	-64.1	-61.2
Other operating expenses	-22.7	-17.4	-18.9	-18.2	-16.2	-13.3	-12.9	-11.7
EBITDA	11.5	18.1	15.6	9.3	14.5	18.2	15.0	14.9
EBITDA, %	6.1	10.9	9.0	5.7	9.4	12.9	10.5	10.6
Adjusted* EBITDA	12.0	18.9	16.9	16.5	14.9	19.3	15.9	15.2
Adjusted* EBITDA, %	6.4	11.4	9.7	10.1	9.6	13.8	11.1	10.9
IFRS3 expenses	-0.2	-0.1	-0.2	-0.8	-0.2	-0.5	-0.7	0.0
Depreciation and amortisation	-12.0	-11.5	-11.5	-10.5	-9.0	-8.8	-8.5	-8.5
Operating profit (EBIT)	-0.6	6.6	4.1	-1.2	5.6	9.4	6.5	6.4
Operating profit, %	-0.3	4.0	2.4	-0.7	3.6	6.7	4.6	4.6
Adjusted operating profit (EBIT)	-0.2	7.3	5.0	5.2	5.8	10.0	6.3	6.6
Adjusted operating profit (EBIT), %	-0.1	4.4	2.9	3.2	3.7	7.1	4.4	4.7
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA)	2.2	9.4	7.3	7.8	7.8	12.3	8.9	8.3
Adjusted EBITA, %	1.2	5.7	4.2	4.8	5.1	8.7	6.3	5.9
Financial income	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Financial expenses	-2.7	-2.1	-1.7	-1.6	-1.1	-0.9	-1.0	-1.0
Profit before taxes (EBT)	-2.8	4.5	2.5	-2.7	4.6	8.5	5.6	5.5
Income tax	1.7	-0.5	-0.3	5.2	-1.2	-1.7	-1.1	-1.1
Profit for the period	-1.1	4.0	2.1	2.6	3.3	6.8	4.5	4.4
Share of the result for the period attributable to owners of the parent company	-0.7	3.3	1.7	5.3	4.3	7.0	4.3	4.5
Share of the result for the period attributable to non-controlling interests	-0.4	0.8	0.4	-2.7	-0.9	-0.1	0.2	-0.1
EPS	0.0	0.5	0.1	-0.7	0.2	0.7	0.2	-0.2
Average number of personnel (FTE)	5,167	5,092	5,061	4,819	4,746	4,731	4,665	4,444
Change in personnel during the quarter	75	31	243	73	15	66	221	136

## Calculation of key financial figures and alternative performance measures

### Key figures

Earnings per share (EPS)	Profit for the financial period attributable to owners of the parent company	
	Average number of shares during the financial year	

### Alternative performance measures

Equity per share	Equity attributable to owners of the parent company	
	Number of shares at the end of the financial period	
Dividend per share	Dividend distribution for the financial year (or proposal)	
	Number of shares at the end of the financial period	
Dividend/result, %	Dividend per share	x 100
	Earnings per share (EPS)	
Effective dividend yield, %	Dividend per share	x 100
	Closing price for the financial year	
P/E ratio	Closing price for the financial year	
	Earnings per share (EPS)	
Share turnover, %	Number of shares traded during the period	x 100
	Average number of shares	
Return on equity (ROE), %	Profit for the period (rolling 12 months)	x 100
	Equity (average)	
Return on capital employed, % (ROCE)	Profit before taxes (rolling 12 months) + financial expenses (rolling 12 months)	x 100
	Total statement of financial position – non-interest-bearing liabilities (average)	
Equity ratio, %	Equity	x 100
	Total statement of financial position – prepayments received	
Gearing, %	Interest-bearing net debt – cash and cash equivalents	x 100
	Equity	

EBITDA	Operating profit + depreciation, amortisation and impairment	
EBITDA, %	Operating profit + depreciation, amortisation and impairment	x 100
	Revenue	
Adjusted EBITDA <sup>1)</sup>	Operating profit + depreciation, amortisation and impairment + adjustment items	
Adjusted EBITDA, % <sup>1)</sup>	Operating profit + depreciation, amortisation and impairment + adjustment items	x 100
	Revenue	
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA) <sup>1)</sup>	Operating profit + adjustment items + amortisation and impairment of intangible assets	
Adjusted EBITA, % <sup>1)</sup>	Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA)	x 100
	Revenue	
Net debt/Adjusted EBITDA <sup>1)</sup> , rolling 12 months	Interest-bearing net debt - cash and cash equivalents	
	Adjusted EBITDA (rolling 12 months)	
Cash flow after investments	Net cash flow from operating activities + net cash flow from investing activities	
Adjusted operating profit (EBIT) <sup>1)</sup>	Operating profit + adjustment items	
Adjusted operating profit, % <sup>1)</sup>	Adjusted operating profit (EBIT)	x 100
	Revenue	
Profit before taxes	Profit for the financial year + income tax	
Gross investments	Increase in tangible and intangible assets and in right of-use assets	
Organic revenue growth, %	Revenue for the period - revenue from M&A transactions for the period - revenue for the previous period	x 100
	Revenue for the previous period	

<sup>1)</sup> Significant transactions that are not part of the normal course of business, are related to business acquisition costs (IFRS 3), are infrequently occurring events or valuation items that do not affect cash flow are treated as adjustment items affecting comparability between review periods. According to Pihlajalinna's definition, such items include, for example, restructuring measures, impairment of assets and the remeasurement of previous assets held by subsidiaries, the costs of closing down businesses and business locations, gains and losses on the sale of businesses, costs arising from operational restructuring and the integration of acquired businesses, costs related to the termination of employment relationships, as well as fines and corresponding compensation payments. Pihlajalinna presents costs concerning cloud computing arrangements, and reversals of amortisation, as adjustment items.

## Reconciliations with alternative key figures and ratios

Pihlajalinna publishes a wide range of alternative performance measures, i.e. key figures that are not based on financial reporting standards, because they are considered to be significant for investors, the management and the Board of Directors in assessing the group's financial position and profitability. The alternative performance measures should not be considered to be replacements for the key figures defined in IFRS standards. The table below presents the reconciliation calculations for the alternative performance measures and the justifications for their presentation.

### Reading notes:

/divide by the next number/numbers

- deduct the next number/numbers

+ add the next number/numbers

EUR million	2022	2021
<b>Return on equity (ROE), %</b>		
Profit for period (rolling 12 months)/	7.7	19.1
Equity at beginning of period	122.6	114.2
Equity at end of period	122.9	122.6
Equity (average) x 100	122.7	118.4
<b>Return on equity (ROE), %</b>	<b>6.2</b>	<b>16.1</b>

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

EUR million	2022	2021
<b>Return on capital employed (ROCE), %</b>		
Profit before taxes (rolling 12 months) +	1.5	24.2
Financial expenses (rolling 12 months)	8.1	4.0
/	9.6	28.2
Total statement of financial position at beginning of period -	457.1	441.3
non-interest-bearing liabilities at beginning of period	135.5	119.0
	321.6	322.3
Total statement of financial position at end of period -	661.6	457.1
Non-interest-bearing liabilities at end of period	138.9	135.5
	522.8	321.6
Average x 100	422.2	321.9
<b>Return on capital employed (ROCE), %</b>	<b>2.3</b>	<b>8.8</b>

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

EUR million	2022	2021
<b>Equity ratio, %</b>		
Equity/	122.9	122.6
Total statement of financial position -	661.6	457.1
Advances received x 100	0.0	0.9
<b>Equity ratio, %</b>	<b>18.6</b>	<b>26.9</b>

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

EUR million	2022	2021
<b>Gearing, %</b>		
Interest-bearing financial liabilities -	398.8	199.0
Cash and cash equivalents/	13.1	4.3
Equity x 100	122.9	122.6
<b>Gearing, %</b>	<b>313.8</b>	<b>158.8</b>

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

EUR million	2022	2021
<b>Net debt/adjusted EBITDA, rolling 12 months</b>		
Interest-bearing financial liabilities -	398.8	199.0
Cash and cash equivalents	13.1	4.3
Net debt/	385.7	194.7
Adjusted EBITDA (rolling 12 months)	64.2	65.3
<b>Net debt/adjusted EBITDA, rolling 12 months</b>	<b>6.0</b>	<b>3.0</b>

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

EUR million	2022	2021
<b>EBITDA and Adjusted EBITDA</b>		
Profit for period	7.7	19.1
Income tax	6.1	-5.1
Financial expenses	-8.1	-4.0
Financial income	0.7	0.2
Depreciation, amortisation and impairment	-45.5	-34.7
<b>EBITDA</b>	<b>54.4</b>	<b>62.6</b>
IFRS 3 costs –	1.3	1.4
Entries related to the IFRIC Agenda Decision concerning cloud computing arrangements	0.3	0.6
Other EBITDA adjustments	8.2	0.7
Total EBITDA adjustments	9.8	2.7
<b>Adjusted EBITDA</b>	<b>64.2</b>	<b>65.3</b>

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

EUR million	2022	2021
<b>EBITDA, %</b>		
EBITDA/	54.4	62.6
Revenue x 100	690.5	577.8
<b>EBITDA, %</b>	<b>7.9</b>	<b>10.8</b>

EUR million	2022	2021
<b>Adjusted EBITDA, %</b>		
Adjusted EBITDA/	64.2	65.3
Revenue x 100	690.5	577.8
<b>Adjusted EBITDA, %</b>	<b>9.3</b>	<b>11.3</b>

EUR million	2022	2021
<b>Operating profit (EBIT) and Adjusted operating profit (EBIT)</b>		
Profit for the period	7.7	19.1
Income tax	6.1	-5.1
Financial expenses	-8.1	-4.0
Financial income	0.7	0.2
<b>Operating profit (EBIT)</b>	<b>8.9</b>	<b>27.9</b>
Entries related to the IFRIC Agenda Decision concerning cloud computing arrangements (reversal of amortisation) -	-0.4	-0.3
Other adjustments to amortisation and impairment	0.3	0.0
<b>Total adjustments to depreciation, amortisation and impairment</b>	<b>0.4</b>	<b>0.3</b>
<b>Total EBITDA adjustments</b>	<b>9.8</b>	<b>2.7</b>
<b>Total operating profit (EBIT) adjustments</b>	<b>9.7</b>	<b>2.4</b>
<b>Adjusted operating profit (EBIT)</b>	<b>18.6</b>	<b>30.3</b>
PPA amortisation	2.7	3.0
Amortisation and impairment of other intangible assets	5.4	4.0
Entries related to the IFRIC Agenda Decision concerning cloud computing arrangements (reversal of amortisation)	0.4	0.3
<b>Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA)</b>	<b>26.7</b>	<b>37.3</b>

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

The Group Management Team and operative management monitor and forecast adjusted operating profit (EBIT) and adjusted operating profit before the amortisation and impairment of intangible assets (EBITA) on a monthly basis.

EUR million	2022	2021
<b>Operating profit (EBIT), %</b>		
Operating profit/	8.9	27.9
Revenue x 100	690.5	577.8
<b>Operating profit (EBIT), %</b>	<b>1.3</b>	<b>4.8</b>

## REPORT BY THE BOARD OF DIRECTORS

## AUDITED FINANCIAL STATEMENTS

## INFORMATION FOR SHAREHOLDERS

EUR million	2022	2021
<b>Adjusted operating profit (EBIT), %</b>		
Adjusted operating profit /	30.3	30.3
Revenue x 100	690.5	577.8
<b>Adjusted operating profit (EBIT), %</b>	<b>2.7</b>	<b>5.3</b>

EUR million	2022	2021
<b>Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA), %</b>		
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA) /	26.7	37.3
Revenue x 100	690.5	577.8
	<b>3.9</b>	<b>6.5</b>

EUR million	2022	2021
<b>Cash flow after investments</b>		
Net cash flow from operating activities	64.9	56.9
Net cash flow from investing activities	-83.4	-32.1
<b>Cash flow after investments</b>	<b>-18.6</b>	<b>24.9</b>

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

EUR million	2022	2021
<b>Profit before taxes</b>		
Profit for period	7.7	19.1
Income tax	6.1	-5.1
<b>Profit before taxes</b>	<b>1.5</b>	<b>24.2</b>

EUR million	2022	2021
<b>Gross investments</b>		
Property, plant and equipment at end of period	58.7	45.0

Right-of-use assets at end of period	197.7	95.6
Other intangible assets at end of period	22.8	14.9
Goodwill at end of period	251.0	188.9
Depreciation, amortisation and impairment for period are added	45.5	34.7
-		
Property, plant and equipment at beginning of period	45.0	44.0
Right-of-use assets at beginning of the period	95.6	102.8
Other intangible assets at beginning of period	14.9	15.3
Goodwill at beginning of period	188.9	173.6
Proceeds from the sale of property, plant and equipment during period	-3.0	-1.5
<b>Gross investments</b>	<b>234.5</b>	<b>44.8</b>

Gross investments refers to the acquisition of long-term factors of production, including M&A transactions. Divestments and proceeds from the sale of property, plant and equipment are not deducted from investments. Investments are also presented on a cash flow basis in the cash flow statement.

EUR million	2022	2021
<b>Organic revenue growth, %</b>		
Revenue for period -	690.5	577.8
<b>Revenue from M&amp;A transactions during period</b>	<b>77.8</b>	<b>11.0</b>
Revenue for previous period	577.8	508.7
<b>Organic revenue growth /</b>	<b>34.9</b>	<b>58.1</b>
Revenue for previous period x 100	577.8	508.7
<b>Organic revenue growth, %</b>	<b>6.0</b>	<b>11.4</b>
<b>Revenue growth due to M&amp;A transactions, %</b>	<b>13.5</b>	<b>2.2</b>
<b>Revenue growth</b>	<b>112.7</b>	<b>69.1</b>
<b>Revenue growth, %</b>	<b>19.5</b>	<b>13.6</b>

Organic revenue growth is growth in existing business operations that has not come about as a result of M&A transactions. Organic growth can be achieved through increasing the service offering, new customer acquisition, growth in custom from existing customers, price increases and digitalisation. Social and healthcare outsourcing contracts won through public competitive bidding and new business locations established by the group itself are included in organic growth.



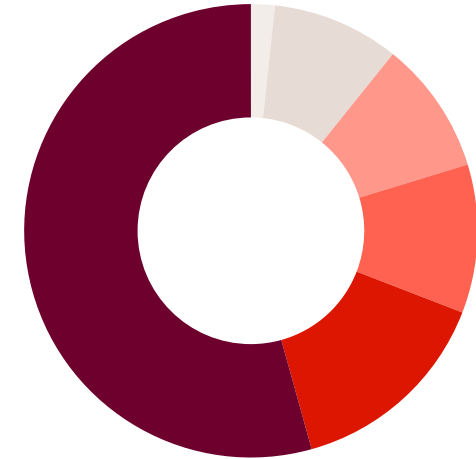


## Shares and shareholders

### Major shareholders, 31 Dec 2022

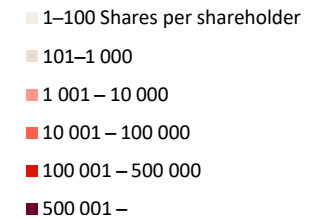
1	LOCALTAPIOLA GENERAL MUTUAL INSURANCE COMPANY	3,481,641	15.4 %
2	MWW YHTIÖ OY	2,309,010	10.2 %
3	FENNIA MUTUAL INSURANCE COMPANY	1,998,965	8.8 %
4	LOCALTAPIOLA MUTUAL LIFE INSURANCE COMPANY	1,895,156	8.4 %
5	ELO MUTUAL PENSION INSURANCE COMPANY	1,267,161	5.6 %
6	NIEMISTÖ LEENA KATRIINA	706,110	3.1 %
7	ILMARINEN MUTUAL PENSION INSURANCE COMPANY	628,431	2.8 %
8	SKANDINAVISKA ENSKILDA BANKEN AB (PUBL), HELSINKI BRANCH	430,000	1.9 %
9	FONDITA NORDIC MICRO CAP MUTUAL FUND	325,143	1.4 %
10	OP-FINLAND SMALL CAP FUND	316,480	1.4 %
<b>10 largest, total</b>		<b>13,358,097</b>	<b>59.1 %</b>
Other shareholders		9,262,038	40.9 %
<b>Total</b>		<b>22,620,135</b>	<b>100.0 %</b>

Distribution of shareholding by size range, 31 Dec 2022



### Distribution of shareholding by size range, 31 Dec 2022

Shares per shareholder	Number of shareholders	% of shareholders	Number of shares	Percentage of shares, %
1 - 100	8,892	56.2 %	384,440	1.7 %
101 - 1 000	6,009	38.0 %	2,052,496	9.1 %
1 001 - 10 000	794	5.0 %	2,150,386	9.5 %
10 001 - 100 000	93	0.6 %	2,395,639	10.6 %
100 001 - 500 000	16	0.1 %	3,350,700	14.8 %
500 001 -	7	0.0 %	12,286,474	54.3 %
<b>Total</b>	<b>15,811</b>	<b>100.0 %</b>	<b>22,620,135</b>	<b>100.0 %</b>
of which nominee-registered	9		581,326	2.6 %
<b>Outstanding shares</b>			<b>22,620,135</b>	<b>100.0 %</b>





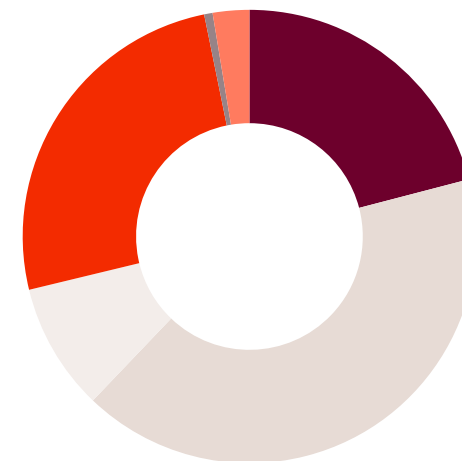
## Distribution of shareholding by sector, 31.12.2022

	Number of shareholders	% of shareholders	Number of shares	Percentage of shares, %
Private companies	561	3.5 %	4,728,794	20.9 %
Financial and insurance institutions	40	0.3 %	9,306,538	41.1 %
Public entities	6	0.0 %	2,052,718	9.1 %
Households	15,125	95.7 %	5,776,389	25.5 %
Non-profit organisations	41	0.3 %	135,572	0.6 %
Foreign shareholders	38	0.2 %	38,798	0.2 %
<b>Total</b>	<b>15,811</b>	<b>100.0 %</b>	<b>22,038,809</b>	<b>97.4 %</b>
Nominee registered			581,326	2.6 %
<b>Outstanding shares</b>			<b>22,620,135</b>	<b>100.0 %</b>

## Shareholding of the management 31 Dec 2022

	Direct holding		Indirect holdings	
	Number of shares	Percentage of shares and votes	Number of shares	Percentage of shares and votes
<b>Board of Directors</b>				
Mikko Wirén (MWW Yhtiö Oy)			2,309,010	10.2 %
Mikko Wirén	5,000	0.0 %		
Leena Niemistö	706,110	3.1 %		
Hannu Juvonen	1,757	0.0 %		
Mika Manninen	1,757	0.0 %		
Heli Iisakka	949	0.0 %		
Seija Turunen	2,635	0.0 %		
<b>Management Team</b>				
Joni Aaltonen (Vendero Oy)			37,633	0.2 %
Eetu Salunen	5,831	0.0 %		
Tarja Rantala	5,088	0.0 %		
Kati Raassina	17,142	0.1 %		
Marko Savolainen	4,002	0.0 %		
Timo Harju	10,694	0.1 %		
Antti-Jussi Aro	4,500	0.0 %		
Riihijärvi Sari	4,001	0.0 %		
Antti-Jussi Aro	4,001	0.0 %		
Riihijärvi Sari	4,004	0.0 %		

Distribution of shareholding by size range, 31 Dec 2022



- Private companies
- Financial and insurance institutions
- Public entities
- Households
- Non-profit organisations
- Nominee registered



# Financial statements 1 Jan–31 Dec 2022

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### Date of and signatures to the report by the board of directors and the financial statements

	140
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## Consolidated statement of comprehensive income, IFRS

EUR 1,000	Note	1-12/2022	1-12/2021
<b>Revenue</b>	<b>1</b>	<b>690,481</b>	<b>577,774</b>
Other operating income	2	4,896	3,704
Materials and services	3	-267,224	-209,516
Employee benefit expenses	4	-296,572	-255,164
Other operating expenses	6	-77,164	-54,151
Share of profit in associated companies and joint ventures	29	-15	-9
<b>EBITDA</b>		<b>54,401</b>	<b>62,638</b>
Depreciation, amortisation and impairment	7	-45,498	-34,701
<b>Operating profit (EBIT)</b>		<b>8,903</b>	<b>27,936</b>
Financial income	8	721	242
Financial expenses	9	-8,074	-3,956
<b>Financial income and expenses</b>		<b>-7,353</b>	<b>-3,715</b>
<b>Profit before taxes</b>		<b>1,550</b>	<b>24,222</b>
Income tax	10	6,110	-5,130
<b>Profit for the period</b>		<b>7,659</b>	<b>19,091</b>
Attributable to:			
To the owners of the parent company		9,519	20,095
To non-controlling interests		-1,859	-1,004
Earnings per share calculated on the basis of the result for the period attributable to the owners of the parent company (EUR)			
Basic	11	0.42	0.89
Diluted		0.42	0.89

## Consolidated statement of comprehensive income

1 000 euroa	Note	1-12/2022	1-12/2021
<b>Profit for the period</b>		<b>7,659</b>	<b>19,091</b>
<b>Other comprehensive income that will be reclassified subsequently to profit or loss</b>			
Cash flow hedge		5,113	0
Income tax on other comprehensive income		-1,023	0
Other comprehensive income for the reporting period		4,090	0
<b>Total comprehensive income for the reporting period</b>		<b>11,750</b>	<b>19,091</b>
Attributable to:			
To the owners of the parent company		13,609	20,095
To non-controlling interests		-1,859	-1,004

## Consolidated statement of financial position, IFRS

EUR 1,000	Note	31 Dec 2022	31 Dec 2021
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	58,738	44,989
Goodwill	13	251,032	188,909
Other intangible assets	13	22,803	14,866
Right-of-use assets	14	197,746	95,586
Interests in associates	29	2,369	308
Other investments		867	1,176
Other receivables	15	9,160	5,211
Deferred tax assets	19	17,324	5,484
<b>Total non-current assets</b>		<b>560,039</b>	<b>356,529</b>
<b>Current assets</b>			
Inventories	3	4,309	3,705
Trade and other receivables	16	76,806	92,143
Current tax assets		2,103	433
Cash and cash equivalents		13,128	4,257
Current assets held for sale	27	5,255	0
<b>Total current assets</b>		<b>101,601</b>	<b>100,537</b>
<b>Total assets</b>		<b>661,639</b>	<b>457,066</b>

EUR 1,000	Note	31 Dec 2022	31 Dec 2021
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital		80	80
Fair value reserve		4,090	
Reserve for invested unrestricted equity		116,520	116,520
Retained earnings		3,290	2,501
		<b>123,981</b>	<b>119,101</b>
Non-controlling interests		-1,092	3,510
<b>Total equity</b>	<b>21</b>	<b>122,888</b>	<b>122,611</b>
<b>Liabilities</b>			
Deferred tax liabilities	19	8,512	5,884
Provisions	17	89	134
Lease liabilities	22	201,235	87,857
Financial liabilities	20	168,031	91,445
Other non-current liabilities		816	1,002
<b>Total non-current liabilities</b>		<b>378,685</b>	<b>186,321</b>
<b>Current liabilities</b>			
Trade and other payables	18	127,529	125,107
Current tax liabilities		30	3,282
Provisions	17		71
Lease liabilities	22	28,338	18,392
Financial liabilities	20	3,090	1,283
Current liabilities held for sale	27	1,081	
<b>Total current liabilities</b>		<b>160,067</b>	<b>148,135</b>
<b>Total liabilities</b>		<b>538,751</b>	<b>334,455</b>
<b>Total equity and liabilities</b>		<b>661,639</b>	<b>457,066</b>



## Consolidated statement of cash flows, IFRS

EUR 1,000	Note	1-12/2022	1-12/2021
<b>Cash flow from operating activities</b>			
Profit for the period		7,659	19,091
Taxes		-6,110	5,130
Depreciation, amortisation and impairment		45,498	34,701
Financial income and expenses		7,371	3,724
Other		-121	-45
<b>Net cash generated from operating activities before change in working capital</b>		<b>54,299</b>	<b>62,601</b>
Change in working capital		16,761	-3,336
Interest received		714	235
Taxes paid		-6,892	-2,564
<b>Net cash flow from operating activities</b>		<b>64,882</b>	<b>56,936</b>
<b>Cash flow from investing activities</b>			
Investments in tangible and intangible assets		-29,033	-14,833
Proceeds from disposal of property, plant and equipment and intangible assets and prepayments		408	526
Changes in other receivables and investments		-1,775	-1,350
Granted loans		-738	0
Dividends received		7	7
Acquisition of subsidiaries less cash and cash equivalents at date of acquisition	26	-52,308	-16,414
<b>Net cash flow from investing activities</b>		<b>-83,439</b>	<b>-32,064</b>
<b>Cash flow from financing activities</b>			
Changes in non-controlling interests		-408	-3,017
Acquisition of own shares		-1,475	-582
Proceeds from and repayment of borrowings	23	0	0
Proceeds from long-term borrowings	23	204,000	20,000
Repayment of long-term borrowings	23	-128,779	-21,584
Repayment of lease liabilities	23	-29,014	-19,822
Interest and other operational financial expenses		-8,307	-3,986
Dividends paid and other profit distribution		-8,589	-4,932
<b>Net cash flow from financing activities</b>		<b>27,429</b>	<b>-33,923</b>
<b>Changes in cash and cash equivalents</b>		<b>8,871</b>	<b>-9,050</b>
Cash at beginning of period		4,257	13,306
Cash at end of period		13,128	4,257





## Consolidated statement of changes in equity, IFRS

Equity attributable to owners of the parent company							
EUR 1,000	Note	Share capital	Reserve for invested unrestricted equity	Fair value reserve	Retained earnings	Non-controlling interests	Equity Total
<b>Total equity, 1 Jan 2021</b>		<b>80</b>	<b>116,520</b>		<b>-7,633</b>	<b>5,223</b>	<b>114,190</b>
Profit for the period					20,095	-1,004	19,091
Dividends paid					-4,517	-315	-4,832
Acquisition of own shares					-582		-582
Share-based benefits					14		14
<b>Total transactions with owners</b>					<b>-5,085</b>	<b>-315</b>	<b>-5,400</b>
Changes in NCI without a change in control	26				-4,875	-395	-5,270
<b>Total changes in subsidiary shareholdings</b>					<b>-4,875</b>	<b>-395</b>	<b>-5,270</b>
<b>Total equity, 31 Dec 2021</b>		<b>80</b>	<b>116,520</b>		<b>2,501</b>	<b>3,510</b>	<b>122,611</b>

Equity attributable to owners of the parent company							
EUR 1,000	Note	Share capital	Reserve for invested unrestricted equity	Fair value reserve	Retained earnings	Non-controlling interests	Equity Total
<b>Total equity, 1 Jan 2022</b>		<b>80</b>	<b>116,520</b>		<b>2,501</b>	<b>3,510</b>	<b>122,611</b>
Profit for the period					9,519	-1,859	7,659
Total comprehensive income for the period	25			4,090			4,090
Dividends paid					-6,767	-2,987	-9,754
Acquisition of own shares					-1,475		-1,475
Share-based benefits					-49		-49
Investments in group subsidiaries, reported						41	41
<b>Total transactions with owners</b>					<b>-8,290</b>	<b>-2,945</b>	<b>-11,236</b>
Changes in NCI without a change in control	26				-610	202	-408
Other changes					172		172
<b>Total changes in subsidiary shareholdings</b>					<b>-439</b>	<b>202</b>	<b>-236</b>
<b>Total equity, 31 Dec 2022</b>		<b>80</b>	<b>116,520</b>	<b>4,090</b>	<b>3,290</b>	<b>-1,092</b>	<b>122,888</b>



# Accounting policies

## Company profile

Pihlajalinna is one of the leading private social and healthcare service providers in Finland. The Group serves private persons, companies, insurance companies and public sector entities. Pihlajalinna provides a broad range of social and healthcare services as well as wellbeing services. The service selection includes general practitioner and medical specialist services, occupational healthcare, social and healthcare outsourcing, fitness centre services, responsible doctor and remote consultation services as well as residential services and staffing services.

At the end of the financial year, the total number of Pihlajalinna's private clinics, hospitals, dental clinics, fitness centres and service housing units with 24-hour assistance was approximately 140. In addition, Pihlajalinna has four major complete social and healthcare outsourcing agreements that collectively cover some 60 locations (including health centres, maternity and child health clinics, service housing units with 24-hour assistance and daytime activity centres).

The Group's parent company, Pihlajalinna Plc, is a Finnish public limited company established under the laws of Finland, whose Business ID is 2617455-1. The company is domiciled in Tampere, and its registered address is Kehräsaari B, FI-33200 Tampere, Finland. Pihlajalinna Plc's shares are listed on the NASDAQ OMX Helsinki main market. A copy of the consolidated financial statements is available on the internet at [investors.pihlajalinna.fi](https://investors.pihlajalinna.fi) or can be obtained at the head office of the Group's parent company, address Kehräsaari B, 33200 Tampere, Finland.

The Board of Directors of Pihlajalinna Plc approved these financial statements in its meeting on 16 February 2023. In accordance with the Finnish Limited Liability Companies Act, the shareholders may adopt or reject the financial statements at the Annual General Meeting held after their publication. The Annual General Meeting can also decide on modifications to be made to the financial statements.

## Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), and their preparation complies with the IAS and IFRS as well as SIC and IFRIC interpretations effective on 31 December 2022. International Financial Reporting Standards, as intended in the Finnish Accounting

Act and the regulations issued pursuant to the Act, refer to the standards that have been approved for application within the EU in accordance with Regulation (EC) No. 1606/2002 and interpretations thereof. The notes to the consolidated financial statements also comply with the Finnish accounting and company legislation that complements the IFRS regulations.

Accounting policies that influence a particular note to the consolidated financial statements are indicated with the heading *Accounting policies* in the note in question.

The consolidated financial statements are presented in euros and all figures are rounded to the nearest thousand, unless otherwise specified.

## New and amended standards applied in the past financial year

The Group has applied the following standards, which are already in effect, for the first time in its IFRS reporting:

### IFRS 9 Financial Instruments – Hedge Accounting

During the financial year 2022, the Group began to apply hedge accounting in respect of an interest rate swap entered into during the financial year 2022. During the financial year 2022, the Group entered into an interest rate swap agreement with a nominal value of EUR 65 million to hedge its floating rate financing arrangement. The interest rate swap is subject to cash flow hedge accounting. The accounting policies concerning hedge accounting are described in more detail in note 25 *Financial risk management*.

### IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Pihlajalinna has classified its dental health services as assets held for sale effective from 31 December 2022. The accounting policies are described in more detail in note 27 *Assets held for sale*.

Starting from the beginning of 2022, the Group has applied the following new and amended standards (effective for financial years starting on or after 1 January 2022):

### Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Costs of Fulfilling a Contract

When an onerous contract is accounted for based on the costs of fulfilling the contract, the amendments clarify that these costs comprise both the incremental costs and an allocation of other direct costs. The amendments to the standard have not had a material effect on Pihlajalinna's consolidated financial statements.

Other new or amended standards that entered into effect on 1 January 2022 did not have a material effect on Pihlajalinna's consolidated financial statements.

## Consolidation principles

### Subsidiaries

Subsidiaries are entities in which the Group exercises control. The Group has control of an entity when it is exposed, 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.

Intragroup shareholdings are eliminated using the acquisition method. The consideration transferred and the acquired entity's identifiable assets and assumed liabilities are measured at fair value at the date of acquisition. Acquisition-related costs are expensed. Any contingent consideration is measured at fair value at the date of acquisition and classified as a liability. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group retrospectively adjusts the provisional amounts recognised at the acquisition date to reflect any new information. The measurement period may not exceed one year from the acquisition date. A contingent consideration classified as a liability is measured at fair value at the end of each reporting period, and any resulting gain or loss is recognised in profit or loss after the end of the measurement period.

Non-controlling interests in the acquiree are recognised either at fair value or an amount that corresponds to their pro rata share of the acquiree's net assets. The amount by which the consideration



transferred, non-controlling interests in the acquiree and previously owned holding combined exceed the fair value of the acquired net assets is recognised as goodwill in the consolidated statement of financial position. If the combined value of the consideration, non-controlling interests and previously owned holding is lower than the fair value of the acquiree's net assets, the difference is recognised in the statement of comprehensive income.

Acquired subsidiaries are consolidated from the date when the Group obtained control, and disposed subsidiaries are consolidated until the date when the Group lost control. All intragroup transactions, receivables, liabilities, unrealised profits and internal profit distribution are eliminated in the preparation of the consolidated financial statements. Unrealised losses will not be eliminated in case of impairment losses. Profit or loss for the financial year attributable to the owners of the parent company and to the non-controlling interests is presented in the consolidated statement of comprehensive income. Comprehensive income is attributed to the owners of the parent company and to the non-controlling interests, even if this would lead to a situation where the portion attributable to the non-controlling interests is negative. The portion of equity attributable to the non-controlling interests is presented as a separate item under equity in the consolidated statement of financial position. Such changes in the parent company's ownership interest in a subsidiary that do not lead to loss of control are treated as equity transactions.

In connection with step-by-step acquisitions, the former ownership interest is measured at fair value, and the resulting gain or loss is recognised in profit or loss. When the Group loses control of a subsidiary, any remaining interest is measured at fair value at the date of loss of control, and the resulting difference is recognised in profit or loss.

### Associates and joint arrangements

Associates are companies over which the Group has significant influence. As a rule, significant influence is established when the Group holds more than 20% of a company's voting power or otherwise has significant influence but no control.

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control involves contractually agreed sharing of control of an arrangement, which exists only when decisions about relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture. A joint venture is an arrangement whereby the Group has rights to the net assets of the arrangement, whereas in a joint operation the Group has rights to the assets, and obligations for the liabilities, relating to the arrangement.

Associates and joint ventures are consolidated using the equity method. If the Group's share of the loss of an associate or a joint venture exceeds the carrying amount of the investment, then the investment is carried at zero value, and the losses exceeding the carrying amount are not consolidated, unless the Group is committed to fulfilling the obligations of the associate or joint venture. An investment in an associate or a joint venture includes the goodwill generated through the acquisition. Unrealised profits between the Group and an associate or a joint venture are eliminated in proportion to the Group's ownership interest. The Group's pro rata share of an associate's or a joint venture's profit for the financial year is included in operating profit.

The Group owns 31% in Kiinteistö Oy Levin Pihlaja, which is consolidated as a joint operation according to the pro rata share, using the proportionate consolidation method.

### Foreign currency translation

The consolidated financial statements are presented in euros, which is the functional currency and presentation currency of the Group's parent company and of the subsidiaries engaged in business activities. In their own accounting, Group companies translate day-to-day transactions denominated in foreign currency into their functional currency applying the exchange rates of the transaction date. Foreign exchange gains and losses related to the business are included in the corresponding expense items.

### Segment reporting

Pihlajalinna's CEO is the Group's chief operating decision maker. The CEO monitors the Group's result and makes significant operating decisions at the Group level. The Group operates only in Finland and its management system is based on a regional organisation structure. Under Pihlajalinna's operating structure, the Group's CEO, with the help of the Chief Operating Officers and the other members of the Management Team, is responsible for the Group's business operations and service offering to both the private and public sectors. The Chief Operating Officers prepare budgets for the Group's businesses with the help of regional directors and the managing directors of the municipal companies. The Group CEO is responsible for the resources, investments and profitability of the Group's businesses. Pihlajalinna's group of cash-generating units corresponds to the reporting segment, i.e. the Group level. Group-level figures are reported as segment information.

The Group CEO uses the key figures from the IFRS financial statements in reporting on the Group's result. The Group CEO assesses the result and profitability on the basis of the adjusted EBIT and adjusted EBITDA, and the reporting of the result complies with the accounting

principles applied in the consolidated financial statements. The adjustment items for the adjusted EBIT and adjusted EBITDA are specified in Note 24 *Capital management*. Adjustments to EBITDA amounted to EUR 9.8 (2.7) million for the financial year, while adjustments to EBIT totalled EUR 9.7 (2.4) million.

### Accounting policies requiring management judgement and major sources of estimation uncertainty

In the course of preparing the financial statements, it is necessary to make estimates and assumptions about the future. However, such estimates and assumptions may later prove inaccurate compared with actual outcomes. The Group regularly monitors the realisation of the estimates and assumptions and changes in the underlying factors together with the business units by using several, both internal and external, sources of information. Any changes in estimates and assumptions are recognised in the financial year during which the estimate or assumption is corrected and in all subsequent financial years. Additionally, it is necessary to exercise judgement in the application of the accounting policies.

Information on the key uncertainties based on assumptions and estimates that give rise to a significant risk of a material change in the carrying amounts of assets and liabilities during the next financial year, and the decisions based on the management's judgement that Pihlajalinna's management has made in applying the accounting policies to the consolidated financial statements and which have the most impact on the figures presented in the consolidated financial statements, is presented in the following sections:

	Note
Assumptions used concerning the profitability of the Group's fixed-term complete social and healthcare services outsourcing agreements	1
Assumptions used in impairment testing	13
Assumptions related to the measurement of trade receivables	16
Assumptions used in the recognition of deferred tax assets	19
Fair value measurement of assets and liabilities acquired in business combinations and contingent considerations	26



## New and revised standards and interpretations to be applied in future financial years

The International Accounting Standards Board has published the following new or amended standards and interpretations which the Group has not yet applied, but which are expected to have an effect on the consolidated financial statements. The Group will adopt them as from the effective date of each standard and interpretation, or if the effective date is some date other than the first day of the financial year, as from the beginning of the financial year that first follows the effective date.

\* = The regulation in question was not approved for application in the EU by 31 December 2022.

### **Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements**

(Effective for annual periods beginning on or after 1 January 2023, early application is permitted)

The amendments clarify the application of the materiality principle to disclosures of accounting policies.

### **Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors\***

(Effective for annual periods beginning on or after 1 January 2023, early application is permitted)

The amendments clarify how reporting entities should separate changes in accounting policies from changes in accounting estimates. The amendments are focused on clarifying the definition of an accounting estimate.

### **Amendments to IAS 12 Income Taxes concerning the recognition of deferred tax assets and liabilities**

(Effective for annual periods beginning on or after 1 January 2023)

The amendments narrow the initial recognition exemption and clarify that the exemption does not apply to transactions such as leases and decommissioning obligations which give rise to equal and offsetting temporary differences.

### **Amendments to IFRS 16 Leases\***

(Effective for annual periods beginning on or after 1 January 2024, early application is permitted)

The amendments introduce a new accounting model for variable payments and will require seller-lessees to reassess and potentially restate sale-and-leaseback transactions entered into since 2019.

### **Amendments to IAS 1 Presentation of Financial Statements\***

(Effective for annual periods beginning on or after 1 January 2024, early application is permitted)

The amendments aim to promote consistency in application and clarify the requirements on determining whether a liability is current or non-current. The amendments specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. The amendments require the disclosure of information about such covenants in the notes to the financial statements.

### **Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures\***

(available for optional application, effective date deferred indefinitely)

The amendments address the conflict between the existing guidance on consolidation and equity accounting and require the full gain to be recognised when the assets transferred meet the definition of a business under IFRS 3 Business Combinations.

The new or amended standards listed above, or other new or amended standards, are not expected to have a significant effect on Pihlajalinna's consolidated financial statements.



# Notes to the consolidated financial statements, IFRS

## 1. Revenue from contracts with customers

### Accounting policies

The Group's revenue consists of payments related to the sale of healthcare services, social services and wellbeing services measured at fair value, adjusted by any variable consideration. The healthcare services provided by the Group consist of occupational health services, services provided at private clinics and hospitals, responsible doctor services, diagnostics services, rehabilitation services and dental care services. The social services provided by the Group consist of services for the elderly and the disabled, mental health services and substance abuse group services. A significant part of the consolidated revenue consists complete social and healthcare outsourcing, which also includes the provider's liability for the costs of specialised care. The Group produces recruitment services related to healthcare professionals. The Group's Forever fitness centres offer diverse wellbeing services for adults who exercise. Fitness centre services complement Pihlajalinna's preventive occupational healthcare services and rehabilitation services carried out after specialised care procedures. Pihlajalinna's services are also extensively available via digital channels.

The Group recognises revenue from services produced by employees and independent practitioners on a gross basis, i.e. based on total customer invoicing, and the fees charged to the Group by independent practitioners are recognised in the income statement item External services, practitioners. As Pihlajalinna has primary responsibility for the provision of services to its customers, and the Group is exposed to significant risks and benefits related to the sale of services, the Group acts as a principal with regard to practitioners with whom it has a contractual relationship.

IFRS 15 Revenue from Contracts with Customers includes a five-step model that defines when, and at what amount, revenue from contracts with customers is recognised. Revenue can be recognised over time or at a point in time, and the transfer of control is the key criterion.

The primary performance obligations for Pihlajalinna's various revenue streams are as follows:

### Social and healthcare outsourcing

- statutory social and healthcare services for a municipality's residents, separately described in contracts with customers, including possible public specialised care
- individual social and healthcare service visits by residents of other municipalities

### Private clinics and dental care

- individual customer visits to healthcare services at operating locations or digitally, including related support services

### Surgical operations

- individual visits and related support services (e.g. private individuals who pay for their services themselves or through insurance companies)

### Occupational healthcare

- individual occupational healthcare customer visits (e.g. appointments with occupational healthcare nurses and doctors, laboratory tests) at operating locations or digitally
- preventive and health-promoting separately agreed services (e.g. occupational health check-ups, workplace-specific occupational health surveys)
- other additional services agreed upon with the customer (e.g. first aid course)

### Fitness centre services

- obligations related to monthly and annual fees for fitness centre services
- individual separately charged additional services

### Recruitment services

- customer-specific monthly fees for recruitment services
- individual separately charged recruitment services

### Responsible doctor services

- location-specific daily charges described in the customer agreement

### Staffing service

- selling a healthcare professional's labour event-specifically or based on time
- customer-specific monthly fees for emergency and on-call services

### Residential services

- elderly care home services on each day covered by the agreement
- individual separately charged additional services or health centre visits

### Digital services

- Remote doctor services
- Remote nurse services
- Other digital services related to appointment booking and assessing the need for care, other digital services ordered by the customer

The services promised in a contract are treated as a single series of distinct services comprised performance obligation when the services provided are repeated in the same manner with respect to their substantial aspects and whose transfer to the customer takes place over time. The performance obligation in the Group's social and healthcare outsourcing arrangements is the municipality's statutory social and healthcare service operations described in the customer agreement. The Group's customer contracts for the outsourcing of social and healthcare services are considered to consist of a single performance obligation in which the services provided by the Group are combined into a bundle of services.

Transaction prices mainly comprises individual services according to the price list or annual, monthly, daily or hourly rates based on customer contracts. The outsourcing agreements are, as a rule, based on a fixed annual price. In most cases, the price concerns an individual performance obligation. In some cases, the price includes a variable component of consideration (e.g. discount, penalty charge, bonus, additional price, additional service), which is allocated to one or more performance obligations in proportion to their separate selling prices. The Group assesses the effect of the variable components on the amount of revenue recognised using historical data, for example, and recognises them at the most likely amount. The recognition of revenue from the Group's complete social and healthcare services outsourcing agreements may become more accurate with a delay and may also include variable consideration. The Group may not always be aware of the actual costs of the agreements, which may also affect revenue recognition.

The performance obligations are fulfilled either over time (e.g. outsourcing, residential services, fitness centre services, recruitment services, responsible doctor services, fixed-price occupational health services) or at a point in time (e.g. occupational healthcare services, individual customer visits, additional services). In the services, the customer simultaneously receives and consumes the benefit from Pihlajalinna's performance.

Revenue is recognised on the reporting date at the amount that Pihlajalinna considers itself to be entitled to in exchange for the services delivered. Sales revenue from individual services is recognised at a point in time according to the time of the appointment or the use of the service. Revenue from outsourcing agreements for social and healthcare services under fixed annual prices is recognised over time. In outsourcing arrangements, the customer simultaneously receives and consumes the benefit from the service, which means that the conditions for recognising revenue over time are met. The variable consideration and costs recognised on the reporting date are partly based on estimates of their amounts.

The payment terms and periods included in the contracts vary, but the payment periods are typically less than one year. The contracts do not include significant financing components or additional expenditure arising from contractual receivables.

In connection with outsourcing agreements, the client may provide Pihlajalinna, without financial consideration, with use of publicly owned infrastructure, or part thereof, which Pihlajalinna operates in service production under the outsourcing agreement. The IFRIC 12 Service Concession Arrangements interpretation

is applied to the recognition of outsourcing agreements if the out-sourcing party decides on the scope and pricing of the services provided by Pihlajalinna and Pihlajalinna returns the infrastructure, free of charge, at the conclusion of the outsourcing agreement. In such cases, Pihlajalinna is not considered to have control over assets received without consideration from a public-sector entity.

### Timing of the satisfaction of performance obligations

EUR 1,000	2022	2021
At a point in time	318,950	223,856
Over time	371,531	353,918
<b>Total</b>	<b>690,481</b>	<b>577,774</b>

### Key accounting estimates and decisions based on management judgement

During the financial year, the management used particular judgment with regard to the measurement and recognition of variable consideration and legal claims related to complete outsourcing agreements for social and healthcare services. The exact actual costs of the Group's fixed-term complete outsourcing agreements for social and healthcare services are not always known to the Group on the reporting date, and the agreements may also include variable components. Consequently, the reported profitability of such agreements may be specified with a delay, and the actual outcomes may deviate from the estimates made by the management on the reporting date. The cost accumulation of public specialised care also involves random fluctuation. In addition, individual cases falling within the scope of the hospital districts' pooling system for high-cost care may influence the cost liability of specialised care considerably during the financial year, and between financial periods, in Pihlajalinna's municipal companies.

The fixed-term service agreements for all of the Group's complete outsourcing arrangements are highly similar with regard to their principles and basic terms. Pihlajalinna has calculated and recognised the variable compensation components and cost compensation under the agreements using the same criteria and model for all clients. Demands for the compensation of cost increases due to changes in services to correspond to the actual costs and investment costs that serve operations after the end of the term of the contract being the client's responsibility constitute the majority of costs and variable compensation components that are specified with a delay. For 2022, the detailed specification of investment costs and COVID-19 related costs included in invoicing by hospital districts can only be carried out after the hospital districts have published their financial statements.

Pihlajalinna has recognised only part of these legally justified claims in its income statement. The parties to the agreements are bound by an obligation to negotiate and negotiation is the primary procedure. If the obligation to negotiate does not lead to payment, the receivables are sought through legal action, which may further delay the collection of items presented in current receivables in the financial statements.

### Items that may, according to the management's estimate, influence the profitability of complete outsourcing agreements with a delay:

On 4 April 2022, the District Court of Central Finland handed down its ruling on the dispute concerning the service agreement between Jämsän Terveys Oy and the City of Jämsä. The ruling is not final. As a result of



adjustments recognised in accordance with the court's ruling, the profit attributable to the owners of Pihlajalinna Group's parent company decreased by EUR 2.8 million for the financial year. The ruling decreased revenue by EUR 2.4 million, and EBITDA was reduced by EUR 4.6 million. The City of Jämsä owns 49 per cent of the company and Pihlajalinna 51 per cent. Earnings per share were weakened by EUR 0.12 per share by the ruling. The ruling did not have an immediate material impact on cash flow. For the sake of comparability, the effects of the District Court's ruling have been processed as adjustment items. Jämsän Terveys has filed an appeal regarding the District Court's ruling to the Court of Appeal. The operating preconditions for Jämsän Terveys' service production have been secured with an efficiency improvement programme and temporary parent company funding.

During the financial year, Jämsän Terveys Oy has recognised as revenue and recorded in its receivables EUR 1.2 million, mainly COVID-19-related costs for the current year, which the client has not paid in breach of the service agreement. In addition, a difference of opinion has emerged between the company and the City during the financial year on the impact of the transfer of personnel on the annual fee under the service agreement. The parties are actively engaged in negotiations with a view to resolving outstanding issues. The above matters have been agreed with the new client, i.e. the Wellbeing Services County of Central Finland, as presented to the City of Jämsä as of 1 January 2023.

The total amount of contractually and legally justified variable compensation from the City of Mänttä-Vilppula that Mäntänvuoren Terveys Oy has recognised as revenue and recorded in its receivables amounts to EUR 4.3 (4.1) million. The variable compensation recognised as revenue in accordance with the agreement includes an estimate of compensation for specialised care costs to the service provider of the Pirkanmaa Hospital District's investment costs allocated to the client. The receivables from variable compensation components are also related to cost increases caused by service changes and compensating such increases in accordance with the actual costs. A preliminary agreement has been made with the new client, i.e. the representatives of the Wellbeing Services County of Pirkanmaa, to transfer the cost liability of demanding specialised care away from the company.

The total amount of contractually and legally justified variable compensation from the City of Parkano that Kolmostien Terveys Oy has recognised as revenue and recorded in its receivables amounts to EUR 1.3 (1.7) million. The amount has been influenced by the decision of the Parkano City Council on 26 September 2022 to allocate an additional appropriation to the budget of the basic welfare committee for 2022. The variable compensation recognised as revenue in accordance with the agreement includes an estimate of compensation for specialised care costs to the service provider of the Pirkanmaa Hospital District's investment costs allocated to the client. Other receivables from variable compensation are mainly related to COVID-19 cost compensation for 2022. The client has already previously approved cost increases arising from changes to services for the elderly as part of the annual fee under the service agreement. A preliminary agreement has been made with the new client, i.e. the representatives of the Wellbeing Services County of Pirkanmaa, to transfer the cost liability of demanding specialised care away from the company.

The total amount of contractually and legally justified variable compensation that the lead contracting partner for complete outsourcing Pihlajalinna Terveys Oy has recognised as revenue and recorded in its receivables amounts to EUR 0.6 (0.2) million.

The Group's receivables include the above-mentioned items totalling EUR 7.4 (9.8) million.

### Contractual assets and liabilities

There may be differences in timing between revenue recognition and invoicing. The Group recognises a contractual asset when revenue is recognised before invoicing and, correspondingly, a contractual liability

when revenue is recognised after invoicing. The sales accrual information previously presented in the material items of deferred assets and deferred liabilities in the notes to trade receivables and trade payables are now presented as either contractual assets or contractual liabilities.

### Summary of contractual items

EUR 1,000	2022	2021
<b>Trade receivables</b>	54,568	79,701
<b>Contract assets</b>		
Current	6,052	6,661
<b>Contract liabilities</b>		
Current	3,237	920

### The amount of revenue recognized during the financial year that was included in contract liabilities at the beginning of the period:

EUR 1,000	2022	2021
Revenue recognized from amounts included in contract liabilities	920	909

### Revenue by region

Pihlajalinna reports its sales revenue divided into the following geographical regions:

- Southern Finland includes Pihlajalinna's business operations in the regions of Uusimaa, South West Finland, Päijät-Häme, Kymenlaakso and South Karelia.
- Mid-Finland includes Pihlajalinna's business operations in the regions of Pirkanmaa, Satakunta, Kanta-Häme, Central Finland, South Savo, North Karelia and North Savo.
- Ostrobothnia includes Pihlajalinna's business operations in the regions of Southern Ostrobothnia, Ostrobothnia and Central Ostrobothnia.
- Northern Finland includes Pihlajalinna's business operations in the regions of North Ostrobothnia, Kainuu and Lapland.

## REPORT BY THE BOARD OF DIRECTORS

## AUDITED FINANCIAL STATEMENTS

## INFORMATION FOR SHAREHOLDERS

EUR 1,000	2022	%	2021	%
Southern Finland	164,073	21%	148,291	23%
Mid-Finland	374,741	49%	330,820	51%
Ostrobothnia	132,465	17%	128,335	20%
Northern Finland	43,440	6%	29,934	5%
Other operations	49,267	6%	13,374	2%
Intra-Group sales	-73,505		-72,980	
<b>Consolidated revenue</b>	<b>690,481</b>	<b>100%</b>	<b>577,774</b>	<b>100%</b>

## Sales revenue by customer group

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

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

EUR 1,000	2022	%	2021	%
Corporate customers	225,270	33	137,773	21
of which insurance company customers	98,447	14	34,798	5
Private customers	103,243	15	85,320	13
Public sector	435,476	63	427,661	66
of which complete outsourcing	303,902	44	300,813	46
of which staffing	24,797	4	26,073	4
of which occupational healthcare and other services	106,777	15	100,775	15
Intra-Group sales	-73,508		-72,980	
<b>Consolidated revenue</b>	<b>690,481</b>	<b>100</b>	<b>577,774</b>	<b>100</b>

## Information on key customers

The Group's sales revenue from the four largest customers totalled approximately EUR 281.4 (277.9) million, representing approximately 41% (48%) of the consolidated revenue.

Estimate of unsatisfied performance obligations related to Group's social and healthcare outsourcing arrangements, EUR million:

EUR 1,000	31 Dec 2022	31 Dec 2021	EUR 1,000	31 Dec 2022	31 Dec 2021
2022		263	2031	30	37
2023	245	266	2032	7	6
2024	249	269	2033	7	6
2025	226	247	2034	7	6
2026	177	199	2035	7	6
2027	179	201			
2028	182	204			
2029	184	206			
2030	156	167			
				<b>1,656</b>	<b>2,083</b>

Service provider – client	First year of service production under the current contract		Duration of contract (years)
Jämsän Terveys Oy - Jämsän kaupunki	2015		10
KuusioLinna Terveys Oy - KuusSote	2016		15
Mäntänvuoren Terveys Oy - Mänttä-Vilppulan kaupunki	2016		15
Kolmostien Terveys Oy - Parkanon kaupunki	2015		15
Bottenhavets Hälsa Ab - Selkämeren Terveys Oy - Kristiinankaupunki	2021		15 - 20 years

As part of the new legislation governing social and healthcare services in Finland, the responsibility for organising social and healthcare services was transferred to the newly established wellbeing services counties on 1 January 2023. In connection with this change, agreements previously signed by municipalities were transferred in accordance with the responsibility for service provision. Pursuant to the legislation concerning the reform of social and healthcare services, the wellbeing services counties are required to indicate by the end of 2023 whether their subcontracting agreements will continue. According to the assessment of the company's management, its fixed-term service agreements will remain in effect, as agreed, with the wellbeing services counties until the end of the term for each agreement.

## 2. Other operating income

### Accounting policies

Government grants received as compensation for expenses already incurred are recognised in profit or loss for the period in which they become receivable. These grants are presented under other operating income. Government grants related to capitalised development projects are recognised as deductions from the carrying amounts of intangible assets, when there is reasonable assurance that such grants will be received and that the Group will comply with the conditions for receiving them. The grants will be recognised as income over the useful life of an asset by way of reduced depreciation.

The Group has subleased certain premises that are not used for business operations. Income from these leases is presented under other operating income.

### Sale and leaseback

With regard to sale and leaseback agreements completed prior to the adoption of IFRS 16, the Group will continue the allocation of capital gains as before in accordance with the transition provision of IFRS 16.

If a finance lease is created as a result of a sale and leaseback agreement, the difference between the carrying amount and the sales price will be recognised in the consolidated statement of financial position and recognised as income over the lease term under other operating income. The unrecognised portion of the difference between the carrying amount and the sales price is presented as Other liabilities in the statement of financial position.

EUR 1,000	2022	2021
Capital gains on property, plant and equipment	275	209
Rental income	503	528
Government grants	1,339	1,160
Other income items	2,779	1,807
<b>Total</b>	<b>4,896</b>	<b>3,704</b>

### Effects of COVID-19

In June 2020, the Finnish Government decided on support for business costs for companies that had suffered a significant decrease in revenue due to the COVID-19 pandemic and that have had costs that are difficult to adjust. In 2022, the Finnish Government carried out the fifth round of cost support for companies. In the financial year 2022, Pihlajalinna recorded in the other operating income in the government grants EUR 488 thousand cost support for covering the fixed costs of the Group's fitness centres. In 2021, Pihlajalinna received EUR 628 thousand in cost support for covering the fixed costs of the Group's fitness centres.

Compensation for the costs of pandemic-related services under the Group's complete outsourcing agreements is presented in other operating income under other income items. Agreement on the compensation principles was reached with the client municipalities in 2021. Municipalities and joint municipal authorities are compensated for costs directly related to the COVID-19 pandemic by means of government grants.

## 3. Materials and services

### Accounting policies

Inventories are measured at acquisition cost or lower probable net realisable value.

EUR 1,000	2022	2021
Materials	-30,975	-20,452
Change in inventories	648	153
External services, practitioners	-112,527	-73,042
External services, other	-124,370	-116,176
<b>Total</b>	<b>-267,224</b>	<b>-209,516</b>

## 4. Employee benefit expenses

### Accounting policies

Pension plans are classified as defined benefit plans and defined contribution plans. The Group only has defined contribution plans. In defined contribution plans, the Group makes fixed payments to a separate unit. The Group has no legal or constructive obligation to make additional payments if the recipient of the payments is incapable of paying out said retirement benefits. Payments made into the defined contribution plans are recognised in profit or loss for the financial year for which they are charged.

The long-term share-based incentive scheme is recognised as an expense over its accrual period. The gross amount of the incentive scheme includes the share component and the cash component. Approximately half of the gross remuneration, corresponding to withholding taxes, is paid in cash. Information on related party employee benefits and loans are presented in Note 31 *Related party transactions*.

EUR 1,000	2022	2021
Wages and salaries	-245,289	-211,095
Share-based incentive schemes		
- implemented as shares	-97	-357
Pension costs - defined contribution plans	-42,010	-35,344
Other social security expenses	-9,176	-8,368
<b>Total</b>	<b>-296,572</b>	<b>-255,164</b>

Number of personnel	2022	2021
Personnel on average (FTE)	5,167	4,746
Personnel at the end of the period (NOE)	7,016	6,297

## 5. Share-based incentive scheme for key personnel

At its meeting on 23 March 2022, the Board of Directors approved the terms of a share-based incentive program (LTIP 2022) for the key persons of the company. In its entirety the incentive scheme is to form a six-year program and the share rewards based on the program are not allowed to be disposed of prior to year 2025. In addition, in order to participate to the program, a key person must invest into Pihlajalinna shares.

Performance and quality-based share program shall comprise of four separate performance periods of one year each (calendar years 2022, 2023, 2024 and 2025). Potential share rewards shall be paid out after the performance periods in years 2023, 2024, 2025 and 2026 provided that the performance and quality-based targets as set by the board are reached. The maximum number of shares (gross amount prior to deduction of applicable withholding tax) for each one year performance period is defined in the allocation per participant. Shares paid off as share rewards shall be subject to a two-year transfer restriction. The criteria for the performance and quality based additional share program are adjusted EBITA as well as key operative and quality indicators of Pihlajalinna Group.

A total of 42 key persons are entitled to participate to the share-based incentive program. In case all the persons entitled to participate do participate to the program by meeting the condition of investment in full and in case the performance targets set to the program are achieved in total, the total amount of the share rewards payable under the program is a maximum of approximately 1,100,000 shares (gross amount prior to the deduction of applicable withholding tax) and the total value of the share reward program is approximately EUR 12.8 million. In case the program materializes in full, the above amount of shares equals approximately to 4.8 per cent of the total amount of the shares of the company.

No performance- and quality-based share rewards materialised for the first performance period 2022 pursuant to the incentive plan, as the minimum objectives set for the programme were not achieved.

## 6. Other operating expenses

EUR 1,000	2022	2021
Voluntary indirect employee costs	-7,896	-4,997
Facility expenses	-14,309	-9,908
Vehicle operating costs	-913	-664
Information management expenses	-26,170	-17,531
Machinery and equipment expenses	-7,061	-5,040
Travel expenses	-2,867	-2,383
Sales and marketing expenses	-6,441	-5,449
Other expenses	-11,508	-8,180
<b>Total</b>	<b>-77,164</b>	<b>-54,151</b>

### Facility expenses

Auditing, KPMG Oy Ab	-343	-288
Statements, KPMG Oy Ab	-20	-10
Non-audit services, KPMG Oy Ab	-51	
<b>Total</b>	<b>-414</b>	<b>-298</b>

## 7. Depreciation and impairment

### Accounting policies

Property, plant and equipment will be depreciated using the straight-line method over their estimated economic useful lives. The estimated economic useful lives are as follows:

Buildings	10–25 years
Renovation expenses on real estate	5–10 years
Machinery and equipment	3–10 years
Other tangible assets	3–5 years

For the magnetic imaging equipment at new private clinics, the Group adopted a units-of-production based depreciation method effective from 1 January 2018. The amount of depreciation is based on the units of production derived from the equipment. For the Group's other machinery and equipment, the Group still uses straight-line depreciation. As the utilisation rate of imaging capacity is low during the first years of a new operating location, the units-of-production method provides a more accurate reflection of the actual economic use of the magnetic imaging equipment in question.

For intangible assets with finite economic useful lives, the amortisation periods are as follows:

Trademarks	10 years
Development costs	3–10 years
Customer agreements	4 years
Patient database	4 years
Non-competition agreements	2–5 years
Other intangible assets	3–7 years

Property, plant and equipment is depreciated on a straight-line basis over the shorter of economic useful life or lease term.

The planned depreciation periods of property, plant and equipment are as follows:

Right-of-use plots	25 years
Right-of-use buildings and business premises	1–15 years
Right-of-use equipment	3–10 years

Impairment is recognised pursuant to IAS 36 for onerous right-of-use buildings and business premises.

## Depreciation, amortisation and impairment by asset type

	2022	2021
Intangible assets		
Trademarks	-1,040	-776
Capitalised development costs	-930	-961
Customer relationship value	-1,233	-1,622
Non-competition agreements	-60	-355
Patient database	-378	-232
Other intangible assets	-4,036	-2,752
	<b>-7,677</b>	<b>-6,699</b>
Property, plant and equipment		
Buildings	-104	-96
Renovation expenses on real estate	-2,217	-2,463
Machinery and equipment	-8,327	-6,604
Other tangible assets	-1	-1
	<b>-10,649</b>	<b>-9,163</b>
Right-of-use assets		
Right-of-use plots	-97	-91
Right-of-use buildings and business premises	-26,178	-17,885
Right-of-use equipment	-898	-863
	<b>-27,173</b>	<b>-18,840</b>
<b>Total depreciation, amortisation and impairment</b>	<b>-45,498</b>	<b>-34,701</b>

## 8. Financial income

EUR 1,000	2022	2021
Dividend income from financial assets measured at fair value through profit or loss	7	7
Interest income from loans and receivables	533	118
Interest income from financial lease receivables	135	83
Other financial income	46	35
<b>Total</b>	<b>721</b>	<b>242</b>

## 9. Financial expenses

EUR 1,000	2022	2021
Interest expenses from financial liabilities carried at amortised cost	-3,392	-1,726
Interest expenses on lease liabilities	-3,439	-1,706
Other financial expenses	-1,243	-524
<b>Total</b>	<b>-8,074</b>	<b>-3,956</b>

Pihlajalinna rearranged its long-term debt financing with a sustainability-linked financing arrangement in March 2022 which is described in more detail in Note 22 *Financial liabilities* and Note 25 *Financial risk management*. Acquisitions and investments in connection with the opening of new units as well as renovations of existing units have increased Pihlajalinna's indebtedness and thus interest costs.

The acquisition of Pohjola Hospital increased the interest expenses of Pihlajalinna's lease liabilities by EUR 1.8 million.

The financing rearrangement and the waiver costs paid at the end of the year due to the increase in the temporary covenant levels caused a total of EUR 0.7 million in one-time financing costs.

## 10. Income taxes

## Accounting policies

The income taxes on the consolidated income statement consist of current tax, adjustments to taxes for previous periods, and deferred taxes. Taxes are recognised in profit or loss, except when they are directly attributable to items recognised under equity or other comprehensive income. In such cases, also the tax is recognised under the item in question. Current tax is calculated on taxable profit, based on the enacted tax rate. Tax is adjusted with any taxes associated with prior financial years. Any penal interests related to said taxes are recognised under financial expenses. The share of associates' profit is presented in the statement of comprehensive income as calculated from net profit and thus including the income tax charge.

EUR 1,000	2022	2021
Current taxes	-1,931	-5,291
Taxes for the previous financial years	-37	2
Deferred taxes	8,078	159
<b>Total</b>	<b>6,110</b>	<b>-5,130</b>

The change in deferred taxes for the year 2022 is related to deferred tax assets recorded from confirmed losses, which are described in more detail in note 19 *Deferred tax assets and liabilities*.

## Reconciliation of effective tax rate

EUR 1,000	2022	2021
Profit before taxes	1,550	24,222
Taxes calculated on the basis of the Finnish tax rate (20%)	-310	-4,844
Income not subject to tax	2	2
Non-deductible expenses	-309	-284
Unrecorded deferred tax assets from tax losses	-70	-635
Recorded deferred tax assets from tax losses	6,381	
Utilised prior losses with unrecognised tax benefits	333	495
Share of associated company's profit	-3	-2
Share-based remuneration	-13	24
Other items	137	112
Taxes for prior financial years	-37	2
<b>Taxes in the income statement</b>	<b>6,110</b>	<b>-5,131</b>
<b>Effective tax rate</b>		<b>-21.2 %</b>

## 11. Earnings per share

## Accounting policies

Earnings per share is calculated by dividing the profit for the financial year attributable to owners of the parent by the weighted average number of shares outstanding during the financial year.

Earnings per share for the financial year attributable to owners of the parent are calculated by dividing the profit for the financial year attributable to owners of the parent by the weighted average number of shares outstanding during the financial year.

When calculating diluted earnings per share, the average number of shares is adjusted by the dilution effect of the share-based incentive scheme.

EUR 1,000	2022	2021
Profit for the financial year attributable to owners of the parent, EUR	9,518,830.97	20,094,607.63
Number of shares outstanding, weighted average	22,560,271	22,589,383
Basic earnings per share (EPS), EUR/share	0.42	0.89
Diluted earnings per share, EUR/share	0.42	0.89

## 12. Property, plant and equipment

## Accounting policies

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures incurred directly from the acquisition of an item of property, plant and equipment. Costs incurred subsequently are included in the carrying amount of an asset only if it is deemed probable that any future economic benefits related to the asset will flow to the Group and that the cost of the asset can be reliably determined. Other repair and maintenance costs will be expensed at the time they are incurred.

The residual value, the useful life of an asset and the depreciation method applied are reviewed at least at the end of each financial year and adjusted as necessary to reflect the changes in the expectations concerning the economic benefits attached to the asset. Capital gains generated from decommissioning and disposing of property, plant and equipment are included under other operating income, and capital losses are included under other operating expenses.

Assets are depreciated from the time when they are ready for use; i.e. when their location and condition allow them to be applied as intended by the management.

In 2018, the Group opened private clinics in Turku, Oulu and Seinäjoki. The Group acquired 3 Tesla high-field magnetic imaging equipment for the clinics in Oulu and Turku and a 1.5 Tesla high-field magnetic imaging device for the clinic in Seinäjoki. For the magnetic imaging equipment at these green field private clinics, the Group adopted a units-of-production based depreciation method effective from 1 January 2018. The amount of depreciation is based on the units of production derived from the magnetic imaging equipment. The same depreciation method is also applied for Pohjola Sairaala's 3 Tesla high field magnetic imaging equipment in Helsinki, Tampere, Turku, Oulu and Kuopio. For the Group's other machinery and equipment, the Group still uses straight-line depreciation.





## Property, plant and equipment

EUR 1,000	Land areas	Buildings	Renovation expenses on real estate	Shares in real		Other tangible assets	Construction in progress	Total
				estate companies	Machinery and equipment			
Cost at 1 January 2022	36	3,026	30,549	5,572	63,496	172	1,344	104,195
Additions	0	3	482	0	15,972	2	8,316	24,774
Business combinations	0	0	131		1,272	0	0	1,403
Transfers between items	0	0	4,384	0	157	0	-4,414	127
Reclassifications to assets held for sale	0	0	-1,282	-100	-5,072	-7	0	-6,461
Disposals	0	0	0	0	-484	0	0	-484
Cost at 31 December 2022	36	3,029	34,263	5,472	75,341	167	5,246	123,554
Accumulated depreciation at 1 January 2022		-505	-19,131	0	-39,560	-10	0	-59,206
Depreciation and amortisation		-104	-2,217	0	-8,327	-1	0	-10,649
Transfers between items		98	-10	0	-124	0	0	-37
Reclassifications		0	807	0	4,070	0	0	4,877
Disposals		0	0	0	197	0	0	197
Accumulated depreciation at 31 December 2022		-511	-20,552	0	-43,743	-11	0	-64,817
Carrying amount at 1 January 2022	36	2,521	11,417	5,572	23,936	162	1,344	44,987
Carrying amount at 31 December 2022	36	2,518	13,711	5,472	31,598	155	5,246	58,737

EUR 1,000	Land areas	Buildings	Renovation expenses on real estate	Shares in real		Other tangible assets	Construction in progress	Total
				estate companies	Machinery and equipment			
Cost at 1 January 2021	36	2,937	29,370	5,572	55,584	172	539	94,209
Additions	0	0	792	0	8,337	0	1,793	10,921
Business combinations	0	0	4		39	0	0	43
Transfers between items	0	89	384	0	101	0	-785	-212
Disposals	0	0	0	0	-564	0	-202	-766
Cost at 31 December 2021	36	3,026	30,549	5,572	63,496	172	1,344	104,195
Accumulated depreciation at 1 January 2021		-410	-16,665	0	-33,130	-7	0	-50,212
Depreciation and amortisation		-96	-2,463	0	-6,604	-1	0	-9,163
Transfers between items		0	-3	0	-112	-3	0	-118
Disposals		0	0	0	286	0	0	286
Accumulated depreciation at 31 December 2021		-505	-19,131	0	-39,560	-10	0	-59,206
Carrying amount at 1 January 2021	36	2,527	12,703	5,572	22,454	165	539	43,996
Carrying amount at 31 December 2021	36	2,521	11,417	5,572	23,936	162	1,344	44,987



### 13. Intangible assets and goodwill

#### Accounting policies

##### Goodwill

Goodwill generated through business combinations is measured at the amount by which the consideration transferred, non-controlling interests in the acquiree and previously owned holding combined exceed the fair value of the identifiable acquired net assets. Goodwill typically reflects the value of acquired market share, business expertise and synergies.

Goodwill is not amortised, but it is tested for impairment annually and whenever there is an indication that the asset may be impaired. Goodwill is allocated to cash-generating units (CGUs). Goodwill is measured at original cost less accumulated impairment.

##### Cloud computing arrangement

Accounting treatment of cloud service arrangements depends on whether the cloud-based software is classified as an intangible asset or a service contract. The arrangements in which the Group has no authority on the software are accounted as service agreements which entitle the Group to utilize the cloud service provider's application software during the contract period. Application software license fees and related configuration or customization costs are recognized (for example, in other operating expenses) when the services are received. Prepayments to the cloud service provider for software customization that are not separable are recognized as an expense during the contract period.

##### Capitalised development costs

Assets are amortised from the time when they are ready for use. Assets that are not yet available for use are tested annually for impairment. Subsequent to their initial recognition, capitalised development costs are measured at cost less accumulated amortisation and impairment. The amortisation period for development costs is 3 to 10 years, during which capitalised development costs are amortised using the straight-line method.

The Group's capitalised development costs that have not been amortised are associated with the following projects:

- New operating model for fixed-price occupational healthcare agreements and a related occupational healthcare portal
- Renewal of primary care service models, involving remote service models for municipal residents and mobile solutions (social and healthcare service centre concept)
- Pihlajalinna mobile application and website development with the aim of making AI-assisted digital services available to all customers.
- Specialised care referral forwarding and coordination operating model developed for the Parkano social and healthcare partnership area
- Takeover of social and healthcare services in Mänttä-Vilppula and the development of operating models
- The three-year SYKKI project, funded with Tekes subsidies, aimed at creating an effective and cost-efficient model for public social and healthcare services



## Intangible assets

1000 €	Goodwill	Trademarks	Development costs	Customer relationship value	Non-competition agreements	Patient database	Other intangible assets	Other long-term expenditures	Pre-payments	Total
Cost at 1 January 2022	188,909	7,762	6,368	10,572	7,507	5,677	6,894	13,543	715	247,948
Additions	0	0	18	0	0	0	547	6,224	663	7,451
Business combinations	65,127	3,148	0	2,040	281	2,159	59	496	0	73,310
Reclassifications to assets held for sale	-3,004	0	0		0	0	-13	-6	0	-3,023
Transfers between items	0	0	0	0	0	0	7	897	-896	8
Cost at 31 December 2022	251,032	10,910	6,386	12,612	7,788	7,836	7,494	21,153	482	325,695
Accumulated depreciation at 1 January 2022		-6,255	-4,019	-8,515	-7,497	-5,642	-6,096	-6,149	0	-44,174
Depreciation and amortisation		-1,040	-930	-1,233	-60	-378	-533	-3,503	0	-7,677
Transfers between items		0	0	0	0	0	-8	-1	0	-9
Accumulated depreciation at 31 December 2022		-7,295	-4,949	-9,748	-7,557	-6,020	-6,637	-9,654	0	-51,860
Carrying amount at 1 January 2022	188,909	1,508	2,349	2,057	10	35	798	7,394	715	203,775
Carrying amount at 31 December 2022	251,032	3,615	1,436	2,864	231	1,816	857	11,500	482	273,834

1000 €	Goodwill	Trademarks	Development costs	Customer relationship value	Non-competition agreements	Patient database	Other intangible assets	Other long-term expenditures	Pre-payments	Total
Cost at 1 January 2021	173,607	7,762	6,348	8,397	7,507	5,677	6,605	10,404	47	226,355
Additions	0	0	21	0	0	0	232	2,773	985	4,011
Business combinations	15,301	0	0	2,175	0	0	9	8		17,493
Transfers between items	0	0	0	0	0	0	48	358	-316	89
Cost at 31 December 2021	188,909	7,762	6,368	10,572	7,507	5,677	6,894	13,543	715	247,948
Accumulated depreciation at 1 January 2021		-5,479	-3,057	-6,893	-7,142	-5,411	-5,511	-3,919		-37,411
Depreciation and amortisation		-776	-961	-1,622	-355	-232	-538	-2,215		-6,699
Transfers between items		0	0	0	0	0	-48	-16		-64
Accumulated depreciation at 31 December 2021		-6,255	-4,019	-8,515	-7,497	-5,642	-6,096	-6,149		-44,174
Carrying amount at 1 January 2021	173,607	2,284	3,290	1,505	365	267	1,095	6,483	47	188,944
Carrying amount at 31 December 2021	188,909	1,508	2,349	2,057	10	35	798	7,394	715	203,775

## Impairment testing of goodwill

### Accounting policies

Goodwill generated in M&A transactions is allocated to cash-generating units (CGU). Under Pihlajalinna's operating structure, the Group's CEO, with the help of the Chief Operating Officers and the other members of the Management Team, is responsible for the Group's business operations and service offering to both the private and public sectors. The Chief Operating Officers prepare budgets for the Group's businesses with the help of regional directors and the managing directors of the municipal companies. The Group CEO is responsible for the resources, investments and profitability of the Group's businesses. Pihlajalinna's cash-generating unit corresponds to the reporting segment, i.e. the Group.

The recoverable amount is determined by value-in-use calculations. Cash flow-based value-in-use is determined by calculating the discounted present value of expected cash flows. The discount rate used in the calculations is determined using the weighted average cost of capital (WACC), which describes the total cost of equity and liabilities, taking into account the time value of money and the specific risks associated with Pihlajalinna's business. The discount rate is a pre-tax rate. The risk-free interest rate, risk multiplier (beta) and the additional risk premium and market risk premium parameters used in determining the discount rate are based on information obtained from the market. Cash flow estimates have been validated by comparing them to Pihlajalinna's market capitalisation.

Potential impairment loss on goodwill is recognised immediately in the income statement. Previously recognised impairment losses on goodwill are not reversed.

The Group carried out its annual impairment testing of goodwill based on the situation on 30 November 2022 (30 November 2021) using the carrying amounts on the date in question and calculations of future amounts. The result of the testing was that no impairment losses were recognised for the Group's cash-generating unit, i.e. the Group as a whole, for the financial year that ended on 31 December 2022. The Group's recoverable amount exceeded the carrying amount by approximately EUR 223 (218) million.

In early 2023, the Group announced it will sell its dental care services. The assets related to the business functions in question have been treated as assets held for sale in accordance with IFRS 5. The forecasts used in the calculations have included the future cash flows of the assets held for sale, but the future cash flows of these assets have been estimated close to zero and goodwill associated with the assets is included in the impairment testing. Goodwill related to the assets in question is presented separately from the Group's other goodwill on 31 December 2022 in accordance with IFRS 5.

### Goodwill:

EUR 1,000	2022	2021
Tested goodwill in total, Group	254,264	188,909
Goodwill related to current assets held for sale	-3,004	
Changes that have occurred after testing in the preliminary purchase price allocations for the acquired businesses	-228	

Goodwill as per the statement of financial position at the end of the financial year	251,032	188,909
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During the year, goodwill has increased due to acquired business operations. The acquired business operations have been specified in more detail in Note 26 Acquired business operations.

### Assumptions used in the calculation of utility value for each testing period:

Impairment testing of goodwill	2022	2021
Turnover growth, first three years, approximately	5.30%	2.80%
EBIT margin, first three years, approximately	6.90%	5.60%
Discount rate (pre tax WACC)	8.70%	7.68%
Discount rate (after tax WACC)	7.25%	6.36%
Forecast period (years)	10	5
Terminal growth rate after the forecast period (5 years)	2.00%	1.30%
The terminal period's share of the amount of expected cash flows	46%	73%

### Key accounting estimates and decisions based on management judgement

In impairment testing, the recoverable amounts are determined on the basis of value-in-use. The cash flow forecasts used in the value-in-use calculations in impairment testing are based on cash flow forecasts prepared by the management and approved by the Board of Directors.

For the impairment testing carried out in 2022, the cash flow forecasts cover a 10-year period and the terminal period. The management's view is that using a 10-year forecast period is justified because the Group has significant long-term and fixed-term complete social and healthcare outsourcing agreements. According to the assessment of the company's management, its fixed-term service agreements will remain in effect, as agreed, with the wellbeing services counties until the end of the term for each agreement. These agreements will expire during the 10-year forecast period, which is why management's view is that extending the forecast period provides a more accurate picture of the company's future cash flows. The terminal growth rate applied after the forecast period is two per cent, which corresponds to the long-term inflation forecast for the Finnish economy.

For the period 2023–2025, the management forecasts that revenue, operating profit and cash flows will increase in line with the Group's long-term strategy. Thereafter, in the forecasts for 2026–2032, the Group has taken into account the impacts of the expiration of the complete outsourcing agreements in accordance with the agreement period of each agreement.

The assumptions of the development of prices and costs used in the cash flow estimates are based on the management's estimates of the development of demand and the markets, which are compared with external information sources. The productivity and efficiency assumptions used in the calculations are based on internal targets, with previous actual development taken into account in their estimation.

**Key assumptions defined by the management and used in the calculation in 2022:**

Assumption	Description
Projected revenue	Determined on the basis of a forecast prepared by the management and approved by the Board of Directors, and the agreement periods of the complete outsourcing agreements.
Projected operating profit	Determined on the basis of a forecast prepared by the management and approved by the Board of Directors, and the agreement periods of the complete outsourcing agreements.
Duration of the forecast period	For testing carried out in 2022, the forecast period is 10 years plus the terminal period.
Terminal growth rate assumption	The terminal growth rate assumption is 2%.
Discount rate	Determined using the weighted average cost of capital (WACC), which describes the total cost of equity and liabilities, taking into account the time value of money and the specific risks associated with Pihlajalinna's business. Uncertainty in forecasting has been taken into account in determining the additional risk premium.

**Sensitivity analyses in impairment testing**

Based on the testing calculations, there is no need to recognise impairment. The cash-generating unit's recoverable amount exceeded the carrying amount by approximately EUR 223 (218) million. The management has conducted sensitivity analyses of the key factors. The table below shows the required change in assumptions that would lead to the recoverable amount being equal to the carrying amount, provided that the assumptions change one at a time.

Sensitivity analyses	2022	2021
Decline in EBIT margin	more than 2 percentage units	more than 2 percentage units
Decline in volume	more than 15 percentage units	more than 21 percentage units
Increase in discount rate	more than 3 percentage units	more than 4 percentage units
Decline in the terminal growth rate	more than 2 percentage units	more than 2 percentage units

The management has conducted a sensitivity analysis for 2022 also with a five-year forecast period plus the terminal period. Also based on testing under a five-year period, the cash-generating unit's recoverable amount exceeded the carrying amount.

**14. Right-of-use assets****Accounting policies**

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

Right-of-use assets are measured at cost, which includes the following items:

- original amount of the lease liability
- direct expenses of the initial phase and
- expenses due to restoring to original condition

Right-of-use assets are presented under property, plant and equipment and lease liabilities are presented under financial liabilities. The right-of-use asset is initially measured at cost and depreciated over the economic life of the asset. The right-of-use asset is also subject to IAS 36 Impairment of Assets. The lease liability is initially measured at the present value of future lease payments. In later periods, the lease liability is measured using the effective interest rate method, according to which the lease liability is measured at amortised cost and the interest expense is amortised over the lease term. The standard allows the lessee to also include non-lease elements of an agreement (typically services) in the lease liability.

## Right-of-use assets

EUR 1,000	Right-of- use plots	Right-of-use buildings and business premises	Right-of-use equipment	Total
Cost at 1 January 2022	840	185,897	5,587	192,325
Additions	375	25,090	1,025	26,490
Business combinations	0	105,458	4	105,463
Transfers between items	0	138	-41	97
Disposals	0	-4,059	-368	-4,427
Cost at 31 December 2022	1,215	312,525	6,206	319,947
Accumulated depreciation at 1 January 2022	-484	-91,941	-4,314	-96,738
Depreciation and amortisation	-97	-26,178	-898	-27,173
Transfers between items		0	16	16
Disposals		1,435	255	1,690
Accumulated depreciation at 31 December 2022	-580	-116,684	-4,937	-122,201
Carrying amount at 1 January 2022	357	93,956	1,273	95,586
Carrying amount at 31 Dec 2022	635	195,841	1,270	197,746

EUR 1,000	Right-of- use plots	Right-of-use buildings and business premises	Right-of-use equipment	Total
Cost at 1 January 2021	756	176,820	5,350	182,926
Additions	84	8,917	805	9,807
Business combinations	0	2,802	0	2,802
Transfers between items	0	-670	-77	-747
Disposals	0	-1,972	-491	-2,463
Cost at 31 December 2021	840	185,897	5,587	192,325
Accumulated depreciation at 1 January 2021	-393	-75,838	-3,863	-80,094
Depreciation and amortisation	-91	-17,885	-863	-18,840
Transfers between items	0	670	77	747
Disposals		1,112	336	1,448

Accumulated depreciation at 31 December 2021	-484	-91,941	-4,314	-96,738
Carrying amount at 1 January 2021	363	100,981	1,487	102,832
Carrying amount at 31 Dec 2021	357	93,956	1,273	95,586

Short-term leases recognised in the income statement, totalling EUR 140 (115) thousand, and minor leases recognised in the income statement, totalling EUR 1,172 (734) thousand, are practical exemptions provided by IFRS 16 applied by the Group.

Lease liabilities relating to right-of-use items are specified in Note 22 *Financial liabilities*.

## 15. Other non-current receivables

### Accounting policies

Right-of-use assets that have been transferred to a lessee under a sublease and classified as financial leases have been derecognised from fixed assets and presented on the balance sheet as net investments in a sublease.

EUR 1,000	2022	2021
Lease deposits paid	561	535
Non-current subleases	7,750	4,586
Other receivables	90	90
Total	8,402	5,211

Pihlajalinna subleased two care homes that it sold and leased back in May 2020.

The table below presents the contractual maturity analysis of subleases. The figures are undiscounted and they include both future interest payments and repayments of the net investment.

### Maturity distribution of sublease receivables

		less than 1 year	1–2 years	2–3 years	3–4 years	over 4 years
Carrying amount at 31 Dec 2022	8,697	947	851	649	623	5,628



## 16. Trade and other receivables

### Accounting policies

At the end of each reporting period, the Group assesses whether or not there is objective evidence of impairment regarding any individual financial asset. Objective evidence of impairment of loans and other receivables includes significant financial distress of the debtor and payments being delinquent or substantially delayed. Impairment of loans is recognised in financial expenses in the income statement and impairment of other receivables is recognised in other operating expenses for the period in which the impairment was identified.

The expected credit loss model is based on the amount of historical credit losses. The lifetime expected credit losses are calculated by multiplying the gross carrying amount of unpaid trade receivables by the expected loss.

### Key accounting estimates and decisions based on management judgement

Determining the annual profitability of the Group's fixed-term complete social and healthcare services outsourcing agreements may become accurate with a delay. The Group may not always be aware of the actual costs of the agreements at the time of preparing the financial statements, and the agreements may involve variable elements of compensation. The cost accumulation of public specialised care involves random fluctuation. In addition, individual cases falling within the scope of the hospital districts' pooling system for high-cost care may influence the cost liability of specialised care considerably during the financial year, and between financial periods, in Pihlajalinna's municipal companies.

The fixed-term service agreements for all of the Group's complete outsourcing arrangements are highly similar with regard to their principles and basic terms. Pihlajalinna has calculated and recognised the variable compensation components and cost compensation under the agreements using the same criteria and model for all clients. Demands for the compensation of cost increases due to changes in services corresponding to the actual costs and investment costs that serve operations after the end of the term of the contract being the client's responsibility constitute the majority of costs and variable compensation components that are specified with a delay. For 2022, the assessment of investment costs and COVID-19 related costs included in invoicing by hospital districts can only be carried out after the hospital districts have published their financial statements.

Pihlajalinna has recognised only part of these legally justified claims in its income statement. The parties to the agreements are bound by an obligation to negotiate and negotiation is the primary procedure. If the obligation to negotiate does not lead to payment, the receivables are sought through legal action, which may further delay the collection of items presented in current receivables in the financial statements. The estimated items included in receivables are described in more detail in Note 1 *Revenue from contracts with customers* under *Items that may, according to the management's estimate, influence the profitability of complete outsourcing agreements with a delay*.

EUR 1,000	2022	2021
Trade receivables	54,568	78,455
Prepayments and accrued income	20,102	12,608
Current subleases	947	601
Other receivables	1,189	479
<b>Total</b>	<b>76,806</b>	<b>92,143</b>

Contract assets are described in more detail in connection with Note 1 *Revenue from contracts with customers* and are included in the table above in prepayments and accrued income.

The carrying amount of trade receivables and other receivables corresponds to the maximum credit risk involved at the end of the reporting period.

Pihlajalinna regularly reviews the credit risk of its receivables and the procedures used to estimate the credit risk. No significant changes have been observed in customers' payment behaviour.

As described under *Key accounting estimates and decisions based on management judgement*, if the negotiation obligation does not lead to payment, the receivables will be collected through legal action. This may further delay the collection of items presented in current receivables in the financial statements.

The Group recognised EUR 0.4 (0.5) million in impairment losses on trade receivables during the financial year. The estimated impairment loss on contract assets is EUR 0.0 (0.0) million.

### Age distribution of trade receivables

EUR 1,000	2022	Impairment losses	Share of expected impairment losses	Net 2022
Not due	33,342	-25	0.1 %	33,317
Less than 30 days	8,469	-10	0.1 %	8,459
30–60 days	1,515	-72	4.7 %	1,443
61–90 days	918	-152	16.6 %	766
More than 90 days	11,106	-522	4.7 %	10,584
<b>Total</b>	<b>55,349</b>	<b>-781</b>		<b>54,568</b>

EUR 1,000	2021	Impairment losses	Share of expected impairment losses	Net 2021
Not due	24,651	-8	0.0 %	24,643
Less than 30 days	4,152	-12	0.3 %	4,140
30–60 days	2,333	-67	2.9 %	2,266
61–90 days	1,965	-133	6.8 %	1,832
More than 90 days	46,053	-479	1.0 %	45,574
<b>Total</b>	<b>79,153</b>	<b>-698</b>		<b>78,455</b>

Key accounting estimates and the use of management judgement are discussed in Note 1 *Revenue from contracts with customers*.

The management of credit risks related to trade receivables is discussed in more detail in Note 25 *Financial risk management*.

EUR 1,000	2022	2021
Credit loss provision at 1 January	698	689
Credit losses recorded	-781	-547
Change in credit loss provision	864	556
<b>Credit loss provision at 31 December</b>	<b>781</b>	<b>698</b>

#### Material items incl. in prepayments and accrued income

EUR 1,000	2022	2021
Personnel expenses	1,843	1,876
Expenses paid in advance	6,528	3,061
Hedging, interest rate swap	5,113	0
Contract assets	6,052	6,661
Other	566	1,009
	<b>20,102</b>	<b>12,608</b>

The carrying amounts of the receivables correspond materially to their fair values.

## 17. Provisions

#### Accounting policies

A provision is recognised when the Group has a legal or constructive obligation resulting from a past event, when it is probable that the payment obligation will materialise and when the amount of the obligation can be reliably estimated. The amount recognised as a provision equals the best estimate of the costs required to fulfil the present obligation on the date of the financial statements.

A restructuring provision is recognised when the Group has in place a detailed plan for such restructuring and its implementation has commenced or the interested parties have been informed of the main points of such a plan.

The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable expenses of meeting the obligations under the contract.

EUR 1,000	2022	2021
Current provisions	0	71
Non-current provisions	89	134
<b>Total</b>	<b>89</b>	<b>205</b>

EUR 1,000	Onerous contracts	Restructuring provision	Total
<b>1.1.2021</b>	<b>762</b>		<b>762</b>
Increases in provisions	20	300	320
Provisions used	-645	-232	-877
Reversals of unused provisions			
<b>31.12.2021</b>	<b>137</b>	<b>68</b>	<b>205</b>
Increases in provisions			
Provisions used	-48	-68	-116
Reversals of unused provisions			0
<b>31.12.2022</b>	<b>89</b>	<b>0</b>	<b>89</b>

## 18. Trade and other payables

EUR 1,000	2022	2021
Trade payables	41,673	52,571
Accrued liabilities	78,267	65,915
Pre-payments	33	938
Other liabilities	7,556	5,683
<b>Total</b>	<b>127,529</b>	<b>125,107</b>

#### Material items included under Accrued liabilities:

Wages and salaries and social security payments	43,846	42,425
Doctor's fee liability	15,376	8,261
Allocation of sales	0	18
Allocation of purchase invoices	10,261	11,057
Current liabilities held for sale	3,237	0
Financial items	212	65
Other accrued liabilities	5,334	4,087
<b>Total</b>	<b>78,267</b>	<b>65,915</b>



## 19. Deferred tax assets and liabilities

### Accounting policies

Deferred taxes are calculated on temporary differences between the carrying amount and the tax base. However, a deferred tax liability shall not be recognised on the initial recognition of goodwill, or on the initial recognition of an asset or liability in a transaction which is a business combination and, at the time of transaction, affects neither accounting profit nor taxable profit.

In the Group, the most significant temporary differences result from depreciation and amortisation of property, plant and equipment and intangible assets, fair value-based adjustments made in connection with business combinations, and unused tax losses.

Deferred taxes are calculated by applying tax rates enacted or substantively enacted by the end of the reporting period.

A deferred tax asset is only recognised to the extent that it is probable that taxable profit will be available against which the temporary difference can be utilised. However, a deferred tax asset is not recognised if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit. Whether or not deferred tax assets can be recognised in this respect is always estimated at the end of each reporting period.

The Group shall offset deferred tax assets and liabilities where these relate to the same taxation authority and the same taxable entity.

### Key accounting estimates and decisions based on management's judgement

The management uses judgement when determining the deferred assets to be recorded in respect of tax losses confirmed in the Group. On 31 December 2022, the Group recorded more deferred tax assets arising from unused confirmed tax losses. The most significant deferred tax assets from confirmed unused losses have been recorded for Pihlajalinna Omasairaala Oy (approximately EUR 5 million), Pihlajalinna Oyj (approximately EUR 1.1 million) and Pihlajalinna Oulu Oy (approximately EUR 1 million).

Deferred tax assets have been recorded up to the amount that, according to the management's assessment, it is probable that taxable income will be generated in the future, against which the unused tax losses can be utilized. Estimates are based on forecasts made by management and how profitability develops in different companies. Actual results may differ materially from the estimates made at the time of preparing the financial statements.



## Changes in deferred taxes during 2022:

	1 January 2022	Recognised in profit and loss	Recognised in the statement of compre- hensive income	Business combinations	Reclassification to as- sets held for sale	31 December 2022
<b>Deferred tax assets (EUR 1,000)</b>						
Tax losses carried forward confirmed by tax authorities	2,547	9,314				11,860
Sales proceeds from sale and leaseback arrangements	223	-30				193
Provisions	293	-65				227
Share-based incentive scheme	60	-55				5
Reclassification to assets held for sale					-63	-63
IAS 37, contingent assets	749	-749				0
Effect of IFRS 16	774	518				1,291
Cloud computing arrangements	255	-27				228
Other items	584	-767		3,766		3,583
<b>Deferred tax liabilities on the statement of financial position</b>	<b>5,484</b>	<b>8,138</b>		<b>3,766</b>	<b>-63</b>	<b>17,324</b>
<b>Deferred tax liabilities</b>						
Property, plant and equipment and intangible assets	4,803	520		22		5,344
Recognition of property, plant and equipment and intangible assets at fair value in business combinations	722	-542		1,526		1,705
Fair value hedging			1,023			1,023
Effect of IFRS 16	337	4		0		341
<b>Other items</b>	<b>22</b>	<b>77</b>		<b>0</b>		<b>99</b>
<b>Deferred tax liabilities on the statement of financial position</b>	<b>5,884</b>	<b>58</b>	<b>1,023</b>	<b>1,547</b>		<b>8,512</b>

## Changes in deferred taxes during 2021:

Tax losses carried forward confirmed by tax authorities	2,438	108		0		2,547
Sales proceeds from sale and leaseback arrangements	253	-30		0		223
Provisions	590	-297		0		293
Share-based incentive scheme	122	-62		0		60
IAS 37, contingent assets	527	223		0		749
Effect of IFRS 16	715	58		0		774
Cloud computing arrangements	200	55				255
Other items	710	-209		83		584
<b>Deferred tax liabilities on the statement of financial position</b>	<b>5,555</b>	<b>-154</b>		<b>83</b>		<b>5,484</b>
<b>Deferred tax liabilities</b>						
Property, plant and equipment and intangible assets	4,498	304		0		4,803
Recognition of property, plant and equipment and intangible assets at fair value in business combinations	884	-597		435		722
Effect of IFRS 16	337	0		0		337
<b>Other items</b>	<b>42</b>	<b>-19</b>		<b>0</b>		<b>22</b>
<b>Deferred tax liabilities on the statement of financial position</b>	<b>5,761</b>	<b>-312</b>		<b>435</b>		<b>5,884</b>

Maturing within five years	2022	2021	2022	2021	2022	2021
Maturing within five years	9,178	1,944	1,843	2,547	16	2,225
Maturing later than within five years	53,139	21,916	10,017		587	
<b>Total</b>	<b>62,317</b>	<b>23,860</b>	<b>11,860</b>	<b>2,547</b>	<b>603</b>	<b>2,225</b>
Taxes calculated on the basis of the Finnish tax rate (20%)	12,463	4,772				

## 20. Financial assets and liabilities by measurement category

### Accounting policies

When a financial asset or liability is recognised on the transaction date, the Group measures it at its acquisition cost, which is equal to the fair value of the consideration given or received.

### Financial assets

For the purpose of measurement after initial recognition, the Group's financial assets are classified as financial assets measured at amortised cost and financial assets measured at fair value through profit or loss. The Group has no financial instruments classified as derivatives nor financial assets measured at fair value through other comprehensive income. Financial assets are derecognised when the Group has lost its contractual right for the financial assets in question or has transferred substantially all risks and rewards outside the Group.

The Group's trade receivables, loan receivables, lease deposits and cash and cash equivalents have been classified as financial assets measured at amortised cost using the effective interest method, taking any impairment into account.

Financial assets measured at fair value through profit or loss consist of quoted and unquoted shares. The Group has no holdings of shares quoted in public markets.

Derivative contracts are entered in the balance sheet at fair value on the trade date and subsequently remeasured at their fair value on the balance sheet date. Derivatives that do not meet the conditions of hedge accounting are recorded in the income statement. The change in fair value is recorded in equity in fair value reserve if the derivative contract meets the conditions of cash flow hedging. If hedge accounting is not applied derivatives are revalued to fair value at the end of the reporting period and the profit or loss difference arising from the valuation is recorded in the income statement.

### Cash and cash equivalents

Cash and cash equivalents consist of cash at hand and demand deposits. The account with credit limit in use is included in current financial liabilities.

### Financial liabilities

The Group classifies loans from financial institutions, accounts with credit limits, lease liabilities, trade payables and other liabilities as financial liabilities measured at amortised cost using the effective interest method. Transaction costs are included in the initial carrying amount. Arrangement fees for loan commitments are treated as transaction costs. The Group classifies contingent considerations arising from M&A transactions as financial liabilities measured at fair value through profit or loss. No interest is paid on liabilities arising from contingent considerations. Any contingent consideration is measured at fair value at the date of acquisition and classified as a liability. A contingent consideration classified as a liability is measured at fair value at the end of each reporting period, and any resulting gain or loss is recognised in profit or loss after the end of the measurement period. The valuation principles of derivatives are discussed above in the section *Financial assets*.

Financial liabilities are classified as current liabilities, unless the Group has an unconditional right to postpone their repayment to a date that is at least 12 months subsequent to the end of the reporting period.

EUR 1,000			Fair value through profit or loss	Fair value - hedging instrument	Amortised cost	Total carrying amounts	Fair values total
31 Dec 2022	Note	Fair value hierarchy					
<b>Carrying amounts of financial assets</b>							
Non-current financial assets							
Other shares and participations		level 3	1,167			1,167	1,167
Lease deposits	15	level 2			561	561	561
Other receivables	15	level 2			90	90	90
Current financial assets							
Trade receivables	16				54,568	54,568	54,568
Other receivables	16	level 2			1,189	1,189	1,189
Interest derivatives		level 2		5,113		5,113	5,113
Cash and cash equivalents					13,128	13,128	13,128
<b>Total</b>			<b>1,167</b>	<b>5,113</b>	<b>69,536</b>	<b>75,816</b>	<b>75,816</b>

### Carrying amounts of financial liabilities

Non-current financial liabilities							
Loans from financial institutions	22	level 2			167,255	167,255	167,255
Lease liabilities	22	level 2			201,235	201,235	201,235
Other liabilities	22	level 2			573	573	573
Contingent considerations		level 3	203			203	203
Current financial liabilities							

Loans from financial institutions	22	level 2		1,386	1,386	1,386
Cheque account with credit limit	22					
Contingent considerations		level 3	1,704		1,704	1,704
Lease liabilities	22	level 2		28,338	28,338	28,338
Trade and other payables	18			41,673	41,673	41,673
<b>Total</b>			<b>1,907</b>	<b>440,459</b>	<b>442,367</b>	<b>442,367</b>

31 Dec 2021	Note	Fair value hierarchy	Fair value through profit or loss	Fair value - hedging instrument	Amortised cost	Total carrying amounts	Fair values total
<b>Carrying amounts of financial assets</b>							
Non-current financial assets							
Other shares and participations		level 3	1,476			1,476	1,476
Lease deposits	15	level 2			535	535	535
Other receivables	15	level 2			90	90	90
Current financial assets							
Trade receivables	16				78,455	78,455	78,455
Other receivables	16	level 2			479	479	479
Cash and cash equivalents					4,257	4,257	4,257
<b>Total</b>			<b>1,476</b>		<b>83,816</b>	<b>85,291</b>	<b>85,291</b>

**Carrying amounts of financial liabilities**

Non-current fin. liabilities							
Loans from financial institutions	22	level 2			90,838	90,838	90,838
Lease liabilities	22	level 2			87,857	87,857	87,857
Other liabilities	22	level 2			607	607	607
Current financial liabilities							
Loans from financial institutions	22	level 2			1,283	1,283	1,283
Cheque account with credit limit	22						
Lease liabilities	22	level 2			18,392	18,392	18,392
Trade and other payables	18				52,571	52,571	52,571
<b>Total</b>					<b>251,548</b>	<b>251,548</b>	<b>251,548</b>

**Fair value assessment**

Financial assets and liabilities recognised at fair value on the consolidated statement of financial position are classified according to their valuation-based hierarchy levels and measurement methods as follows:

**Fair value hierarchy levels**

**Level 1:** Fair values are based on quoted prices in active markets for identical assets and liabilities. The Group has no financial assets or liabilities measured according to level 1 of the hierarchy.

**Level 2:** The fair value is determined using valuation methods. The financial assets and liabilities are not subject to trading in active and liquid markets. The fair values can be determined based on quoted market prices and deduced valuation. The carrying amount of the trade receivables and financial assets essentially corresponds to their fair value, as the effect of discounting is not significant taking the maturity of the receivables into consideration. The fair values of lease liabilities are based on discounted cash flows. The fair values of loans essentially correspond to their carrying amount since they have a floating interest rate and the Group's risk premium has not materially changed. The carrying amount of other financial liabilities essentially corresponds to their fair value, as the effect of discounting is not significant taking the maturity of the receivables into consideration. Derivative financial instruments are initially recognized at fair value on the trade date and are subsequently remeasured at their fair value on the balance sheet date.

**Level 3:** The fair value is not based on verifiable market information, and information on other circumstances affecting the value of the financial asset or liability is not available or verifiable.

The Group's other shares and participations consist solely of shares in unlisted companies.

**21. Notes on equity****Accounting policies**

The Group classifies all instruments it issues either as an equity instrument or a financial liability, depending on their nature. Equity instruments are any contracts evidencing a residual interest in the assets of the company after deducting all of its liabilities. Costs relating to the issue or purchase of equity instruments are presented as a deduction from equity.



## Reconciliation of the number of shares

EUR 1,000	Number of shares	Share capital	Reserve for invested unrestricted equity	Total
Shares, total, 1 January 2021	22,620,135	80	116,520	116,600
Treasury shares held by the parent company on 31 December 2021	25,900			
Outstanding shares on 31 December 2021	22,594,235	80	116,520	116,600
Shares, total, 1 January 2022	22,620,135	80	116,520	116,600
Treasury shares held by the parent company on 31 December 2022	70,491			
Outstanding shares on 31 December 2022	22,549,644	80	116,520	116,600

Pihlajalinna has one share series, with each share entitling its holder to one vote at a General Meeting of shareholders. The company's shares have no nominal value. All shares bestow their holders with equal rights to dividends and other distribution of the company's assets. The shares belong to the book-entry system.

## Reserve for invested unrestricted equity

The reserve for invested unrestricted equity contains other equity-like investments and the share subscription price to the extent that this is not entered in share capital under a specific decision.

## Fair value reserve

The fair value reserve includes the effective portion of the change in the fair value of derivatives for which cash flow hedge accounting is applied.

## Distributable funds

The parent company's total distributable funds amount to EUR 210,975,765.50, of which the result for the financial year accounts for EUR -4,503,903.60.

## Dividends

The Board of Directors proposes that no dividends be paid for the financial year that ended on 31 December 2022.

## 22. Financial liabilities

EUR 1,000	2022	2021
<b>Non-current interest-bearing liabilities</b>		
Loans from financial institutions	167,255	90,838
Other liabilities	573	607
Lease liabilities	201,235	87,857
	<b>369,063</b>	<b>179,302</b>
<b>Current interest-bearing liabilities</b>		
Loans from financial institutions	1,386	1,283
Lease liabilities	28,338	18,392
	<b>29,723</b>	<b>19,675</b>
<b>Interest-bearing financial liabilities total</b>	<b>398,786</b>	<b>198,977</b>

Pihlajalinna rearranged its long-term debt financing with a sustainability-linked financing arrangement on 22 March 2022. The EUR 200 million unsecured financing arrangement, for three years with an option for a further two years, was concluded with Danske Bank, OP Corporate Bank and Swedbank (the creditor banks). The financing comprises a long-term loan of EUR 130 million and a revolving credit facility of EUR 70 million for general financing needs and acquisitions. It also includes an opportunity to later increase the total amount by EUR 100 million (to EUR 300 million), subject to separate decisions on a supplementary loan from the funding providers. The covenants related to the new financing arrangement is discussed in more detail in Note 25 Financial Risk Management.

Drawdowns from the Group's revolving credit facility are actually long-term by nature, although their maturity is 1, 3 or 6 months.

## Lease liabilities

EUR 1,000	2022	2021
<b>Non-current lease liabilities</b>		
Right-of-use plots	546	305
Right-of-use buildings and business premises	200,092	86,963
Right-of-use equipment	597	588
	<b>201,235</b>	<b>87,857</b>
<b>Current lease liabilities</b>		
Right-of-use plots	99	63
Right-of-use buildings and business premises	27,569	17,715
Right-of-use equipment	670	614
	<b>28,338</b>	<b>18,392</b>

## 23. Changes in interest-bearing liabilities with no impact on cash flow

EUR 1,000	2021	Cash flow	Acquired business operations	New instalments and lease liabilities	Effective interest rate	2022
Non-current interest-bearing liabilities	91,445	75,221	438	606	-383	167,327
Current interest-bearing liabilities	1,283	0	27	576	0	1,887
Lease liabilities	106,248	-29,014	129,549	22,789	0	229,573
<b>Total</b>	<b>198,977</b>	<b>46,208</b>	<b>130,015</b>	<b>23,970</b>	<b>-383</b>	<b>398,786</b>

## 24. Capital management

The goal of the Group's capital management is to ensure that the normal requirements of business operations are met, enable investments in line with the Group's strategy and increase long-term shareholder value. The Group influences its capital structure mainly through the distribution of dividend and share issues.

The key indicators concerning capital management are the equity ratio, the ratio of net debt to adjusted EBITDA and gearing. Loan covenants related to financing arrangement are described in more detail in the note 25 *Financial risk management*.

EUR 1,000	Note	2022	2021
Equity		122,888	122,611
Total statement of fin. position – deferred revenue		661,606	456,127
<b>Equity ratio 1)</b>		<b>18.6 %</b>	<b>26.8 %</b>
Interest-bearing financial liabilities	22	398,786	198,977
Cash and cash equivalents		-13,128	-4,257
<b>Interest-bearing net debt</b>		<b>385,659</b>	<b>194,720</b>
<b>Gearing 2)</b>		<b>313.8 %</b>	<b>158.8 %</b>
EBITDA		54,401	62,638
Adjustment items**		9,828	2,698

<b>Adjusted EBITDA</b>	<b>64,229</b>	<b>65,336</b>
<b>Net debt/adjusted EBITDA</b>	<b>6.0</b>	<b>3.0</b>

\*\* Significant transactions that are not part of the normal course of business, are related to business acquisition costs (IFRS 3), are infrequently occurring events or valuation items that do not affect cash flow are treated as adjustment items affecting comparability between review periods. According to Pihlajalinna's definition, such items include, for example, restructuring measures, impairment of assets and the remeasurement of previous assets held by subsidiaries, the costs of closing down businesses and business locations, gains and losses on the sale of businesses, costs arising from operational restructuring and the integration of acquired businesses, costs related to the termination of employment relationships, as well as fines and corresponding compensation payments. Pihlajalinna also presents costs according to the IFRS Interpretations Committee's new Agenda Decision concerning cloud computing arrangements as adjustment items. EBITDA adjustments amounted to EUR 9.8 (2.7) million for the financial year that ended on 31 December 2022.

<sup>1)</sup> The formula for calculating the equity ratio is  $100 \times \text{Equity} / (\text{Total statement of financial position} - \text{deferred revenue})$

<sup>2)</sup> The formula for calculating gearing is  $100 \times \text{Interest-bearing net debt} / \text{Equity}$

During the financial year, the Group has repurchased its own shares totalling 120,000 shares with an average price of EUR 12.2896 per share. Pihlajalinna conveyed, in March, a total of 8,867 own shares to the key employees in accordance with the earlier incentive program (LTIP 2019). Pihlajalinna conveyed, in April, a total of 59,900 own shares as consideration in a transaction to redeem non-controlling interests of its subsidiary. Pihlajalinna conveyed, in May, a total of 6,642 own shares as part of the remuneration of the Board of Directors. On the financial statements date, the Group held 70,491 treasury shares.

## 25. Financial risk management

The Group's main financial risks consist of credit and counterparty risk as well as interest rate and liquidity risks. The Group operates in Finland and is therefore not exposed to material foreign exchange risks in its operations. The Group's general risk management policies are approved by the Board of Directors. The Group's Chief Financial Officer, together with the operative management, is responsible for identifying financial risks and for practical risk management. The goal of the Group's risk management is to ensure sufficient liquidity, minimise financing costs and regularly inform the management about the Group's financial position and risks.

Group's financial administration actively monitors compliance with the financial covenants and assesses financial leeway in relation to the covenant maximums as part of the Group's business planning.

### Liquidity risk

The Group monitors the amount of financing required by business operations by analysing cash flow forecasts in order to make sure the Group has a sufficient amount of liquid assets for financing operations and repaying maturing loans. The Group aims to ensure the availability and flexibility of financing with adequate

credit limits, a balanced maturity profile and sufficiently long maturities for borrowings, as well as by obtaining financing through several financial instruments. Monitoring and forecasting financial covenants included in the Company's financing agreements is continuous.

Pihlajalinna rearranged its long-term debt financing with a sustainability-linked financing arrangement on 22 March 2022. The EUR 200 million unsecured financing arrangement, for three years with an option for a further two years, was concluded with Danske Bank, OP Corporate Bank and Swedbank (the creditor banks). The financing comprises a long-term loan of EUR 130 million and a revolving credit facility of EUR 70 million for general financing needs and acquisitions. It also includes an opportunity to later increase the total amount by EUR 100 million (to EUR 300 million), subject to separate decisions on a supplementary loan from the funding providers.

The Group has entered in March 2022 into interest rate swap agreement with a nominal value of EUR 65 million, which is used to convert the interest on a floating rate financing arrangement to a fixed rate. Cash flow hedge accounting is applied to the interest rate swap agreement, which means that the effective portion of the change in fair value is recognised in other comprehensive income. The interest rate swap is valid until 25 March 2027 and the interest rate swap fair value was EUR 5.1 million at the end of the financial year. The interest rate swap starting date is in March 2023. According to the interest rate swap the Group pays fixed 1.12 percent interest rate and receives variable interest 6 months Euribor rate.

On the financial statements date, the Group's cash and cash equivalents amounted to EUR 13.1 (4.3) million, in addition to which the Group had EUR 43.0 (45.0) million in unused committed credit limits available.

In addition, EUR 100.0 (45.0) million of an additional credit limit, which is subject to a separate credit decision, was unused on the financial statements date.

The Group's equity ratio at the end of the financial year was 18.6 (26.9) per cent.

### Interest rate risk

The Group is exposed to interest rate risk through its external financing arrangement. In accordance with the Group's risk management principles, the Board of Directors decides on the need for, and extent of, interest rate hedging for the Group's loan portfolio. The Group has entered into an interest rate swap agreement with a nominal value of EUR 65 million during the financial year, which is used to convert the interest on a floating rate financing arrangement to a fixed rate. The interest rate swap starting date is in March 2023.

On the financial statements date, 58% (54%) of the interest-bearing liabilities were subject to fixed interest rates. During the financial year, the average annual interest rate on the Group's interest-bearing liabilities including the interest rate swap agreement was approximately 3.20% (1.68%). The duration, i.e. the fixed interest rate period, of the financing portfolio was 3.7 (3.2) years.

The table below presents the Group's interest rate position at the end of the reporting period.

EUR 1,000	2022	2021
Fixed rate financial liabilities	230,143	107,567
Financial liabilities subject to hedge accounting	65,000	0
Variable rate financial liabilities	104,136	91,521
<b>Total variable rate position</b>	<b>104,136</b>	<b>91,521</b>

The table below presents the effects on consolidated profit before tax should market interest rates rise or fall, all other things being equal. The sensitivity analysis is based on the interest rate position at the closing date of the reporting period.

EUR 1,000	2022	2022	2021	2021
Change	1.0 percentage units higher	1.0 percentage units lower	1.0 percentage units higher	1.0 percentage units lower
Effect on profit before tax	-1,700	1,700	-915	0

### Financial liabilities repayment schedule

The table below presents the contractual maturity of financial liabilities. The figures are undiscounted and they include both future interest payments and repayments of principal.

EUR 1,000	Carrying amount at 31 Dec 2022	less than 1 year	1–2 years	2–3 years	3–4 years	over 4 years
Loans from financial institutions	168,641	-7,529	-5,810	-167,453	-4	
Lease liabilities	229,573	-31,699	-29,751	-26,129	-21,944	-132,924
Other interest-bearing liabilities	573	-59	-57	-57	-57	-644
Contingent considerations	1,907	-1,710	-6	-6	-206	
Trade payables	41,673	-41,673				
<b>Total</b>	<b>442,367</b>	<b>-82,671</b>	<b>-35,624</b>	<b>-193,645</b>	<b>-22,210</b>	<b>-133,568</b>

EUR 1,000	Carrying amount at 31 Dec 2021	less than 1 year	1–2 years	2–3 years	3–4 years	over 4 years
Loans from financial institutions	92,121	-2,958	-90,984	-265		
Lease liabilities	106,248	-19,934	-16,175	-14,029	-11,942	-51,236
Other interest-bearing liabilities	607	-20	-57	-57	-57	-738
Trade payables	52,571	-52,571				
<b>Total</b>	<b>251,548</b>	<b>-75,483</b>	<b>-107,216</b>	<b>-14,351</b>	<b>-11,999</b>	<b>-51,974</b>



### Loan covenants

The Group's key loan covenants are reported to the financiers on a quarterly basis. If the Group breaches the loan covenant terms, the creditors may accelerate the repayment of the loans. The management monitors the fulfilment of loan covenant terms and reports on them to the Board of Directors on a regular basis.

The financing arrangement includes the customary financial covenants concerning leverage (ratio of net debt to pro forma EBITDA) and gearing. IFRS 16 lease liabilities are not taken into account in the calculation of the covenants (Frozen GAAP). The loan margin of the financing is additionally linked to Pihlajalinna's annual sustainability objectives related to patient satisfaction (NPS), employee engagement (eNPS) and access to surgical treatment within the target time. At the end of the financial year, the sustainability targets linked to the financing arrangement caused no changes in the loan margins.

Due to the acquisition of Pohjola Hospital Ltd, Pihlajalinna and the creditor banks agreed on increasing the gearing covenant to 140 per cent and the leverage covenant to 4.00 for 2022.

Pihlajalinna and the creditor banks agreed on a temporary adjustment to the covenants of the financing arrangement on two occasions in the latter part of the year. According to the acquired waivers, the leverage covenant was set at 5.5 for the fourth quarter of 2022, 4.5 for the first quarter of 2023, and 4.0 for the second quarter of 2023. For the fourth quarter of 2022 and the first three quarters of 2023, gearing must not exceed 140 per cent. The financing arrangement's original gearing covenant of 115 per cent will enter into effect in the review of the fourth quarter of 2023. Starting from the beginning of the third quarter of 2023, the leverage covenant according to the financing arrangement will be 3.75.

At the end of the financial year, leverage in accordance with the financing arrangement stood at 5.23 and gearing was 139.95 per cent. Had the Group's profit after taxes been lower by approximately EUR 40 thousand, the gearing covenant would have been breached. At the same time, however, the company's interest rate swap had a fair value of EUR 5.1 million on the financial statements date. Had the interest rate swap been sold on the financial statements date, gearing would have fallen to 136.0 per cent and the leverage ratio would have fallen to 5.08. Breaching the covenants can lead to the financing arrangement falling due.

Under the waiver agreement, the highest margin level of the financing arrangement increased to 1.0 per cent units from the beginning of 2023 until the third quarter of the year. The increase to the highest margin level and the other waiver terms will be discontinued by the end of 2023. If the company proposes to remain below the original covenant levels for the next 12 months, the waiver described above may be discontinued earlier.

At the end of the reporting period, 31 December 2022, the loan amount to which the covenants apply was EUR 167.0 (90.0) million.

### Derivative financial instruments and hedge accounting

#### Accounting policy

The Group applies hedge accounting to reduce the future cash flow variation in profit due to the variation in interest rates. Derivative financial instruments are initially recognized at fair value on the trade date and are subsequently remeasured at their fair value on the balance sheet date. Derivative contracts are included in current assets or liabilities, except derivatives maturities greater than 12 months after the balance sheet date, which are classified as non-current assets or liabilities. The effective portion of the changes in the fair

value of derivative financial instruments that are designated and qualified as cash flow hedges are recognized in the fair value reserve of equity.

In cash flow hedges the critical terms in hedged item and hedging instruments are the same and hedge ratio is 1:1. When a hedging arrangement is entered into, the relationship between the hedged item and the hedging instrument, as well as the objectives of the Group's risk management are documented. The effectiveness of the hedge relationship is tested regularly and the effective portion is recognised, according to the nature of the hedged item, against the change in the fair value of the hedged item in the fair value reserve of equity. The ineffective portion is recognized in the income statement either in operating profit or financial income and expenses. Hedge accounting is discontinued when the hedging instrument expires or is sold, or when the contract is terminated or exercised. Any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction has occurred.

#### Derivatives used for hedging

The Group has started to apply hedge accounting after entering in March 2022 into an interest swap to hedge a new floating rate financing arrangement. The Group has entered into an interest rate swap agreement with a nominal value of EUR 65 million during the financial year, which is used to convert the interest on a floating rate financing arrangement to a fixed rate. Cash flow hedge accounting is applied to the interest rate swap agreement, which means that the effective portion of the change in fair value is recognised in other comprehensive income. The interest rate swap is valid until 25 March 2027 and the interest rate swap fair value was EUR 5.1 million at the end of the financial year. The interest rate swap starting date is in March 2023. According to the interest rate swap the Group pays fixed 1,12 percent interest rate and receives variable interest 6 months Euribor rate.

#### Credit risk

The Group's credit risk mostly consists of credit risks involved in customer receivables related to business operations. The Group's largest customers are municipalities, joint municipal authorities or large and solvent listed companies. The Group's key credit risks are presented in Note 16 *Trade and other receivables*.

The payment information of corporate and private customers is checked at every appointment. For the collection of payments, the Group uses an external collections agency. The Group offers private customers financing via SveaRahoitus. This arrangement includes a check of the customer's creditworthiness.

The age distribution of trade receivables is presented in Note 16 *Trade and other receivables*. The amount of credit losses recorded in profit or loss during the financial year was not significant. The maximum amount of the Group's credit risk equals to the carrying amount of financial assets at the end of the financial year (see Note 20 *Financial assets and liabilities by measurement category*).

#### Currency risk

The Group operates mainly in Finland and is not therefore exposed to material foreign exchange risks in its operations. The Group's annual procurements in foreign currencies are insignificant.



## 26. Acquired business operations

### Accounting policies

When the Group acquires assets either through business arrangements or through other arrangements, the management evaluates the actual nature of the asset and the business when determining whether it is a business combination.

When an asset or a group of assets does not form a business operation, the acquisition is not treated as a business combination and in that case the Group records the acquisition of individual assets and liabilities. The acquisition cost is allocated to individual assets and liabilities in proportion to their current values at the time of acquisition, and no goodwill is generated.

Acquisitions defined as business operations are treated as business combinations. The Group records business combinations using the acquisition method. The transferred consideration, including the contingent consideration and the identifiable assets and liabilities of the acquired company, are valued at fair value at the time of acquisition. Acquisition related expenses are recorded as expenses in the period in which they have incurred. The acquired business operations are consolidated to the financial statements from the moment the Group obtains control over the acquired business. The share of non-controlling interests is recorded for each acquisition either at fair value or at an amount that corresponds to the relative share of the non-controlling interests in the net assets of the target of acquisition.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group presents these acquisitions as preliminary in its financial statements. Preliminary items are adjusted, and new assets and liabilities are recorded retrospectively, if new information is received that concerns the facts and circumstances that existed at the time of acquisition and which, if it had been known, would have affected the amounts recorded at that time. The measurement period may not exceed one year from the acquisition date.

### Key accounting estimates and decisions based on management's judgement

For acquired assets and liabilities, the fair values are determined according to the available market values. If market values are not available, the valuation is based on estimates of the asset's ability to generate income and the purpose of use in Pihlajalinna's business.

Regarding the tangible assets, comparisons have been made with the market prices of similar assets and the decrease in value caused by the age, wear and tear and other similar factors of the purchased assets has been estimated. In particular, the valuation of intangible assets is based on the present values of future cash flows and requires management's estimates of future cash flows and the use of assets.

The fair value of the contingent consideration at the time of acquisition is recorded as part of the transferred consideration. When the contingent consideration is classified as a financial liability, it is valued at fair value at the end of the reporting period, and the changes are recorded with an effect on profit.

## Acquired business operations, Pohjola Hospital Ltd

Pihlajalinna acquired the entire share capital of Pohjola Hospital Ltd from Pohjola Insurance Ltd. The acquisition was completed on 1 February 2022. The purchase price allocation on the Pohjola Hospital acquisition has been finalized as of 31 January 2022. Adjustments have been made to the opening balance sheet of the Pohjola Hospital. Fair value adjustments were mainly made to right-of-use assets, other provisions and deferred taxes. Pihlajalinna has updated preliminary adjustments as follows: right-of-use assets EUR -9.8 million, other provisions EUR -4.3 million, financial lease liabilities EUR -6.0 million and goodwill EUR 0.5 million.

EUR 1,000	2022
<b>Consideration transferred</b>	
Cash	35,193
<b>Total acquisition cost</b>	<b>35,193</b>

The preliminary values of the assets and liabilities acquired for consideration at the time of acquisition were as follows:

EUR 1,000	Note	2022
Property, plant and equipment	12	430
Intangible assets	13	5,989
Right-of-use assets	14	103,048
Deferred tax assets	19	3,705
Trade and other receivables		13,196
Cash and cash equivalents		1,809
<b>Total assets</b>		<b>128,176</b>
Deferred tax liabilities		1,100
Restructuring provision		413
Lease liabilities	22	125,771
Other liabilities		8,458
<b>Total liabilities</b>		<b>135,742</b>
<b>Acquired net assets</b>		<b>-7,566</b>

Goodwill generated in the acquisition:

EUR 1,000	Note	2022
Consideration transferred		35,193
Net identifiable assets of acquirees		7,566
<b>Preliminary goodwill</b>	<b>13</b>	<b>42,759</b>
Transaction price paid in cash:		35,193
Cash and cash equivalents of acquirees		-1,809
<b>Preliminary effect on cash flow</b>		<b>33,384</b>

In the determination of fair values, intangible assets based on customer relationships, trademarks and patient databases were identified. The fair value of these was defined as EUR 5.5 million. The fair value was determined using an income-based approach, which requires a forecast of cash flows. In connection with the above, EUR 1.1 million were identified as a deferred tax liability.

The merger of the businesses resulted in goodwill of EUR 42.8 million, which is based on the expected synergy benefits and skilled labour. Synergy benefits are based, for example, on an increase in the utilization rate of surgery, reception visits and diagnostic services. The generated goodwill is not tax deductible.

The combined fair value of trade receivables and other receivables was EUR 13.2 million, which essentially corresponds to their book value, and there is no significant impairment risk associated with the receivables.

As a result of the merger of business operations described above, the turnover recorded in the financial year 2022 was EUR 76 million, and the impact on the result of the financial year has been EUR 12.5 million. Costs related to acquisitions EUR 0.6 million have been recorded in other business expenses (IFRS 3 expenses).



## Acquired business operations, others

Pihlajalinna completed the acquisitions of Etelä-Savon Työterveys Oy, Lääkärikeskus Ikioma Oy and Punk-kibussi® unit on 1 April 2022. Pihlajalinna completed the acquisition of Mediellen Oy on 1 September 2022 and the acquisitions of Seppälääkärit Oy and Seppämagneetti Oy on 1 October 2022. The purchase price allocations on the acquisitions are currently being finalized and will be completed within one year from the acquisition date. Preliminary information on the acquisitions is presented combined below because the acquisitions are not individually material:

EUR 1,000	2022
<b>Consideration transferred</b>	
Cash	20,893
Contingent consideration	1,905
<b>Total acquisition cost</b>	<b>22,798</b>

The preliminary values of the assets and liabilities acquired for consideration at the time of acquisition were as follows:

EUR 1,000	Note	2022
Property, plant and equipment	12	961
Intangible assets	13	2,194
Right-of-use assets	14	3,591
Available-for-sale financial assets		1
Deferred tax assets	19	61
Inventories		223
Trade and other receivables		2,331
Cash and cash equivalents		1,969
<b>Total assets</b>		<b>11,330</b>
Deferred tax liabilities	19	447
Provisions		153
Financial liabilities	22	466
Lease liabilities		3,778
Other liabilities		6,014
<b>Total liabilities</b>		<b>10,858</b>
<b>Acquired net assets</b>		<b>471</b>

Preliminary goodwill generated in the acquisition:

EUR 1,000	Note	2022
Consideration transferred		22,798
Share of the acquisition allocated to non-controlling interest		41
Net identifiable assets of acquirees		-471
<b>Preliminary goodwill</b>	<b>13</b>	<b>22,368</b>
Transaction price paid in cash:		20,893
Cash and cash equivalents of acquirees		-1,969
<b>Preliminary effect on cash flow</b>		<b>18,924</b>

In the preliminary determination of fair values, intangible assets based on customer relationships, trademarks, patient databases and non-compete agreements were identified. The preliminary fair value of these was defined as EUR 2.2 million. Fair value has been determined using an income-based approach, which requires a forecast of expected cash flows. In connection with the above, a calculated deferred tax liability of EUR 0.4 million was identified.

The merger of the businesses resulted in a preliminary goodwill of EUR 22.4 million, which is based on the expected synergy benefits and skilled labour. About EUR 8 million of the generated goodwill is tax deductible.

The combined fair value of trade receivables and other receivables was EUR 2.3 million, which essentially corresponds to their book value, and there is no significant impairment risk associated with the receivables.

As a result of the merger of business operations described above, the turnover recorded in the financial year 2022 was EUR 16.5 million, and the impact on the result of the financial year has been EUR 1.5 million.

Expenses related to the acquisition presented above, amounting to EUR 0.5 million, have been recognised in other operating expenses (IFRS 3 costs).

### Pro forma information

If the business activities acquired in the 2022 fiscal year had been combined in the consolidated financial statements from the beginning of the fiscal year, the consolidated turnover for the fiscal year would have been EUR 706.5 million and the operating result would have been EUR 8.8 million.

## Acquisitions and capital expenditure

Acquired entity	Month of acquisition	Industry	Domicile
Pohjola Hospital Oy	2/2022	Private clinic operations	Helsinki
Etelä-Savon Työterveys Oy	4/2022	Occupational healthcare services	Mikkeli
Lääkärikeskus Ikioma Oy	4/2022	Private clinic operations, Dental care	Mikkeli
Punkkibussi®-business	4/2022	Private clinic operations	Several
Mediellen Oy	9/2022	Private clinic operations	Sotkamo
Seppälääkärit Oy	10/2022	Private clinic operations	Jyväskylä
Seppämagneetti Oy	10/2022	Private clinic operations	Jyväskylä

## Acquisition of non-controlling interests during the financial year 2022

In April 2022, Pihlajalinna redeemed 8 % of Pihlajalinna Turku Oy's shares from the company's non-controlling interests. After the transaction, the Group's ownership is 100 %.

In November, Pihlajalinna redeemed 19 % of Laihia Hyvinvointi Oy's shares from the company's non-controlling interests. After the transaction, the Group's ownership is 100 %.

## Acquired business operations 2021

EUR 1,000			
Acquired entity	Month of acquisition	Industry	Domicile
Työterveys Virta Oy	04/2021	Occupational health services	Oulu
Finla Työterveys Oy's Mänttä-Vilppula unit's business operations	11/2021	Occupational health services	Mänttä-Vilppula
EUR 1,000			2021
Consideration			
Cash, basic transaction price			17,941
Total cost of the combination			17,941

On the date of acquisition, the values of assets acquired and liabilities assumed were as follows:

EUR 1,000	Note	2021
Property, plant and equipment	12	30
Intangible assets	13	2,195
Right-of-use assets	14	2,801
Available-for-sale financial assets		1
Deferred tax assets		83
Trade and other receivables		1,552
Cash and cash equivalents		1,527
Total assets		8,188
Deferred tax liabilities		435
Restructuring provision		300
Lease liabilities	22	2,801
Other liabilities		2,012
Total liabilities		5,549

**Acquired net assets** 2,640

Creation of goodwill in acquisition

EUR 1,000	Note	2021
Consideration transferred		17,941
Net identifiable assets of acquirees		-2,640
<b>Goodwill</b>	<b>13</b>	<b>15,301</b>
Transaction price paid in cash		17,941
Cash and cash equivalents of acquiree		-1,527
<b>Effect on cash flow</b>		<b>16,414</b>

Customer contracts, non-compete agreements and patient databases were recognised in the acquisition as intangible assets separate from goodwill. The fair value of intangible assets has been determined on the basis of the standardised price level in business combinations and the discounted values of future cash flows. The remaining goodwill consists of expectations about returns, the skilled workforce of the acquired companies and synergy benefits.

The acquisition-related expenses, a total of EUR 366 thousand, have been recorded under other operating expenses.

Had the acquired business operations been consolidated since the beginning of the financial year, the consolidated revenue for the review period would have amounted to EUR 616.3 million and operating profit would have totalled EUR 27.4 million.

### Acquisition of non-controlling interests during the financial year 2021

In August 2021, Pihlajalinna increased its holding in Kuusiölinna Terveys Oy, a joint venture with the municipalities of Alavus, Ähtäri, Kuortane and Soini. The transaction was made with the municipality of Kuortane. After the transaction, the Group owns 97 per cent of the company.

## 27. Assets held for sale

### Accounting principles

Non-current assets and assets and liabilities related to discontinued operations are classified as held for sale if their carrying amounts are expected to be recovered primarily through sale rather than through continuing use. Classification as held for sale requires that the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

Prior to classification as held for sale, the assets or assets and liabilities related to a disposal group in question are measured according to the respective IFRS standards. From the date of classification, non-current assets held for sale are measured at the lower of the carrying amount and the fair value less costs to sell, and the recognition of depreciation and amortisation is discontinued. Non-current assets held for sale are presented in the statement of financial position separately from other items. The comparison figures for the statement of financial position are not restated.

Pihlajalinna has classified its dental health services as assets held for sale effective from 31 December 2022. The Group has announced it will sell its dental care services to Hammas Hohde Oy. The deal includes 16 clinics around Finland. About 200 oral health professionals work in them. The deal is expected to be finalized by the end of March.

EUR 1,000	31 Dec 2022
Goodwill	3,004
Other intangible assets	-19
Property, plant and equipment	1,585
Investments	-5
Deferred tax assets	63
Inventories	372
Other receivables, current	205
<b>Assets held for sale</b>	<b>5,255</b>
Other liabilities, current	1,081
<b>Liabilities directly attributable to assets held for sale</b>	<b>1,081</b>
<b>Net assets</b>	<b>4,175</b>

## 28. Subsidiaries and material non-controlling interests

### The Group's structure

The Group had 34 (28) subsidiaries in 2022. Of these subsidiaries, 20 (14) are wholly-owned and 14 (14) are partially owned. A list of all of the Group's subsidiaries is presented in Note 31 Related party transactions. In 2022, the Group had 3 (2) associated companies and 1 (1) joint operation.



## Breakdown of material non-controlling interests in the Group

EUR 1,000	Main busines loca- tion	Non-controlling interests' share of the votes		Non-controlling interests' share of profit or loss		Non-controlling interests' share of equity	
		2022	2021	2022	2021	2022	2021
Jämsän Terveys Oy	Jämsä	49%	49%	-2462	-1653	-3885	-1422
Pihlajalinna Erityisasumispalvelut Oy	Hämeenlinna	30%	30%	79	-72	-130	-209
Dextra Lapsettomuusklinikka Oy	Helsinki	49%	49%	227	414	418	851
Pihlajalinna Liikuntakeskukset Group	several	30%	30%	-401	-245	1453	1854
Suomen Yksityiset Hammaslääkärit Group	several	37%	37%	76	-3	469	393
<b>Total</b>				<b>-2,482</b>	<b>-1,559</b>	<b>-1,675</b>	<b>1,467</b>

## Summary of financial information on subsidiaries with a material non-controlling interest

	Jämsän Terveys Oy		Pihlajalinna Erityisa- sumispalvelut Oy		Dextra Lapsettomuusklinikka Oy		Pihlajalinna Liikun- takeskukset Group		Suomen Yksityiset Ham- maslääkärit Group	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Current assets	5,381	42,550	767	544	1,026	1,715	1,742	1,326	248	270
Non-current assets	1,233	1,808	4,306	4,524	3,720	1,369	37,168	37,694	1,962	2,087
Current liabilities	14,144	46,686	1,464	1,672	860	695	17,278	15,392	807	1,193
Non-current liabilities	324	481	4,016	4,062	2,342	18	17,603	18,239	19	20
Revenue	75,231	75,022	6,370	4,302	5,201	5,980	12,653	12,579	4,401	4,392
Operating profit	-4,522	-3,576	407	-214	584	1,149	-922	-458	276	12
Profit/loss	-4,984	-3,376	268	-238	519	897	-1,532	-818	85	8
Share of profit/loss attributable to owners of the parent	-2,521	-1,722	190	-212	292	483	-1,130	-573	10	11
Non-controlling interests' share of profit/loss	-2,462	-1,653	79	-72	227	414	-401	-245	76	-3
Net cash flow from operating activities	-1,783	-3,911	852	18	1,157	1,386	4,122	4,158	531	155
Net cash flow from investing activities	18	-137	423	-2,164	6,064	-600	5,989	-1,512	-114	298
Net cash flow from financing activities	2,120	-201	-1,274	2,146	-7,217	-793	-9,912	-2,620	-494	-435
of which dividends paid to non-controlling interests					-660	-215				

## 29. Interests in associates and joint arrangements

### Accounting policies

Associates are companies over which the Group has significant influence. As a rule, significant influence is established when the Group holds more than 20% of a company's voting power or otherwise has significant influence but no control.

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control involves contractually agreed sharing of control of an arrangement, which exists only when decisions about relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture. A joint venture is an arrangement whereby the Group has rights to the net assets of the arrangement, whereas in a joint operation the Group has rights to the assets, and obligations for the liabilities, relating to the arrangement.

Associates and joint ventures are consolidated using the equity method. If the Group's share of the loss of an associate or a joint venture exceeds the carrying amount of the investment, then the investment is carried at zero value, and the losses exceeding the carrying amount are not consolidated, unless the Group is committed to fulfilling the obligations of the associate or joint venture. An investment in an associate or a joint venture includes the goodwill generated through the acquisition. Unrealised profits between the Group and an associate or a joint venture are eliminated in proportion to the Group's ownership interest. The Group's pro rata share of an associate's or a joint venture's profit for the financial year is included in operating profit.

EUR 1,000		2022	2021
Interests in associates	Ullanlinnan Silmälääkärit Oy	31	20
	Digital Healt Solutions Oy	609	288
	Kuura Digilääkärit Oy	1,428	0
Interests in joint operations	Koy Levin Pihlaja Oy	40	40
<b>Total carrying amount</b>		<b>2,109</b>	<b>348</b>

### Interests in associates

Name	Name		Holding, %	
			2022	2021
Ullanlinnan Silmälääkärit Oy	Helsinki	Healthcare services	37%	37%
Digital Health Solutions Oy	Sotkamo	All legal business	41%	18%
Kuura Digilääkärit Oy	Helsinki	Healthcare services	45%	

The Group's pro rata share of an associate's or a joint venture's profit for the financial year is presented separately in operating profit up to the carrying amount of the Group's investment in their shares.

### Interests in joint operations

The Group owns 31% in Kiinteistö Oy Levin Pihlaja, which is consolidated as a joint operation according to the pro rata share.

## 30. Contingent assets and liabilities and commitments

Collateral given on own behalf	2022	2021
Sureties	4,158	4,407
Properties' VAT refund liability	33	59
Lease commitments for off-balance sheet leases	1,312	849
Lease deposits	561	535

### Contingent liability

Pihlajalinna has complete outsourcing agreements with entities that were part of Pirkanmaa Hospital District. The operations of Pirkanmaa Hospital District ended on 31 December 2022 as the Pirkanmaa wellbeing services county started its operations on 1 January 2023. In accordance with Pirkanmaa Hospital District's basic agreement, Pirkanmaa Hospital District has, due to the termination of its operations, invoiced its member municipalities for their share of covering the hospital district's negative result. As some of the member municipalities have a complete outsourcing agreement with Pihlajalinna for the provision of social and healthcare services, the Group has received invoice attachments totalling approximately EUR 0.5 million in early 2023 in relation to covering the hospital district's negative result. The management's assessment is that covering the negative result arising from the termination of the hospital district's operations is not the responsibility of the Group companies, but rather the responsibility of the hospital district's member municipalities. Consequently, the management does not consider it likely that the matter will lead to an outflow of economic resources from the Group, which means that, according to the Group's interpretation, the invoiced amounts constitute a contingent liability in accordance with IAS 37.

### Lawsuits and official proceedings

The City of Jämsä has taken legal action against Jämsän Terveys Oy regarding a matter concerning the price adjustment provision in the service agreement. The difference in views regarding whether the fixed annual price for social and healthcare services can decrease due to price. Jämsän Terveys filed an additional counterclaim against the City of Jämsä. The additional counterclaim concerns the effect of changes in the services under the service agreement on price and the service provider's liability for financing investments by the Pirkanmaa Hospital District insofar as such investments serve operations after the term of the service agreement. The service provider is entitled to price adjustments corresponding to increases in costs and the contractual parties are under an obligation to negotiate and try to reach an agreement.

On 4 April 2022, the District Court of Central Finland handed down its ruling on the dispute concerning the service agreement between Jämsän Terveys Oy and the City of Jämsä. The District Court did not deny the validity of the grounds for the variable charges in Jämsän Terveys' service agreement, but the District Court found that the evidence presented regarding the realisation of the costs was insufficient. The situation and the effects of the dispute are described in more detail in note 1 *Revenue from contracts with customers* under *Items that may, according to the management's estimate, influence the profitability of complete outsourcing agreements with a delay*. Jämsän Terveys has filed an appeal regarding the District Court's ruling to the Court of Appeal.

The City of Jämsä has criticized the decision of the 2022 annual general meeting of Jämsän Terveys Oy regarding the increase in working capital according to the shareholders' agreement. The case is pending in the District Court of Central Finland.

Pihlajalinna is involved in certain pending legal proceedings concerning employment relationships, but they are not expected to have a significant financial impact on the Group.

### 31. Related party transactions

The Group's related parties consist of the subsidiaries, associates and joint ventures. Key management personnel considered related parties consist of the members of the Board of Directors and the Management Team, including the CEO and their family members.

#### The Group's parent company and subsidiary relationships

The Group's parent company is Pihlajalinna Plc, which owns all of Pihlajalinna Terveys Oy's Series A shares.

Company	Domicile	Holding	% of votes
Pihlajalinna Terveys Oy	Parkano	100%	100%
Ikipihlaja Johanna Oy	Jämsä	100%	100%
Jokilaakson Terveys Oy	Jämsä	90%	90%
Pihlajalinna Lääkärikeskukset Oy	Helsinki	100%	100%
Mäntänvuoren Terveys Oy	Mänttä-Vilppula	91%	91%
Ikipihlaja Kuusama Oy	Kokemäki	100%	100%
Ikipihlaja Sofianhovi Oy	Mänttä-Vilppula	100%	100%
Wiisuri Oy	Jyväskylä	100%	100%
Ikipihlaja Matinkartano Oy	Lieto	100%	100%
Ikipihlaja Setälänpiha Oy	Lieto	100%	100%
Ikipihlaja Oiva Oy	Raisio	100%	100%
Kolmostien Terveys Oy	Parkano	96%	96%

Jämsän Terveys Oy	Jämsä	51%	51%
Kuusiolinnat Terveys Oy	Alavus	97%	97%
Lääkäriasema DokTori Oy	Lappeenranta	100%	100%
Kompassi Lääkärikeskus Oy	Seinäjoki	100%	100%
Mediapu Oy	Oulu	100%	100%
Pihlajalinna Turku Oy	Turku	100%	100%
Pihlajalinna Erityisasumispalvelut Oy	Hämeenlinna	70%	70%
Pihlajalinna Oulu Oy	Oulu	100%	100%
Dextra Lapsettomuuslinikka Oy	Helsinki	51%	51%
Bottenhavets Hälsa Ab - Selkämeren Terveys Oy	Kristiinankaupunki	75%	75%
Linnan Klinikka Oy	Hämeenlinna	100%	100%
Pihlajalinna Liikuntakeskukset Oy	Tampere	70%	70%
Forever Helsinki Oy	Helsinki	70%	70%
Suomen Yksityiset Hammaslääkärit Oy	Tampere	63%	63%
Pihlajalinna Hammasklinikat Oy	Tampere	63%	63%
Laihian Hyvinvointi Oy	Laihia	100%	100%
Pihlajalinna Omasairaala Oy	Helsinki	100%	100%
Pihlajalinna Etelä-Savo Oy	Mikkeli	100%	100%
Pihlajalinna Ikioma Oy	Mikkeli	93%	93%
Pihlajalinna Kainuu Oy	Sotkamo	70%	70%
Seppämagneetti Oy	Jyväskylä	100%	100%
Seppälääkärit Oy	Jyväskylä	100%	100%

Information on the associates is presented in Note 28 Interests in associates and joint arrangements.

#### Employee benefits of management

EUR 1,000	2022	2021
Monetary salaries, Management Team	1,030	1,054
Share-based rewards, Management Team	65	226
Fringe benefits, Management Team	10	16
Post-employment benefits, Management	182	
<b>Salaries and other short-term employee benefits, Management Team, total</b>	<b>1,288</b>	<b>1,297</b>



## Salaries and remuneration

EUR 1,000	2022	2021
Joni Aaltonen, CEO		
Monetary salaries	287	283
Share-based rewards	32	100
Fringe benefits	20	21
<b>Total</b>	<b>339</b>	<b>405</b>

Based on the CEO's salary and bonuses, accrual-based pension costs of 21 thousand euros in 2022 (2021: 20 thousand euros) in accordance with the Employee Pension Act (TyEL) have been recorded.

EUR 1,000		2022	2021
Board of Directors			
Vice-Chairman of the Board	Leena Niemistö	53	58
Chairman of the Board	Mikko Wirén	261	345
Chairman of the Audit Committee	Seija Turunen	50	53
Board member	Kati Sulin (until 12 June 2022)	17	42
Board member	Matti Jaakola (until 15 June 2021 )	0	9
Board member	Hannu Juvonen	40	41
Board member	Heli Iisakka (since 13 April 2022)	34	0
Board member	Mika Manninen	36	41
<b>Total</b>		<b>491</b>	<b>588</b>

Of the annual remuneration paid in shares, a total of 0 (5,000) shares held by the company were transferred to the Chairman of the Board of Directors, with 1,423 (1,212) shares transferred to the Vice Chairman and the Chairman of the Audit Committee each, and 949 (808) shares to each member of the Board of Directors.

According to the CEO's contract, the notice period for dismissal is 3 months. The company is liable to pay the CEO one-time compensation for termination amounting to six months' total salary. The CEO's pension benefits are according to the statutory pension scheme. The CEO is not a member of the Board of Directors.

## Related party transactions and related party receivables and liabilities:

	2022	2021
Key management personnel		
Rents paid	919	834
Services procured	1,064	958
Prepayments	-96	0
Trade payables	105	83

The Group has leased several of its business premises from the Chairman of the Board of Directors: the premises in Nokia, Karkku, Tampere and Kangasala.

A Group company has an agreement with the Chairman of the Board of Directors, under which the Group buys healthcare professionals' services.

## 32. Events after the balance sheet date

On 10 January 2023, the Group announced it would commence change negotiations. The change negotiations are still under way and the aim is to complete them within the target time of six weeks. The change negotiations concern the network of private clinics, regional management and the Groups's general management. Approximately 650 persons are within the scope of the functions in question. According to the company's preliminary estimate, the negotiations may lead to a reduction of 40–60 positions in Pihlajalinna, and the administrative duties of 30–40 employees may be discontinued or reduced. The allocation of the planned measures and their impacts on the personnel will be discussed in more detail during the negotiations.

The Group has, on 2 February 2023, sold the interest rate swap. The fair value of the interest rate swap at the time the agreement was concluded was approximately EUR 3.9 million. On the same day, the Group has signed a new interest rate swap agreement with a nominal value of EUR 65 million to protect its financing arrangement from variable interest rates. Cash flow hedge accounting is applied to the interest rate swap. The start date of the interest rate swap agreement is in March 2023. Based on the agreement, the Group pays a fixed interest rate of 2.80 per cent and receives a variable 6-month Euribor interest rate from the start date.



## PARENT COMPANY FINANCIAL STATEMENTS, FAS

### Parent company income statement, FAS

EUR 1,000	Note	2022	2021
Revenue	1.1.	6,757	5,205
Other operating income	1.2.	444	459
Personnel expenses	1.3.	-1,228	-1,350
Depreciation, amortisation and impairment	1.4.	-2,215	-2,004
Other operating expenses	1.5.	-6,283	-4,795
<b>Operating profit (loss)</b>		<b>-2,526</b>	<b>-2,486</b>
Financial income and expenses	1.6.	-3,207	-565
<b>Profit (loss) before appropriations and taxes</b>		<b>-5,732</b>	<b>-3,051</b>
Appropriations	1.7.		
Change in depreciation difference		104	-32
Group contribution		0	20,350
Income taxes	1.8.	1,124	-3,373
<b>Profit (loss) for the financial year</b>		<b>-4,504</b>	<b>13,893</b>

## Parent company balance sheet, FAS

EUR 1,000	Note	2022	2021
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	2.1	3,731	4,048
Property, plant and equipment	2.2	1,742	2,155
Investments	2.3	384,535	284,835
		<b>390,009</b>	<b>291,038</b>
<b>Current assets</b>			
Non-current receivables	2.4	1,160	37
Current receivables	2.5	59,571	82,787
Cash and cash equivalents		4,223	2,179
		<b>64,954</b>	<b>85,002</b>
<b>Total assets</b>		<b>454,963</b>	<b>376,040</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
	2.6		
Share capital		80	80
Reserve for invested unrestricted equity		183,190	183,190
Retained earnings		32,548	26,152
Profit/loss for the financial year		-4,504	13,893
		<b>211,314</b>	<b>223,316</b>
Accumulated appropriations	2.7	914	1,018
Mandatory provisions	2.8	0	21
<b>Liabilities</b>			
	2.9		
Non-current liabilities		167,003	90,368
Current liabilities		75,732	61,316
		<b>242,735</b>	<b>151,685</b>
<b>Total equity and liabilities</b>		<b>454,963</b>	<b>376,040</b>

## Parent company cash flow statement, FAS

EUR 1,000	2022	2021
<b>Cash flow from operating activities</b>		
Profit for the period	-4,504	13,893
Depreciation, amortisation and impairment	2,215	2,004
Financial income and expenses	3,207	565
Other adjustments (appropriations and taxes)	-1,228	-16,944
Cash flow before change in working capital	-310	-482
Change in net working capital	667	-2,699
Cash flows from operating activities before financial items and taxes	357	-3,181
Interest received	4,507	1,449
Direct taxes paid	-4,259	-2,416
<b>Cash flow from operating activities</b>	<b>605</b>	<b>-4,149</b>
<b>Cash flow from investing activities</b>		
Investments in tangible and intangible assets	-1,486	-904
Other investments	300	-350
Investments in subsidiaries	-100,000	0
<b>Cash flow from investing activities</b>	<b>-101,186</b>	<b>-1,254</b>
<b>Cash flow from financing activities</b>		
Proceeds from short-term borrowings from group companies	9,543	11,724
Loans granted to group companies	9,650	-17,973
Proceeds from long-term borrowings	209,000	20,000
Repayment of long-term borrowings	-132,774	-20,771
Group contributions received	20,350	14,000
Interest paid	-4,903	-2,139
Dividends paid	-6,767	-4,517
Acquisition of own shares	-1,475	-582
<b>Cash flow from financing activities</b>	<b>102,624</b>	<b>-258</b>
<b>Change in cash and cash equivalents</b>	<b>2,044</b>	<b>-5,661</b>
Cash at the beginning of the financial year	2,179	7,840
Cash at the end of the financial year	4,223	2,179

## Notes to the financial statements 31 December 2022

### Accounting policies

Pihlajalinna Plc (2617455-1), domiciled in Tampere, is the parent company of Pihlajalinna Group. The company was established on 15 April 2014.

### Valuation of non-current assets

Intangible assets and tangible assets have been recognised in the balance sheet at cost. Depreciation and amortisation according to plan is calculated using the straight-line method over the economic useful lives of the assets.

#### The planned depreciation periods are as follows:

Development costs	5–7 years
Other intellectual property rights	5–7 years
Other long-term expenditures	5–7 years
Machinery and equipment	3–10 years

Acquisition costs of assets included in non-current assets with a probable economic useful life of less than 3 years, and small-scale acquisitions (value under EUR 850) have been expensed in the financial year during which they were acquired in full. Financial assets are measured at the lower of cost or fair market, if the impairment is considered to be permanent.

### Recognition of deferred taxes

Deferred tax liabilities or assets have been calculated on the temporary differences between taxation and the financial statements, using the prevailing tax base at balance sheet date. The balance sheet includes deferred tax liabilities in their entirety and deferred tax assets in the amount of the estimated probable receivables.

### Revenue recognition

The sale of products and services is recognised in connection with their delivery.

### Capitalised development costs (Accounting Ordinance 2:4, 3-4)

The company's capitalised product development expenditure relating to the Pihlajalinna mobile application and the company website will be amortised over their economic useful lives. Unamortised development expenditure included in intangible assets, which restricts profit distribution, amounted to EUR 258 (489) thousand at the end of the financial year.

### Recognition of pension schemes

The personnel's statutory pension security is handled by an external pension insurance company. Pension costs are recognised as expenses during the year of their accrual.

### Derivative financial instruments

The company has an interest swap agreement that is used to hedge floating rate financing arrangement. The company present the interest swap agreement according to prudent basis (Accounting Board 2016/1963). The negative value of the interest swap agreement is recorded based on the lowest value as an expense and a liability. The positive unrealized value is presented as an off balance sheet item and income statement item and presented only in the Notes.

#### 1.1. Revenue

EUR 1,000	2022	2021
Revenues by sector		
Sale of services	6,757	5,205
	<b>6,757</b>	<b>5,205</b>

#### 1.2. Other operating income

EUR 1,000	2022	2021
Rental income	116	116
Lease income from equipment	328	328
Government grants received	0	14
	<b>444</b>	<b>459</b>

#### 1.3. Personnel expenses

EUR 1,000	2022	2021
Wages and salaries	-1,096	-1,234
Pension costs	-115	-100
Other social security expenses	-16	-16
	<b>-1,228</b>	<b>-1,350</b>

Average number of employees during the financial year	3	3
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The remuneration of the Board of Directors of Pihlajalinna Plc is included in the company's personnel expenses. The Annual General Meeting of 13 April 2022 decided that remuneration shall be paid to the members of the Board of Directors as follows: to the full-time Chairman of the Board of Directors EUR 250,000 per year; to the Vice-Chairman of the Board and the Chairman of the Audit Committee EUR 39,000 per year, and to members EUR 26,000 per year.

The annual remuneration shall be paid in company shares and in cash, with approximately 40 per cent of the remuneration used to acquire shares in the name and on behalf of the members of the Board of Directors, and the remainder paid in cash. The remuneration can be paid either entirely or partially in cash if the



member of the Board of Directors has, on the day of the General Meeting, 13 April 2022, been in possession of over EUR 1,000,000 worth of company shares. The company is responsible for the expenses and transfer tax arising from the acquisition of the shares. The remuneration to be paid in company's own shares was completed by handing over to the members of the Board a total of 6,642 own shares in May. Rest of the annual remuneration was paid at the same time in cash. If the term of a Board member ends before the Annual General Meeting of 2023, the Board is entitled to decide on the possible recovery of the remuneration in a manner it deems appropriate.

In addition, the Annual General Meeting decided that each Board member shall be paid a meeting fee of EUR 500 for each Board and Committee meeting. Furthermore, reasonable travel expenses of the members of the Board of Directors are reimbursed in accordance with the Company's travel policy.

#### 1.4. Depreciation and impairment

EUR 1,000	2022	2021
<b>Depreciation according to plan</b>		
Intangible assets	-1,802	-1,593
Property, plant and equipment	-413	-411
	<b>-2,215</b>	<b>-2,004</b>

#### 1.5. Other operating expenses

EUR 1,000	2022	2021
Voluntary social security expenses	32	-111
Facility expenses	-130	-120
Vehicle expenses	-17	-19
ICT expenses	-4,983	-3,560
Machinery and equipment expenses		-1
Sales, marketing and travel expenses	-48	-77
Administrative expenses	-1,136	-848
<b>Other operating expenses, total</b>	<b>-6,283</b>	<b>-4,735</b>

Auditor's fees		
Audit fees	126	113
Auxiliary services		6
	<b>126</b>	<b>119</b>

#### 1.6. Financial income and expenses

EUR 1,000	2022	2021
Interest income from non-current investments		
From Group companies	1,841	1,449
From others	2	0
<b>Interest income from non-current investments, total</b>	<b>1,842</b>	<b>1,449</b>
Interest expenses and other financial expenses		
To others	-5,049	-2,013
<b>Interest expenses and other financial expenses, total</b>	<b>-5,049</b>	<b>-2,013</b>

<b>Financial income and expenses, total</b>	<b>-3,207</b>	<b>-565</b>
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#### 1.7. Appropriations

EUR 1,000	2022	2021
Difference between depreciation according to plan and depreciation in taxation	104	-32
Group contributions received		20,350
	<b>104</b>	<b>20,318</b>

#### 1.8. Income taxes

EUR 1,000	2021	2021
Change in deferred tax assets	1,124	
Income taxes on actual operations during the financial year		-3,373
<b>Income taxes total</b>	<b>1,124</b>	<b>-3,373</b>

## Notes to the balance sheet

### 2.1. Intangible assets

EUR 1,000	2022	2021
Development costs		
Acquisition cost at the start of the financial year	1,607	1,607
Acquisition cost at the end of the period	1,607	1607
Accumulated depreciation at beginning of period	-1,118	-854
Depreciation and amortisation for the period	-230	-264
<b>Carrying amount at the end of period</b>	<b>258</b>	<b>489</b>
Other intellectual property rights		
Acquisition cost at the start of the financial year	1,658	1,615
Additions	0	43
Acquisition cost at the end of the period	1,658	1,658
Accumulated depreciation at beginning of period	-1,249	-1,028
Depreciation and amortisation for the period	-215	-221
<b>Carrying amount at the end of period</b>	<b>194</b>	<b>409</b>
Other long-term expenditures		
Acquisition cost at the start of the financial year	6,051	5,264
Additions	1,331	787
Transfers between items	67	0
Acquisition cost at the end of the period	7,449	6,051
Accumulated depreciation at beginning of period	-2,979	-1,871
Depreciation and amortisation for the period	-1,356	-1,108
<b>Carrying amount at the end of period</b>	<b>3,114</b>	<b>3,072</b>
Prepayments for intangible assets		
Acquisition cost at the start of the financial year	79	6
Additions	153	73
Transfers between items	-67	0
<b>Carrying amount at the end of period</b>	<b>166</b>	<b>79</b>
Intangible assets, total		
Acquisition cost at the start of the financial year	9,394	8,492
Additions	1,485	903

Acquisition cost at the end of the period	10,879	9,394
Accumulated depreciation at beginning of period	-5,346	-3,753
Depreciation and amortisation for the period	-1,802	-1,593
<b>Carrying amount at the end of period</b>	<b>3,731</b>	<b>4,048</b>

### 2.2. Property, plant and equipment

EUR 1,000	2022	2021
Machinery and equipment		
Acquisition cost at the start of the financial year	3,584	3,472
Additions	1	112
Acquisition cost at the end of the period	3,585	3,584
Accumulated depreciation at beginning of period	-1,430	-1,018
Depreciation and amortisation for the period	-413	-411
<b>Carrying amount at the end of the period</b>	<b>1,742</b>	<b>2,155</b>
Other intellectual property rights		
Acquisition cost at the start of the financial year	3,584	3,472
Additions	1	112
Acquisition cost at the end of the period	3,585	3,584
Accumulated depreciation at beginning of period	-1,430	-1,018
Depreciation and amortisation for the period	-413	-411
<b>Carrying amount at the end of the period</b>	<b>1,742</b>	<b>2,155</b>

### 2.3. Investments

EUR 1,000	2022	2021
Other shares and participations		
Acquisition cost at the start of the financial year	350	0
Additions	0	350
Disposals	-300	0
Acquisition cost at the end of the period	50	350
Shares in subsidiaries		
Acquisition cost at the start of the financial year	284,485	284,485
Additions	100,000	0
Acquisition cost at the end of the period	384,485	284,485
<b>Total investments</b>	<b>384,535</b>	<b>284,835</b>



A full list of the Group's subsidiaries is presented in Note 31 "Related party transactions" to the consolidated financial statements.

#### 2.4. Non-current receivables

EUR 1,000	2022	2021
<b>Receivables from others</b>		
Lease deposits given	37	37
Deferred tax assets	1,124	
<b>Total non-current receivables</b>	<b>1,160</b>	<b>37</b>

#### 2.5. Current receivables

EUR 1,000	2022	2021
<b>Receivables from others</b>		
Trade receivables	12	26
Other receivables	865	376
Prepayments and accrued income	5,553	2,195
	<b>6,431</b>	<b>2,597</b>

#### Receivables from Group companies

Trade receivables	771	-43
Loan receivables	50,882	59,788
Prepayments and accrued income	1,487	20,445
	<b>53,140</b>	<b>80,190</b>

#### Material items included under Prepayments and accrued income

Group contribution	0	20,350
Accrued direct taxes	1,490	
Allocation of sales	672	95
Accrued social security expenses	112	85
Accrued trade payables	3,952	2,051
Other	815	58
	<b>7,040</b>	<b>22,639</b>

<b>Total current receivables</b>	<b>59,571</b>	<b>82,787</b>
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#### 2.6. Equity

EUR 1,000	2022	2021
<b>Restricted equity</b>		
Share capital at the beginning	80	80
Share capital at the end	80	80
<b>Total restricted equity</b>	<b>80</b>	<b>80</b>

#### Unrestricted equity

Reserve for invested unrestricted equity at the beginning	183,190	183,190
Reserve for invested unrestricted equity at the end	183,190	183,190
Retained earnings at the beginning	40,045	31,251
Dividends paid	-6,767	-4,517
Acquisition of own shares	-1,475	-582
<b>Retained earnings</b>	<b>32,548</b>	<b>26,152</b>

Profit for the period	-4,504	13,893
<b>Total unrestricted equity</b>	<b>211,234</b>	<b>223,236</b>

<b>Total equity</b>	<b>211,314</b>	<b>223,316</b>
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Retained earnings	32,548	26,152
Result for the period	-4,504	13,893
Reserve for invested unrestricted equity	183,190	183,190
Capitalised development costs	-258	-489
<b>Distributable unrestricted equity</b>	<b>210,976</b>	<b>222,747</b>

<b>Shares in subsidiaries</b>	<b>22,620,135</b>	<b>22,620,135</b>
of which treasury shares	70,491	25,900
Number of outstanding shares	22,549,644	22,594,235

#### 2.7. Accumulated appropriations

EUR 1,000	2022	2021
Accumulated depreciation difference	914	1,018

**2.8. Mandatory provisions**

EUR 1,000	2022	2021
Onerous contracts	0	21

**2.9. Liabilities**

EUR 1,000	2022	2021
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**2.9.1 Non-current liabilities**

Liabilities to others		
Loans from financial institutions	167,000	90,000
Other non-current liabilities	3	332
Lease deposits received	0	36
<b>Non-current liabilities, total</b>	<b>167,003</b>	<b>90,368</b>

**2.9.2 Current liabilities**

Liabilities to others		
Trade payables	5,430	297
Other liabilities	365	811
Accrued liabilities	651	3,062
	<b>6,447</b>	<b>4,170</b>

## Liabilities to Group companies

Trade payables	4	1
Accrued liabilities	2,703	111
Other liabilities	66,578	57,035
	<b>69,285</b>	<b>57,147</b>

## Material items included under Accrued liabilities

Personnel expense allocations	171	149
Interest allocations	2,876	65
Taxes	0	2,769
Other items	307	189
	<b>3,354</b>	<b>3,172</b>

<b>Current liabilities, total</b>	<b>73,067</b>	<b>61,316</b>
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## Other notes

EUR 1,000	2022	2021
<b>Collaterals and contingent liabilities</b>		
<i>Collaterals given on behalf of Group companies</i>		
Other sureties	121	121

### Pihlajalinna's financing arrangements

Pihlajalinna rearranged its long-term debt financing with a sustainability-linked financing arrangement on 22 March 2022. The EUR 200 million unsecured financing arrangement, for three years with an option for a further two years, was concluded with Danske Bank, OP Corporate Bank and Swedbank (the creditor banks). The financing comprises a long-term loan of EUR 130 million and a revolving credit facility of EUR 70 million for general financing needs and acquisitions. It also includes an opportunity to later increase the total amount by EUR 100 million (to EUR 300 million), subject to separate decisions on a supplementary loan from the funding providers.

The financing arrangement includes the customary financial covenants concerning leverage (ratio of net debt to pro forma EBITDA) and gearing. IFRS 16 lease liabilities are not taken into account in the calculation of the covenants (Frozen GAAP). The loan margin of the financing is additionally linked to Pihlajalinna's annual sustainability objectives related to patient satisfaction (NPS), employee engagement (eNPS) and access to surgical treatment within the target time. At the end of the financial year, the sustainability targets linked to the financing arrangement caused no changes in the loan margins.

Due to the acquisition of Pohjola Hospital Ltd, Pihlajalinna and the creditor banks agreed on increasing the gearing covenant to 140 per cent and the leverage covenant to 4.00 for 2022.

Pihlajalinna and the creditor banks agreed on a temporary adjustment to the covenants of the financing arrangement twice in the latter part of the year. According to the acquired waivers, the leverage covenant was set at 5.5 for the fourth quarter of 2022 and the first three quarters of 2023, gearing must not exceed 140 per cent. The financing arrangement's original gearing covenant of 115 per cent will enter into effect on the fourth quarter of 2023. Starting from the beginning of the third quarter of 2023, the leverage covenant according to the financing arrangement will be 3.75.

At the end of the financial year, leverage in accordance with the financing arrangement stood at 5.23 and gearing was 139.95 per cent. If the Group's result after taxes had been around 40 thousand euros lower, the gearing covenant level would have been broken. On the other hand, the fair value of the company's interest rate swap agreement was EUR 5.1 million in the financial statements. If the interest rate swap had been sold at the time of the financial statements, gearing would have decreased to 136.0 per cent and leverage to 5.08. Violation of the covenant conditions can lead to the maturity of the financing arrangements.

Under the waiver agreement, the highest margin level of the financing arrangement increased to one per cent units from the beginning of 2023 until the third quarter of the year. The increase to the highest margin level and the other waiver terms will be discontinued by the end of 2023. If the company proposes to remain below the original covenant levels for the next 12 months, the additional provision described above may be discontinued earlier.

The raised loan amount in the financial statements on 31 December 2022, to which the covenant terms are applied, is EUR 167.0 (90.0) million.

The company has entered in March 2022 into interest rate swap agreement with a nominal value of EUR 65 million, which is used to convert the interest on a floating rate financing arrangement to a fixed rate. The interest rate swap is valid until 25 March 2027 and the interest rate swap fair value was EUR 5.1 million at the end of the financial year. The interest rate swap starting date is in March 2023. The company present the interest swap agreement according to prudent basis and the positive unrealized value has not been recorded as a profit to the parent company's financial statement.

The Group has credit limit agreements valid until further notice, totalling EUR 10 million. The notice period of the credit limit agreements is one month. At the end of the financial year, Pihlajalinna had EUR 43.0 (45.0) million in unused committed credit limits. Furthermore, an additional credit limit of EUR 100 million, which is subject to a separate credit decision, is unused.

EUR 1,000	2022	2021
<b>Lease commitments</b>		
Within one year	146	23
Between one and five years	230	569
Over five years later	0	71



**Dates and signatures to the report by the Board of Directors and the financial statements**

Tampere, 16 February 2023

**Mikko Wirén**  
Chairman

**Leena Niemistö**

**Heli Iisakka**

**Seija Turunen**

**Hannu Juvonen**

**Mika Manninen**

**Joni Aaltonen**  
CEO

**Auditor's Note**

A report on the performed audit has been issued today.

Tampere 20 February 2023  
KPMG Oy Ab

**Lotta Nurminen**  
Authorised Public Accountant



# Auditor's Report

## To the Annual General Meeting of Pihlajalinna Plc

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Pihlajalinna Plc (business identity code 2617455-1) for the year ended 31 December 2022. The financial statements comprise the consolidated statement of financial position, 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, cash flow statement 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.

In 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 regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 6 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 and/or possible 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.

**The key audit matter****How the matter was addressed in the audit****Judgmental items relating to municipality outsourcing contracts (refer to notes 1 Revenue from contracts with customers, 16 Trade and other receivables and 30 Contingent assets and liabilities and commitments in the consolidated financial statements) and emphasis of matter**

We draw attention to note 1 and the receivables totalling EUR 7.4 million presented in sections *Key accounting estimates and decisions based on management judgement and Items that may, according to the management's estimate, influence the profitability of complete outsourcing agreements with a delay*. Circumstances described in the notes may affect the payments to be received for these receivables. Our opinion is not modified in respect of this matter.

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| <ul style="list-style-type: none"><li>• A notable proportion of the Group's revenue is based on long-term outsourcing contracts with municipalities. These include both complete outsourcing contracts for social and healthcare services as well as other outsourcing contracts.</li><li>• The Group's profitability of complete outsourcing contracts for social and healthcare services may become more accurate with a delay. The Group may not always be aware of the actual costs of the agreements during the financial year and there may be variable considerations included.</li><li>• High level of management judgement, which can have a significant impact on the consolidated result and statement of financial position, is involved in the accounting for outsourcing contracts due to the extent of the contracts, definitions of contractual obligations and amendment clauses for changed situations.</li><li>• In note 1 section <i>Items that may, according to the management's estimate, influence the profitability of complete outsourcing agreements with a delay</i> the following items relating to outsourcing contracts with municipalities are presented:<ul style="list-style-type: none"><li>• During the financial year, Jämsän Terveys Oy has recognised as revenue and recorded in its receivables EUR 1.2 million, mainly COVID-19-related cost compensation for the current year, which the client has not paid in breach of the service agreement. In addition, a difference of opinion has emerged between the company and the client during the financial year on the impact of the transfer of personnel on the annual fee under the service agreement. Jämsän Terveys Oy has filed an appeal regarding the District Court's ruling to the Court of Appeal in the dispute regarding the service agreement. The company has made accounting entries in accordance with the District Court's ruling in the consolidated financial statements, but the ruling is not final.</li><li>• Mäntänvuoren Terveys Oy has receivables totaling EUR 4.3 million from a client. The receivables are associated with an estimate of the investment cost liability in specialised care and cost increases caused by service changes.</li><li>• Kolmostien Terveys Oy has receivables of EUR 1.3 million from a client. The receivables are associated with an estimate of the investment cost liability in specialised care and COVID-19 cost compensation.</li><li>• Pihlajalinna Terveys Oy, the lead contracting partner for complete outsourcing, has recorded in its receivables variable compensation totaling EUR 0.6 million based on the agreements</li></ul></li><li>• Due to the significant amount of accounting estimates in relation to the result for the period and equity and the receivables being past due, recognized judgmental items relating to the municipality outsourcing contracts are considered a key audit matter.</li></ul> | <ul style="list-style-type: none"><li>• We observed the judgmental items recorded in the consolidated financial statements through discussions with management, analytically and by performing substantive testing. We obtained related agreements, calculations and administrative documents.</li><li>• We obtained legal opinions on the service agreements and juridical basis for recognizing these items from a law firm used by the Group.</li><li>• We obtained legal representation letter about the pending legal dispute in the Court of Appeal.</li><li>• We assessed the recognition principles applied to judgmental income and expense items against IFRS principles and considered the appropriateness of the Group's disclosures in respect of judgmental items.</li><li>• We assessed how the Group has received payments relating to previously recognized judgmental items and obtained a representation letter from the management about the collectability of these receivables.</li><li>• We reported in more detail about the contents of these judgmental items to the Audit Committee and the Board of Directors.</li></ul> |
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**Goodwill impairment assessment (refer to note 13 Intangible assets and goodwill in the consolidated financial statements)**

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| <ul style="list-style-type: none"><li>• The Group has expanded its activities through acquisition of companies. As a result, the consolidated statement of financial position 31 December 2022 includes goodwill totalling 251.0 million euros.</li><li>• Goodwill is not amortized but is tested at least annually for impairment. Determining the cash flow forecasts underlying the impairment tests requires management make judgments over certain key inputs, for example revenue growth rate, discount rate, long-term growth rate and inflation rates.</li><li>• Due to the high level of judgement related to the forecasts used, and the significant carrying amounts involved, goodwill impairment assessment is considered a key audit matter.</li></ul> | <ul style="list-style-type: none"><li>• Our audit procedures included, among others, assessing key inputs in the impairment calculations such as revenue growth rate, profitability and discount rate, by reference to the parent company's Board approved budgets, data external to the Group and our own views.</li><li>• We assessed the historical accuracy of forecasts prepared by management by comparing the actual results for the year with the original forecasts.</li><li>• We involved KPMG valuation specialists that assessed the technical accuracy of the calculations and compared the assumptions used to market and industry information.</li><li>• Furthermore, we considered the appropriateness of the Group's disclosures in respect of goodwill and impairment testing.</li></ul> |
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**Changes in Group structure and their accounting treatment (refer to notes 26 Acquired business operations, 27 Assets held for sale, 28 Subsidiaries and material non-controlling interests and 31 Related party transactions in the consolidated financial statements)**

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| <ul style="list-style-type: none"><li>• Several changes have taken place in the Group structure in the financial year ended due to business combinations and share purchases of non-controlling interests. In addition, dental health services have been classified as assets held for sale in the consolidated financial statements.</li><li>• In business combinations, the assets and liabilities of the acquiree are measured at fair value at the date of the acquisition. Arrangements may also involve contingent considerations which are measured at fair value at each reporting date. Their determination requires management to make estimates. Also classification and valuation of assets held for sale require management judgement.</li><li>• The accounting entries recorded resulting from the changes in the Group structure are considered a key audit matter due to management judgement relating to the entries and valuation matters among other things.</li></ul> | <ul style="list-style-type: none"><li>• For business combinations we considered the purchase agreements, evaluated the valuation principles of the assets and liabilities of the acquiree and the underlying assumptions used, as well as assessed the technical accuracy of the purchase price allocations. We also assessed the existence of intangible assets based on the transferred business and goodwill generated in the acquisition.</li><li>• Our audit procedures also included assessing fair values of any additional or contingent considerations for business combinations made in the current and previous financial years.</li><li>• We involved KPMG valuation specialists that assessed as applicable the appropriateness of the valuation principles applied.</li><li>• Regarding assets held for sale and related liabilities we have assessed the appropriateness of the classification and valuations aspects.</li><li>• Furthermore, we considered the appropriateness of the Group's disclosures in respect of the changes in the Group structure.</li></ul> |
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### 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 a 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 the Financial Statements

Our objectives are to obtain reasonable assurance about 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 the 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 scepticism 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 were first appointed as auditors by the Annual General Meeting when Pihlajalinna Plc was established on 15 April 2014 and our appointment represents a total period of uninterrupted engagement of eight years. In Pihlajalinna Terveys Oy we were first appointed as auditors for the financial year ended 31 December 2010. Pihlajalinna Plc became a public interest entity on 8 June 2015. We have been the company's auditors since it became a public interest entity.

### 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.

Tampere 20 February 2023  
KPMG OY AB

**Lotta Nurminen**

Authorised Public Accountant, KHT



# Information for shareholders

## General meeting

Pihlajalinna Plc's Annual General Meeting will be held on Tuesday 4 April 2023 at 10:00 a.m. at Tampere Hall, Duetto 1 conference room, at Yliopistonkatu 55, 33100 Tampere, Finland. The reception of persons who have registered for the meeting and distribution of voting tickets will commence at the meeting venue at 9:00 a.m.

Shareholders can also exercise their right to vote by voting in advance. Instructions for advance voting are set out in section C of this notice to the General Meeting. Shareholders may ask questions referred to in Chapter 5, Section 25 of the Finnish Companies Act concerning the matters on the agenda of the meeting also in writing before the meeting. Instructions for posing written questions are set out in section C of the notice to the General Meeting.

Shareholders may follow the meeting through a webcast. Instructions for following the webcast are available on the company's website at <https://investors.pihlajalinna.fi/annual-general-meeting2023>. It is not possible to ask questions, make counterproposals or exercise the right to speak or vote through the webcast, and following the meeting through the webcast is not considered participation or exercise of shareholder's right in the General Meeting.

## Right to participate

A shareholder who is registered in the company's shareholders' register maintained by Euroclear Finland Oy on the record date of the General Meeting, 23 March 2023, has the right to participate in the General Meeting.

## Registration

Registration for the General Meeting and advance voting will begin on 15 March 2023 at 12:00 p.m. A shareholder who is registered in the company's shareholders' register and wishes to participate in the General Meeting shall register for the meeting no later than on 28 March 2023 at 4:00 p.m. by which time the registration must be received by the company.

The shareholder may register for the General Meeting:

- a) Through the company's website at <https://investors.pihlajalinna.fi/annual-general-meeting2023>

Electronic registration requires strong identification by the shareholder or his/her legal representative or proxy representative with Finnish or Swedish banking credentials or mobile ID.

- b) By post or email

A shareholder registering by post or email shall send the registration form available on the company's website at <https://investors.pihlajalinna.fi/annual-general-meeting2023> or corresponding information to Innovatics Ltd by post to the address Innovatics Ltd, Annual General Meeting / Pihlajalinna Plc, Ratamestarinkatu 13 A, 00520 Helsinki, Finland, or by email to [agm@innovatics.fi](mailto:agm@innovatics.fi).

- c) By telephone + 358 10 2818 909

Registration by telephone is possible during the registration period on weekdays between 9:00 a.m. and 12:00 p.m. and between 1:00 p.m. and 4:00 p.m.

In connection with the registration, a shareholder shall notify the requested information, such as the shareholder's name, date of birth or business ID, contact information, the name of a possible assistant or proxy representative and the date of birth of the proxy representative. The personal data given to Pihlajalinna Plc by shareholders is used only in connection with the General Meeting and with the processing of thereto related necessary registrations.

A shareholder, his/her representative or proxy representative shall, on demand, be able to prove his/her identity and/or right to representation at the meeting venue.

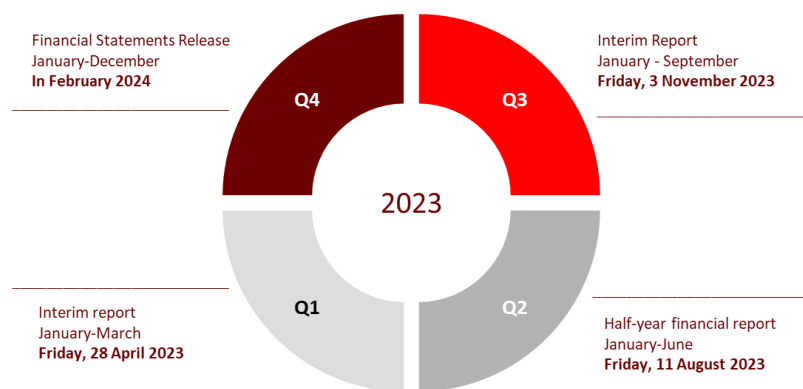
Further information on registration is available by telephone during the General Meeting's registration period from Innovatics Ltd's telephone number +358 10 2818 909 on weekdays between 9:00 a.m. and 12:00 p.m. and between 1:00 p.m. and 4:00 p.m.

## Payment of dividend

The Board of Directors proposes no dividend distribution for the financial year that ended on 31 December 2022.



## Pihlajalinna's financial reporting in 2023



The interim reports will be published at approximately 8:00 a.m. in Finnish and English, and they will be available on Pihlajalinna's website at [investors.pihlajalinna.fi](https://investors.pihlajalinna.fi).

Pihlajalinna's management organises information events for analysts and the media on a regular basis. Pihlajalinna complies with a silent period of 30 days and a closed window before the publication of results.

### Investment survey

As far as Pihlajalinna is aware, the following investment banks and stockbrokers monitor Pihlajalinna and publish reports on the company: Pihlajalinna is not liable for the estimates presented in the analyses.

- Danske Bank
- Carnegie
- Inderes
- OP
- SEB
- Evli
- Nordea

### Contact details

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Additional information is available in the investor section at [investors.pihlajalinna.fi](https://investors.pihlajalinna.fi)

