MEDICAL CENTER FOR ALL OF FINLAND

Pihlajalinna

Financial Statements Release January–December 2022

Pihlajalinna

Revenue increased due to successful increase in supply – measures to improve profitability and financial position initiated

This financial statements release is unaudited. The comparison figures in brackets refer to the corresponding period in the previous year.

A brief look at October–December:

- Revenue amounted to EUR 188,4 (154,7) million – an increase of EUR 33,7 million, or 21,8 per cent.
- COVID-19 services[1)] revenue amounted to EUR 2.8 (10.1) million – a decrease of EUR -7.3 million.
- Organic growth was EUR 11.4 million, or 7.4 per cent. Without COVID-19 services, organic growth would have been EUR 18.7 million, or 12.1 per cent.
- The effect of M&A transactions[2)] on revenue growth was EUR 22.4 million, or 14.5 per cent.
- Adjusted EBITDA[3)] was EUR 12,0 (14,9) million – a decrease of -19,2 per cent.
- Adjusted EBITA[3)] before the amortisation and impairment of intangible assets was EUR 2,2 (7,8) million – a decrease of -71,3 per cent.
- Earnings per share (EPS) was EUR -0,03 (0,19).
- The customer volumes[4)] of private clinics grew by 40 per cent year-on-year (grew by 17 per cent without M&A transactions), with remote services representing 36 per cent of all appointments.

A brief look at January–December:

- Revenue amounted to EUR 690,5 (577,8) million – an increase of EUR 112,7 million, or 19,5 per cent.
- COVID-19 services[1)] revenue amounted to EUR 16.7 (38.9) million – a decrease of EUR -22.2 million.
- Organic growth was EUR 34.9 million, or 6.0 per cent. Without COVID-19 services and the District Court decision concerning Jämsän Terveys, organic growth would have been EUR 59.4 million, or 10.3 per cent.
- The effect of M&A transactions[2)] on revenue growth was EUR 77.9 million, or 13.5 per cent.
- Adjusted EBITDA[3)] was EUR 64,2 (65,3) million – a decrease of -1,7 per cent.
- Adjusted EBITA[3)] before the amortisation and impairment of intangible assets was EUR 26,7 (37,3) million – a decrease of -28,5 per cent.
- Earnings per share (EPS) was EUR 0,42 (0,89).
- The Board of Directors proposes no dividend distribution for the financial year 2022.
- Net debt to adjusted EBITDA excluding IFRS 16 was 4.4 (2.3). Gearing excluding IFRS 16 stood at 139.95 (90.8).
- The customer volumes[4)] of private clinics grew by 45 per cent year-on-year (grew by 17 per cent without M&A transactions). Remote services represented 37 per cent of all appointments.

Events after the balance sheet date:

- 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.

[1)] COVID-19 services include COVID-19 testing, sample collection, vaccination and other potential services directly related to managing the COVID-19 pandemic.
[2)] Työterveys Virta Oy 1 April 2021, Pohjola Hospital Ltd 1 February 2022, Etelä-Savon Työterveys Oy 1 April 2022, Lääkärikeskus Ikioma Oy 1 April 2022, Punkkibussi® business 1 April 2022, MediEllen Oy 1 September 2022, Seppämagneetti Oy and Seppälääkärit Oy 1 October 2022.
[3)] Alternative performance measure. In addition to the IFRS figures, Pihlajalinna presents additional, alternative performance indicators which the company monitors internally and which provide the company's management, investors, stock market analysts and other stakeholders with important additional information concerning the

company's financial performance, financial position and cash flows. These performance indicators should not be reviewed separately from the IFRS figures and they should not be considered to replace the IFRS figures.

[4)] Excluding municipal outsourcing, COVID-19 testing and dental care.

	10–12/2022 3 months	10–12/2021 3 months	change %	1–12/2022 12 months	1–12/2021 12 months	change %
INCOME STATEMENT						
Revenue, EUR million	188,4	154,7	21,8	690,5	577,8	19,5
EBITDA, EUR million	11,5	14,5	-21,2	54,4	62,6	-13,1
EBITDA, %	6,1	9,4	-35,3	7,9	10,8	-27,3
Adjusted EBITDA, EUR million [1)]	12,0	14,9	-19,2	64,2	65,3	-1,7
Adjusted EBITDA, % [1)]	6,4	9,6	-33,6	9,3	11,3	-17,7
Adjusted EBITDA excluding IFRS 16, EUR million 12 months [1)]	5,7	10,8	-47,3	40,2	49,3	-18,5
Operating profit (EBIT), EUR million	-0,6	5,6	-110,2	8,9	27,9	-68,1
Operating profit (EBIT), %	-0,3	3,6	-108,4	1,3	4,8	-73,3
Adjusted operating profit (EBIT), EUR million [1)]	0,1	6,0	-98,7	18,6	30,3	-38,7
Adjusted operating profit (EBIT), % [1)]	0,0	3,9	-98,9	2,7	5,3	-48,7
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA), EUR million [1)]	2,2	7,8	-71,3	26,7	37,3	-28,5
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA), % [1)]	1,2	5,1	-76,5	3,9	6,5	-40,2
Profit before tax (EBT), EUR million	-2,8	4,6	-161,6	1,5	24,2	-93,6
SHARE-RELATED INFORMATION						
Earnings per share (EPS), EUR	-0,03	0,19	-116,7	0,42	0,89	-52,6
Equity per share, EUR				5,50	5,27	4,3
Dividend per share, EUR					0,30	
OTHER KEY FIGURES						
Return on capital employed (ROCE), %				2,3	8,8	-74,0
Return on equity (ROE), %				6,2	16,1	-61,3
Equity ratio, %				18,6	26,9	-30,9
Gearing, %				313,8	158,8	97,6
Interest-bearing net debt, EUR million				385,7	194,7	98,1
Net debt/adjusted EBITDA, 12 months [1)]				6,0	3,0	101,5
Gearing, excluding IFRS 16, % [1)]				139,95	90,8	54,2
Interest-bearing net debt excluding IFRS 16, EUR million [1)]				178,6	113,8	56,9
Net debt/adjusted EBITDA, excluding IFRS 16, 12 months [1)]				4,4	2,3	92,5
Gross investments, EUR million [2)]	17,9	7,4		234,5	44,8	
Cash flow from operating activities, EUR million	22,5	24,8	-9,6	64,9	56,9	14,0
Cash flow after investments, EUR million	15,5	19,0		-18,6	24,9	neg
Average number of personnel (FTE)				5 167	4 746	8,9
Personnel at the end of the period (NOE)				7 016	6 297	11,4
Practitioners at the end of the period				1 812	1 070	69,3
NPS, private clinic appointments				77,1	76,5	0,78
NPS, complete and partial outsourcing arrangements				72,6	70,8	2,54

[1)] 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, cost 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.

EBITDA adjustments in the quarter amounted to EUR 0.6 (1.3) million and amounted to EUR 9,8 (2,7) million for the review period. Adjustments to operating profit in the quarter amounted to EUR 0.6 (0.4) million and EUR 9,7 (2,4) million for the review period.

[2)] Assets acquired via leases are regarded as equal to assets acquired by the Group itself, meaning that right-of-use assets pursuant to IFRS 16 are included in gross investments.

Pihlajalinna's outlook for 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 commancing 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.

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.

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 cooperation 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. It has also been agreed that, if the general wage increases exceed the wage increases that have already been agreed upon, a company-specific wage increase will be applied on 1 November 2023 at the latest. The final level of the wage increases will be confirmed when the general wage increase level is specified.

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.

Revenue by customer group

Pihlajalinna’s 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.

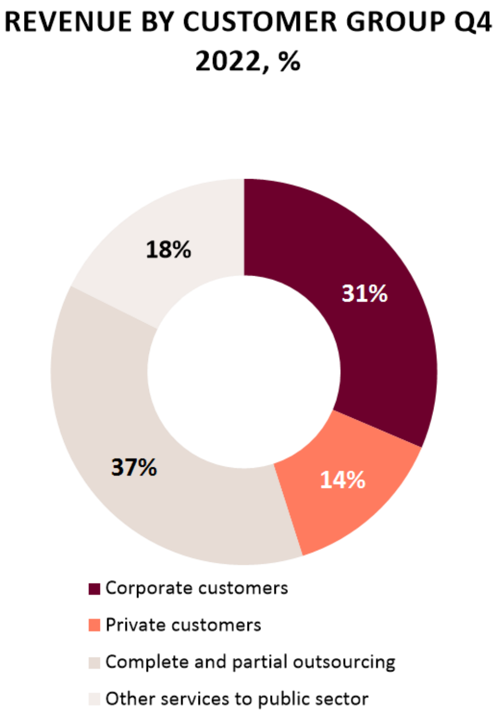
October–December 2022

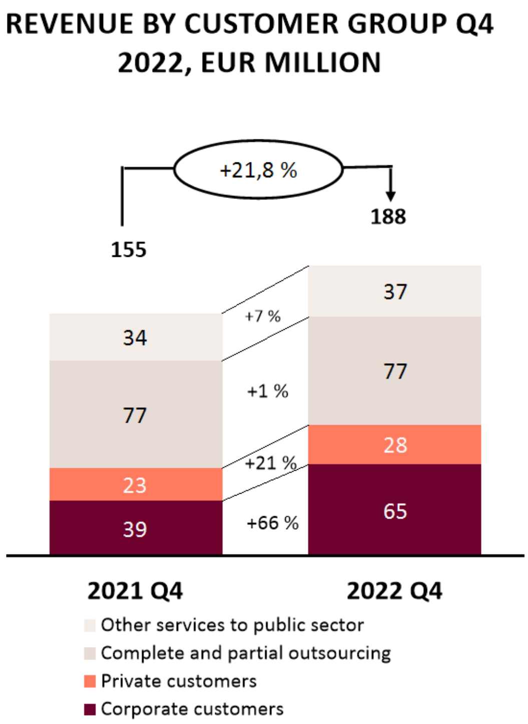
EUR million	10–12/2022	10–12/2021	change	change %
Corporate customers	65,1	39,2	26,0	66,4 %
of which insurance company customers	23,0	9,8	13,3	136,1 %
Private customers	28,3	23,3	5,0	21,4 %
Public sector	113,9	110,9	3,0	2,7 %
of which complete outsourcing agreements	77,3	76,8	0,4	0,6 %
of which staffing	6,0	6,4	-0,3	-5,4 %
of which occupational healthcare and other services	30,5	27,7	2,9	10,4 %
Intra-Group sales	-18,9	-18,7	-0,3	1,4 %
Total consolidated revenue	**188,4**	**154,7**	33,7	21,8 %

Revenue from **corporate customers** amounted to EUR 65,1 (39,2) million, an increase of EUR 26,0 million, or 66,4 per cent. Sales to insurance company customers increased by EUR 13,3 million, or 136,1 per cent. M&A transactions contributed EUR 16.0 million to the increase in revenue. Organic growth was EUR 10.0 million, or 25.6 per cent. In the corporate customer group, revenue from COVID-19 services amounted to EUR 1.6 (1.5) million, an increase of EUR 0.1 million. The customer volumes of Pihlajalinna’s private clinics increased by 52 per cent year-on-year. Without the effect of M&A transactions, customer volumes would have increased by 23 per cent year-on-year.

Revenue from **private customers** amounted to EUR 28,3 (23,3) million, an increase of EUR 5,0 million, or 21,4 per cent. M&A transactions contributed EUR 4.3 million to the increase in revenue from private customers. Organic growth was EUR 0.7 million, or 2.8 per cent. In the private customer category, revenue from COVID-19 services amounted to EUR 0.1 (0.9) million, representing a decrease of EUR -0.8 million. The customer volumes of Pihlajalinna’s private clinics increased by 32 per cent year-on-year. Without the effect of M&A transactions, customer volumes would have increased by 10 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 113,9 (110,9) million, an increase of EUR 3,0 million, or 2,7 per cent. Revenue from COVID-19 services amounted to EUR 1.1 (7.8) million, representing a decrease of EUR -6.7 million. M&A transactions increased revenue from the public sector by EUR 2.1 million. Due to the decrease in COVID-19 services, organic growth was only EUR 0.9 million, or 0.8 per cent. The customer volumes of Pihlajalinna's private clinics increased by 22 per cent year-on-year. Without the effect of M&A transactions, customer volumes would have increased by 8 per cent year-on-year.





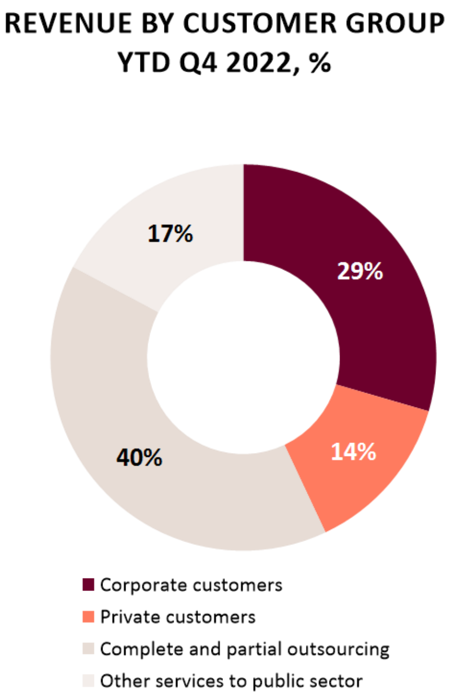
January–December 2022

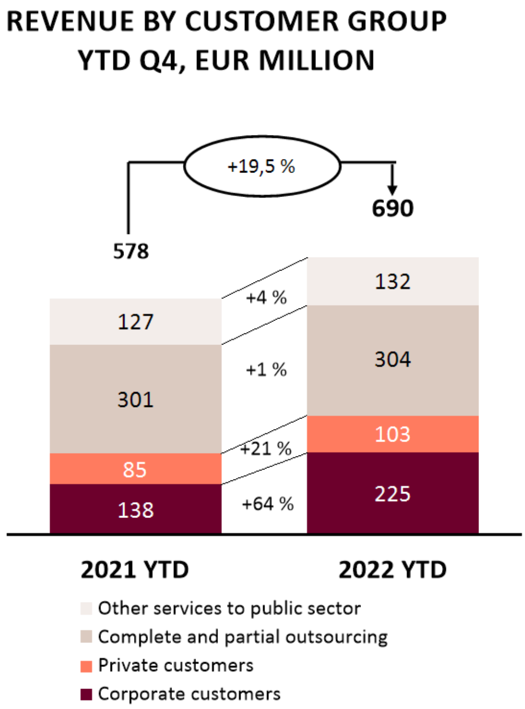
EUR million	1–12/2022	1–12/2021	change	change %
Corporate customers	225,3	137,7	87,5	63,5 %
of which insurance company customers	92,3	35,1	57,2	162,7 %
Private customers	103,2	85,2	18,0	21,1 %
Public sector	435,5	427,8	7,7	1,8 %
of which complete and partial outsourcing agreements	303,9	300,8	3,1	1,0 %
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 %
Total consolidated revenue	**690,5**	**577,8**	**112,7**	**19,5 %**

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 COVID-19 services 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 COVID-19 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 (28.2) 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 arrangements 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 increased by 7 per cent year-on-year.





Consolidated revenue and result

October–December 2022

Pihlajalinna's revenue totalled EUR 188,4 (154,7) million, an increase of EUR 33,7 million, or 21,8 per cent. Revenue from COVID-19 services came to EUR 2.8 (10.1) million, representing a decrease of EUR -7.3 million. Organic growth was EUR 11,3 million, or 7,3 per cent. Without COVID-19 services, organic growth would have been EUR 18.7 million, or 12.1 per cent. M&A transactions accounted for EUR 22.4 million, or 14.5 per cent, of the growth in revenue.

Some 36 (35) per cent of all customer appointments, excluding complete outsourcing arrangements and COVID-19 testing, took place via remote services during the quarter. The number of remote appointments increased by 35 per cent year-on-year. The total number of appointments increased by 33 per cent.

EBITDA was EUR 11,5 (14,5) million, a decrease of EUR -3,1 million, or -21,2 per cent. Adjusted EBITDA was EUR 12,0 (14,9) million, a decrease of EUR -2,9 million, or -19,2 per cent. EBITDA adjustments amounted to EUR 0,6 (0,3) million.

Profitability was reduced by the decline in COVID-19 services. The growth of supply has increased costs in private clinic operations and occupational healthcare services. The costs of public specialised care were realised at an exceptionally high level in the fourth quarter. The profitability of fitness centres was lower than in the comparison period. The profitability of surgical operations and remote services was higher than in the comparison period due to higher volumes.

Employee benefit expenses were exceptionally high during the quarter. 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.

Depreciation, amortisation and impairment amounted to EUR 12,0 (9,0) million. Adjustments to depreciation, amortisation and impairment amounted to EUR 0,1 (0,1) million. Depreciation of intangible assets amounted to EUR 2,1 (1,7) million, of which depreciation related to purchase price allocations amounted to EUR 0,7 (0,7) million. Depreciation, amortisation and impairment of property, plant and equipment amounted to EUR 2,9 (2,4) million, and depreciation and impairment of right-of-use assets totalled EUR 7,1 (4,8) million. The acquisition of Pohjola Hospital increased Pihlajalinna's depreciation of right-of-use assets, i.e. leased business premises, by EUR 1.8 million.

Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA) was EUR 2,2 (7,8) million. The adjusted EBITA margin was 1,2 (5,1) per cent. Adjustments to EBIT amounted to EUR 0,6 (0,4) million.

Pihlajalinna's EBIT was EUR -0,6 (5,6) million, a decrease of EUR -6,1 million. Adjusted EBIT amounted to EUR 0,1 (6,0) million, a decrease of EUR -6,0 million.

The Group's net financial expenses amounted to EUR -2,3 (-1,0) million. The acquisition of Pohjola Hospital increased Pihlajalinna's interest expenses associated with leases by EUR 0.5 million. The increased debt due to M&A transactions and the waiver expense paid at the end of December – EUR 0.3 million due to a temporary increase to financial covenants – also increased financial expenses. Profit before taxes amounted to EUR -2,8 (4,6) million. Taxes in the income statement amounted to EUR 1,7 (-1,2) million.

Profit came to EUR -1,1 (3,3) million. Earnings per share (EPS) was EUR -0,03 (0,19).

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.

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 -4.6 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 0.7 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).

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 in the quarter amounted to EUR 22,5 (24,8) million. Taxes paid amounted to EUR -1,0 (0,6) million. The change in net working capital was EUR 11,6 (9,6) million.

Net cash flow from operating activities during the review period 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 and other receivables and EUR -0,8 (-0,3) million was tied up from inventories. Changes in provisions tied up EUR -0,7 (-0,9) million in working capital.

Net cash flow from investing activities totalled EUR -6,9 (-5,8) million during the quarter. The business acquisitions had an impact of EUR 0,8 (-0,3) million on net cash flow from investing activities. Investments in tangible and intangible assets amounted to EUR -7,8 (-5,8) million, and the proceeds from the disposal of tangible assets amounted to EUR 0,1 (0,2) million.

Net cash flow from investing activities totalled EUR -83,4 (-32,1) million for the review period. The M&A transactions 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 15,5 (19,0) million for the quarter and EUR -18,6 (24,9) million for the review period.

Net cash flow from financing activities totalled EUR -14,2 (-21,5) million for the quarter. The change in financial liabilities, including changes in credit limits, amounted to EUR -2,9 (-15,4) million. Payments for financial lease liabilities amounted to EUR -7,7 (-5,1) million, and interest paid and other financial expenses amounted to EUR -2,5 (-1,1) million.

Net cash flow from financing activities totalled EUR 27,4 (-33,9) million for the review period. The change in financial liabilities, including changes in credit limits, amounted to EUR 75,2 (-1,6) million. Payments for 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 the 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 56.1 million euros. 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.

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, 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 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

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

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. Lease commitments in M&A transactions stood at EUR 106.6 million from the gross investments. The Group's gross investments in property, plant and equipment and intangible assets, which consisted of development, additional 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 from Pohjola Insurance Ltd. The 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 Saaristolääkärit 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.

Complete and partial outsourcing agreements

Company	Pihlajalinna's holding 31 Dec 2021	Pihlajalinna's holding 30 Sep 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

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

Complete and partial outsourcing agreements	10–12/2022 3 months	10–12/2021 3 months	1–12/2022 12 months	1–12/2021 12 months	2021	2020
INCOME STATEMENT						
Revenue, EUR million	71,8	71,2	281,4	277,0	277,0	264,2
EBITDA, EUR million	-0,1	0,2	6,0	6,6	6,6	11,0
EBITDA, %	-0,2	0,3	2,1	2,4	2,4	4,2
Adjusted EBITDA, EUR million	-0,1	0,2	11,5	6,7	6,7	11,0
Adjusted EBITDA, %	-0,2	0,3	4,1	2,4	2,4	4,2
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA), EUR million	-0,8	-0,5	8,8	4,1	4,1	8,5
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA), %	-1,1	-0,6	3,1	1,5	1,5	3,2

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

Personnel

At the end of the review period, the number of personnel amounted to 7 016 (6 297), an increase of 719 persons or 11 per cent. The Group's 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.

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 Salunen, 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 fixed at seven members instead of the previous six. Hannu Juvonen, Mika Manninen, Leena Niemistö, Kati Sulin, 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 Sulin resigned from the Board of Directors as of 12 June 2022.

Shares and shareholders

The total number of shares was 22,620,135 of which 22 549 644 were outstanding and 70,491 were held by the company which corresponds to approximately 0.31 per cent of all shares and votes. 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.

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

Share-related information, outstanding shares	10–12/2022	10–12/2021	1–12/2022	1–12/2021
No. of shares outstanding at end of period	22 549 644	22 594 235	22 549 644	22 594 235
Average no. of shares outstanding during period	22 549 644	22 594 235	22 560 271	22 589 383
Highest price, EUR	9,70	12,92	13,18	12,98
Lowest price, EUR	8,48	11,54	8,48	9,26
Average price, EUR [1)]	8,88	12,23	11,06	11,18
Closing price, EUR	8,52	12,64	8,52	12,64
Share turnover, 1,000 shares	773	1 061	3 770	6 929
Share turnover, %	3,4	4,7	16,7	30,7
Market capitalisation at end of period, EUR million	192,1	285,6	192,1	285,6

[1)] average rate weighted by trading level

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, Pihlajalinna'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.

The most significant risks and uncertainties in social and health services are linked to policies that are implemented in Finnish society. Among other things, cuts to Kela reimbursements were made for private healthcare, which came into effect on 1 January 2023.

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 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 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 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.

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 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 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.

Repurchase and transfer 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.

Proposal by the Board of Directors for dividend distribution and the Annual General Meeting 2023

The Board of Directors proposes no dividend distribution for the financial year ending 31 December 2022. Calculation of the parent company's distributable funds:

EUR	31 December 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
Total	**210,975,765.45**

On the financial statements date of 31 December 2022, the company had 22,549,644 outstanding shares.

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 in week 11.

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 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 on the personnel will be discussed in more detail during the negotiations.

Pihlajalinna's financial reporting in 2023

Financial Statements and Board of Directors' report: no later than in week 11
Interim Report January–March: Friday, 28 April 2023
Half Year Financial Report January–June: Friday, 11 August 2023
Interim Report January–September: Friday, 3 November 2023

Pihlajalinna Plc's Annual General Meeting is scheduled for Tuesday, 4 April 2023.

Helsinki, 17 February 2023
The Board of Directors of Pihlajalinna Plc

Consolidated income statement

EUR million	10–12/2022 3 months	10–12/2021 3 months	1–12/2022 12 months	1–12/2021 12 months
Revenue	**188,4**	**154,7**	**690,5**	**577,8**
Other operating income	0,9	1,6	4,9	3,7
Materials and services	-74,8	-56,3	-267,2	-209,5
Employee benefit expenses	-80,4	-69,3	-296,6	-255,2
Other operating expenses	-22,7	-16,2	-77,2	-54,2
Share of profit in associated companies and joint ventures	0,0	0,0	0,0	0,0
EBITDA	**11,5**	**14,5**	**54,4**	**62,6**
Depreciation, amortisation and impairment	-12,0	-9,0	-45,5	-34,7
Operating profit (EBIT)	**-0,6**	**5,6**	**8,9**	**27,9**
Financial income	0,4	0,1	0,7	0,2
Financial expenses	-2,7	-1,1	-8,1	-4,0
Profit before taxes	**-2,8**	**4,6**	**1,5**	**24,2**
Income tax	1,7	-1,2	6,1	-5,1
Profit for the period	**-1,1**	**3,3**	**7,7**	**19,1**
Attributable to:				
To the owners of the parent company	-0,7	4,3	9,5	20,1
To non-controlling interests	-0,4	-0,9	-1,9	-1,0
Earnings per share calculated on the basis of the result for the period attributable to the owners of the parent company (EUR)				
Basic	-0,03	0,19	0,42	0,89
Diluted	-0,03	0,19	0,42	0,89

Consolidated statement of comprehensive income

EUR million	10–12/2022 3 months	10–12/2021 3 months	1–12/2022 12 months	1–12/2021 12 months
Profit for the period	**-1,1**	**3,3**	**7,7**	**19,1**
Other comprehensive income that will be reclassified subsequently to profit or loss				
Cash flow hedge	0,4		5,1	
Income tax on other comprehensive income	-0,1		-1,0	
Other comprehensive income for the reporting period	0,3		4,1	
Total comprehensive income for the reporting period	**-0,8**	**3,3**	**11,7**	**19,1**
Attributable to:				
To the owners of the parent company	-0,4	4,3	13,6	20,1
To non-controlling interests	-0,4	-0,9	-1,9	-1,0

Consolidated statement of financial position

EUR million	31 Dec 2022	31 Dec 2021
ASSETS		
Non-current assets		
Property, plant and equipment	58,7	45,0
Goodwill	251,0	188,9
Other intangible assets	22,8	14,9
Right-of-use assets	197,7	95,6
Interests in associates	2,1	0,0
Other investments	1,2	1,5
Other receivables	9,2	5,2
Deferred tax assets	17,3	5,5
Total non-current assets	**560,0**	**356,5**
Current assets		
Inventories	4,3	3,7
Trade and other receivables	76,8	92,1
Current tax assets	2,1	0,4
Cash and cash equivalents	13,1	4,3
Current assets held for sale	5,3	0,0
Total current assets	**101,6**	**100,5**
Total assets	**661,6**	**457,1**
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	0,1	0,1
Fair value reserve	4,1	
Reserve for invested unrestricted equity	116,5	116,5
Retained earnings	-6,2	-17,6
Profit for the financial year	9,5	20,1
	124,0	**119,1**
Non-controlling interests	-1,1	3,5
Total equity	**122,9**	**122,6**
Deferred tax liabilities	8,5	5,9
Provisions	0,0	0,1
Lease liabilities	201,2	87,9
Financial liabilities	168,0	91,4
Other non-current liabilities	0,8	1,0
Total non-current liabilities	**378,7**	**186,3**
Trade and other payables	127,5	125,1
Current tax liabilities	0,0	3,3
Provisions		0,1
Lease liabilities	28,3	18,4
Financial liabilities	3,1	1,3
XXX	1,1	
Total current liabilities	**160,1**	**148,1**
Total liabilities	**538,8**	**334,5**
Total equity and liabilities	**661,6**	**457,1**

Consolidated statement of changes in equity

	Equity attributable to owners of the parent company					
EUR million	**Share capital**	**Reserve for invested unrestricted equity**	**Fair value reserve**	**Retained earnings**	**Non-controlling interests**	**Equity Total**
Total equity, 1 Jan 2021	**0,1**	**116,5**		**-7,6**	**5,2**	**114,2**
Profit for the period				20,1	-1,0	19,1
Dividends paid				-4,5	-0,3	-4,8
Acquisition of own shares				-0,6		-0,6
Total transactions with owners				**-5,1**	**-0,3**	**-5,4**
Changes in NCI without a change in control				-4,9	-0,4	-5,3
Total changes in subsidiary shareholdings				**-4,9**	**-0,4**	**-5,3**
Total equity, 31 Dec 2021	**0,1**	**116,5**		**2,5**	**3,5**	**122,6**

	Equity attributable to owners of the parent company					
EUR million	**Share capital**	**Reserve for invested unrestricted equity**	**Fair value reserve**	**Retained earnings**	**Non-controlling interests**	**Equity Total**
Total equity, 1 Jan 2022	**0,1**	**116,5**		**2,5**	**3,5**	**122,6**
Profit for the period				9,5	-1,9	7,7
Total comprehensive income for the period			4,1			4,1
Dividends paid				-6,8	-3,0	-9,7
Acquisition of own shares				-1,5		-1,5
Share-based benefits				0,0		0,0
Investments in group subsidiaries, reported					0,0	0,0
Total transactions with owners				**-8,3**	**-2,9**	**-11,2**
Changes in NCI without a change in control				-0,6	0,2	-0,2
Other changes				0,2		0,2
Total changes in subsidiary shareholdings				**-0,4**	**0,2**	**-0,2**
Total equity, 31 Dec 2022	**0,1**	**116,5**	**4,1**	**3,3**	**0,8**	**122,9**

Consolidated statement of cash flows

EUR million	10–12/2022 3 months	10–12/2021 3 months	1–12/2022 12 months	1–12/2021 12 months
Cash flow from operating activities				
Profit for the period	-1,1	3,3	7,7	19,1
Adjustments to cash flow from operating activities:				
Taxes	-1,7	1,2	-6,1	5,1
Depreciation, amortisation and impairment	12,0	9,0	45,5	34,7
Financial income and expenses	2,3	1,0	7,4	3,7
Other	-0,1	0,0	-0,1	0,0
Net cash generated from operating activities before change in working capital	**11,4**	**14,5**	**54,3**	**62,6**
Change in working capital	11,6	9,6	16,8	-3,3
Interest received	0,4	0,1	0,7	0,2
Taxes paid	-1,0	0,6	-6,9	-2,6
Net cash flow from operating activities	**22,5**	**24,8**	**64,9**	**56,9**
Cash flow from investing activities				
Investments in tangible and intangible assets	-7,8	-5,8	-29,0	-14,8
Proceeds from disposal of property, plant and equipment and intangible assets and prepayments	0,1	0,2	0,4	0,5
Changes in other receivables and investments	0,0	0,0	-1,8	-1,3
Granted loans	0,0	0,0	-0,7	0,0
Dividends received	0,0	0,0	0,0	0,0
Acquisition of subsidiaries less cash and cash equivalents at date of acquisition	0,8	-0,3	-52,3	-16,4
Net cash flow from investing activities	**-6,9**	**-5,8**	**-83,4**	**-32,1**
Cash flow from financing activities				
Changes in non-controlling interests	0,0	0,0	-0,4	-3,0
Acquisition of own shares	0,0	0,0	-1,5	-0,6
Proceeds from and repayment of borrowings	-2,9	-15,4	75,2	-1,6
Repayment of lease liabilities	-7,7	-5,1	-29,0	-19,8
Interest and other operational financial expenses	-2,5	-1,1	-8,3	-4,0
Dividends paid and other profit distribution	-1,1	0,0	-8,6	-4,9
Net cash flow from financing activities	**-14,2**	**-21,5**	**27,4**	**-33,9**
Changes in cash and cash equivalents	1,3	-2,5	8,9	-9,0
Cash at beginning of period	11,8	6,8	4,3	13,3
Cash at end of period	**13,1**	**4,3**	**13,1**	**4,3**

Notes to the financial statements release

Accounting policies

This financial statements release has been prepared in compliance with the IFRS standards currently in effect and the provisions of IAS 34 (Interim Financial Reporting).

The Group has started to apply hedge accounting after entering into an interest swap to hedge a new floating rate financing arrangement. When hedge accounting is applied, the effective portion of the change in fair value is recognised in other comprehensive income. The Group has also announced it will sell its dental care services to Hammas Hohde Oy. Pihlajalinna has classified its dental health services as assets held for sale effective from 31 December 2022. In other respects, this financial statements release applies the accounting policies presented in the consolidated financial statements for 2021. The amended standards published by IASB for adoption in 2023 do not have a material impact on Pihlajalinna’s financial reporting.

The information published in this financial statements release has not been audited. All figures have been rounded, due to which the actual total of individual figures may differ from the total presented. Key figures and figures reflecting changes have been calculated using the exact figures.

The alternative performance measures presented in this financial statements release should not be considered to be replacements for the key figures defined in IFRS standards, and they may not be comparable with similarly named items used by other companies.

The preparation of the financial statements release in accordance with IFRS requires the management to make estimates and assumptions that affect the valuation of the reported assets and liabilities and contingent assets and liabilities on the statement of financial position, and recognition of the amount of income and expenses. Although the estimates are based on the management’s best knowledge of current events and actions, the actual results may differ from the estimates provided in this financial statements release. The section *Risks and uncertainties in business operations* in this financial statements release presents key accounting estimates and decisions based on management judgement with regard to revenue from contracts with customers and the impairment testing of goodwill.

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, Central Finland, South Savo, North Karelia and North Savo.
- 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.

EUR million	1–12/2022 12 months	1–12/2021 12 months	muutos-%
Southern Finland	164,1	148,3	10,6 %
Mid-Finland	374,7	330,8	11,8 %
Ostrobothnia	132,5	128,3	3,2 %
Northern Finland	43,4	29,9	45,1 %
Other operations	49,3	13,4	268,4 %
Intra-Group sales	-73,5	-73,0	0,7 %
Consolidated revenue	**690,5**	**577,8**	**19,5 %**

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 million	1–12/2022 12 months	1–12/2021 12 months	change %
Corporate customers	225,3	137,7	63,5 %
of which insurance company customers	92,3	35,1	162,7 %
Private customers	103,2	85,2	21,1 %
Public sector	435,5	427,8	1,8 %
of which complete outsourcing	303,9	300,8	1,0 %
of which staffing	24,8	26,1	-4,9 %
of which occupational healthcare and other services	106,8	100,9	5,8 %
Intra-Group sales	-73,5	-73,0	0,7 %
Consolidated revenue	**690,5**	**577,8**	**19,5 %**

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.

Contingent liabilities and commitments

EUR million	31 Dec 2022	31 Dec 2021
Collateral given on own behalf		
Mortgage on company assets	0,2	0,0
Sureties	4,2	4,4
Lease deposits	0,6	0,5
Properties' VAT refund liability	0,0	0,1
Lease commitments for off-balance sheet leases	1,3	0,8

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 business premises investments, additional and replacement investments in clinical equipment and information system projects.

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.

Non-current asset items held for sale and discontinued operations

The Group has announced it will sell its dental care services to Hammas Hohde Oy. Pihlajalinna has classified its dental health services as assets held for sale effective from 31 December 2022. 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 million	**31 Dec 2022**
Goodwill	3,0
Property, plant and equipment	1,6
Deferred tax assets	0,1
Inventories	0,4
Other receivables, current	0,2
Assets held for sale	**5,3**
Other liabilities, current	1,1
Liabilities directly attributable to assets held for sale	**1,1**
Net assets	4,2

Changes in intangible assets

EUR million	31 Dec 2022	31 Dec 2021
Acquisition cost at beginning of period	247,9	226,4
Additions	7,5	4,0
Business combinations	73,3	17,5
Transfers between items	0,0	0,1
Reclassifications	-3,0	0,0
Acquisition cost at end of period	325,7	247,9
Accumulated depreciation at beginning of period	-44,2	-37,4
Depreciation and amortisation for period	-7,7	-6,7
Transfers between items	0,0	-0,1
Accumulated depreciation at end of period	-51,9	-44,2
Carrying amount at end of period	**273,8**	**203,8**

Impairment testing of goodwill

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:

	2022	2021
Tested goodwill in total, Group	254 264	188 909
Goodwill related to non-current asset items held for sale	-3 004	-
Changes that have occurred after testing in the preliminary acquisition calculations for the acquired businesses	-228	-
Goodwill as per the statement of financial position at the end of the financial year	**251 032**	**188 909**

During the year, goodwill has increased due to acquired business operations.

Assumptions used in the calculation of utility value for each testing period:

	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	2,00%	1,30%

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.

	2022	2021
Decline in EBIT margin	more than 2 percent units	more than 2 percent units
Annual decrease in turnover	more than 15 percent units	more than 21 percent units
Increase in discount rate	more than 3 percent	more than 4 percent
Decline in the terminal growth rate	more than 2 percent	more than 2 percent

The management has conducted a sensitivity analysis for 2022 also with a five-year forecast period plus the terminal period. Also based on testing using a five-year period, the cash-generating unit's recoverable amount exceeded the carrying amount.

Changes in property, plant and equipment

EUR million	31 Dec 2022	31 Dec 2021
Acquisition cost at beginning of period	104,2	94,2
Additions	24,8	10,9
Business combinations	1,4	0,0
Transfers between items	0,1	-0,2
Reclassifications	-6,5	0,0
Disposals	-0,5	-0,8
Acquisition cost at end of period	123,6	104,2
Accumulated depreciation at beginning of period	-59,2	-50,2
Depreciation and amortisation for period	-10,6	-9,2
Transfers between items	0,0	-0,1
Reclassifications	4,9	0,0
Accumulated depreciation on disposals	0,2	0,3
Accumulated depreciation at end of period	-64,8	-59,2
Carrying amount at end of period	**58,7**	**45,0**

Changes in right-of-use assets

EUR million	31 Dec 2022	31 Dec 2021
Acquisition cost at beginning of period	192,3	182,9
Additions	26,5	9,8
Business combinations	105,5	2,8
Transfers between items	0,1	-0,7
Disposals	-4,4	-2,5
Acquisition cost at end of period	319,9	192,3
Accumulated depreciation at beginning of period	-96,7	-80,1
Depreciation and amortisation for period	-27,2	-18,8
Transfers between items	0,0	0,7
Accumulated depreciation on disposals	1,7	1,4
Accumulated depreciation at end of period	-122,2	-96,7
Carrying amount at end of period	**197,7**	**95,6**

Right-of-use assets and lease liabilities

EUR million	Right-of-use asset items 31 Dec 2022	Lease liabilities 31 Dec 2022
Carrying amount at beginning of period	95,6	106,2
Changes	129,3	152,3
Depreciation and amortisation	-27,2	
Repayments of lease liabilities		-29,0
Reclassifications		0,0
Carrying amount at end of period	**197,7**	**229,6**

On 31 December 2022, EUR 207,1 million of the lease liabilities were the result of the adoption of IFRS 16 and EUR 22.5 million were financial lease liabilities in accordance with previous accounting standards.

EUR million	Right-of-use asset items 31 Dec 2021	Lease liabilities 31 Dec 2021
Carrying amount at beginning of period	102,8	114,2
Changes	11,6	11,9
Depreciation and amortisation	-18,8	
Repayments of lease liabilities		-19,8
Reclassifications		0,0
Carrying amount at end of period	**95,6**	**106,2**

On 31 December 2021, EUR 80.9 million of the lease liabilities were the result of the adoption of IFRS 16 and EUR 25.3 million were financial lease liabilities in accordance with previous accounting standards.

Financial Expenses

milj. euroa	10–12/2022 3 months	10–12/2021 3 months	1–12/2022 12 months	1–12/2021 12 months
Financial Expenses				
Interest expenses from financial liabilities carried at amortised cost	-1,4	-0,4	-3,4	-1,7
Interest expenses on lease liabilities	-0,9	-0,4	-3,4	-1,7
Other financial expenses	-0,4	-0,2	-1,2	-0,5
Total	**-2,7**	**-1,1**	**-8,1**	**-4,0**

Financial assets and liabilities by measurement category

30 Sep 2022	Fair value hierarchy	Fair value through profit or loss	Fair value - a hedging instrument	Amortised cost	Total carrying amounts	Fair values total
Carrying amounts of financial assets						
Non-current financial assets						
Other shares and participa-	level 3	1,2			1,2	1,2
Lease deposits	level 2			0,6	0,6	0,6
Other receivables	level 2			0,1	0,1	0,1
Current financial assets						
Trade receivables				54,6	54,6	54,6
Other receivables	level 2			1,2	1,2	1,2
Interest derivatives	level 2		5,1		5,1	5,1
Cash and cash equivalents				13,1	13,1	13,1
Total		**1,2**	**5,1**	**69,5**	**75,8**	**75,8**
Carrying amounts of financial liabilities						
Non-current financial liabilities						
Loans from financial institu-	level 2			167,3	167,3	167,3
Lease liabilities	level 2			201,2	201,2	201,2
Other liabilities	level 2			0,6	0,6	0,6
Contingent considerations	level 3	0,2			0,2	0,2
Current financial liabilities						
Loans from financial institu-	level 2			1,4	1,4	1,4
Cheque account with credit						
Contingent considerations	level 3	1,7			1,7	1,7
Lease liabilities	level 2			28,3	28,3	28,3
Trade and other payables				41,7	41,7	41,7
Total		**1,9**		**440,5**	**442,4**	**442,4**

30 Sep 2021	Fair value hierarchy	Fair value through profit or loss	Fair value - a hedging instrument	Amortised cost	Total carrying amounts	Fair values total
Carrying amounts of financial assets						
Non-current financial assets						
Other shares and participa-	level 3	1,5			1,5	1,5
Lease deposits	level 2			0,5	0,5	0,5
Other receivables	level 2			0,1	0,1	0,1
Current financial assets						
Trade receivables				78,5	78,5	78,5
Other receivables	level 2			0,5	0,5	0,5
Cash and cash equivalents				4,3	4,3	4,3
Total		**1,5**		**83,8**	**85,3**	**85,3**
Carrying amounts of financial liabilities						
Non-current financial liabilities						
Loans from financial institu-	level 2			90,8	90,8	90,8
Lease liabilities	level 2			87,9	87,9	87,9
Other liabilities	level 2			0,6	0,6	0,6
Current financial liabilities						
Loans from financial institu-	level 2			1,3	1,3	1,3
Cheque account with credit						
Lease liabilities	level 2			18,4	18,4	18,4
Trade and other payables				52,6	52,6	52,6
Total				**251,5**	**251,5**	**251,5**

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 of verifiable. The Group's other shares and participations consist solely of shares in unlisted companies.

Liquidity risk

The Group monitors the amount of financing required by business operations by analysing cash flow forecasts in order to ensure that 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. The covenants included in the Group's financing arrangement are subject to continuous forecasting.

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 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 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 waiver described above may be discontinued earlier.

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 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 the interest rate swap is valid until 25 March 2027.

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.

Financial liabilities repayment schedule

EUR million	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	168,6	-7,5	-5,8	-167,5	0,0	
Lease liabilities	229,6	-31,7	-29,8	-26,1	-21,9	-132,9
Other interest-bearing liabilities	0,6	-0,1	-0,1	-0,1	-0,1	-0,6
Contingent considerations	1,9	-1,7	0,0	0,0	-0,2	
Trade payables	41,7	-41,7				
Total	**442,4**	**-82,7**	**-35,6**	**-193,6**	**-22,2**	**-133,6**

EUR million	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	92,1	-3,0	-91,0	-0,3		
Lease liabilities	106,2	-19,9	-16,2	-14,0	-11,9	-51,2
Other interest-bearing liabilities	0,6	0,0	-0,1	-0,1	-0,1	-0,7
Trade payables	52,6	-52,6				
Total	**251,5**	**-75,5**	**-107,2**	**-14,4**	**-12,0**	**-52,0**

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 31.12.2022. 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 million	2022
Consideration transferred	
Cash	35,2
Total acquisition cost	**35,2**

The values of the assets and liabilities acquired for consideration at the time of acquisition were as follows:

EUR million	2022
Property, plant and equipment	0,4
Intangible assets	6,0
Right-of-use assets	103,0
Deferred tax assets	**3,7**
Trade and other receivables	13,2
Cash and cash equivalents	1,8
Total assets	**128,2**
Deferred tax liabilities	1,1
Restructuring provision	0,4
Lease liabilities	125,8
Other liabilities	8,5
Total liabilities	**135,7**
Acquired net assets	**-7,6**

Goodwill generated in the acquisition:

EUR million	2022
Consideration transferred	35,2
Net identifiable assets of acquirees	7,6
Preliminary goodwill	**42,8**
Transaction price paid in cash:	35,2
Cash and cash equivalents of acquirees	-1,8
Preliminary effect on cash flow	**33,4**

Customer relationships, trademarks and patient database related intangible assets were recognised in the determination of fair values and the fair value of these assets was measured at EUR 5.5 million in total. The fair values have been determined through the use of income approach which requires forecasting of expected future cash flows. The acquisition resulted in a goodwill amounting to EUR 42.8 million. The goodwill is attributable to synergies expected to be achieved and skilled workforce.

Expenses related to the acquisition presented above, amounting to EUR 0.6 million, have been recognised in other operating expenses (IFRS 3 costs).

Acquired business operations, others

Pihlajalinna completed the acquisitions of Etelä-Savon Työterveys Oy, Lääkärikeskus Ikioma Oy and Punkkibussi® 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 million	**2022**
Consideration transferred	
Cash	20,9
Contingent concideration	1,9
Total acquisition cost	**22,8**

The preliminary values of the assets and liabilities acquired for consideration at the time of acquisition were as follows:

EUR million	**2022**
Property, plant and equipment	1,0
Intangible assets	2,2
Right-of-use assets	3,6
Deferred tax assets	0,1
Inventories	0,2
Trade and other receivables	2,1
Cash and cash equivalents	2,0
Total assets	**11,3**
Deferred tax liabilities	0,4
Provisions	0,2
Financial liabilities	0,5
Lease liabilities	3,8
Other liabilities	6,0
Total liabilities	10,9
Acquired net assets	**0,5**

Preliminary goodwill generated in the acquisition:

EUR million	**2022**
Consideration transferred	22,8
Net identifiable assets of acquirees	-0,5
Preliminary goodwill	**22,4**
Transaction price paid in cash:	20,9
Cash and cash equivalents of acquirees	-2,0
Preliminary effect on cash flow	**18,9**

Customer relationships, trademark and patient database related intangible assets were recognised in the preliminary determination of fair values and the preliminary fair value of these assets was measured at EUR 2.1 million in total. The fair values have been determined through the use of income approach which requires forecasting of expected future cash flows. The acquisition resulted in a preliminary goodwill amounting to EUR 22.8 million. The goodwill is attributable to synergies expected to be achieved and skilled workforce.

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

Had acquired business operations been consolidated since the beginning of the financial year, the consolidated revenue for the review period would have amounted to EUR 706.5 million and operating profit would have totalled EUR 8.8 million.

Trade and other receivables

Due to the COVID-19 epidemic and the ongoing war in Ukraine, Pihlajalinna has reviewed the credit risk of receivables and the procedures used to estimate the credit risk. No significant changes have been observed in the payment behaviour of customers. The amount of receivables more than 90 days past due is significantly decreased due to the District Courts ruling in the dispute between Jämsän Terveys Oy and the City of Jämsä. Open trade receivables and other receivables from the City of Jämsä were offset against open trade payables and other liabilities to the City of Jämsä. The change in Jämsän Terveys Oy’s trade receivables and other receivables during the review period was EUR -38.7 million. The change in Jämsän Terveys Oy’s trade payables and other liabilities during the review period was EUR -37.4 million

The Group recognised impairment losses of EUR 0.4 (0.5) million on trade receivables. The Group recognised impairment losses of EUR 0.0 (0.0) million related to contract assets.

Contract assets 6.1 (6.7) million are included to the prepayments and accrued income in the below table.

EUR million	31 Dec 2022	31 Dec 2021
Trade receivables	54,6	78,5
Prepayments and accrued income	20,1	12,6
Current subleases	0,9	0,6
Other receivables	1,2	0,5
Total	**76,8**	**92,1**

Age distribution of trade receivables

EUR million	31 Dec 2022	of which written down	Net 31 Dec 2022	31 Dec 2021	of which written down	Net 31 Dec 2021
Not yet due	33,3	0,0	33,3	24,7	0,0	24,6
Past due						
Less than 30 days	8,5	0,0	8,5	4,2	0,0	4,1
30–60 days	1,5	-0,1	1,4	2,3	-0,1	2,3
61–90 days	0,9	-0,2	0,8	2,0	-0,1	1,8
More than 90 days	11,1	-0,5	10,6	46,1	-0,5	45,6
Total	**55,3**	**-0,8**	**54,6**	**79,2**	**-0,7**	**78,5**

Quarterly information

EUR million	Q4/22	Q3/22	Q2/22	Q1/22	Q4/21	Q3/21	Q2/21	Q1/21
INCOME STATEMENT								
Revenue	188,4	165,2	173,7	163,1	154,7	140,6	142,5	139,9
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
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 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	-0,03	0,14	0,08	0,23	0,19	0,31	0,19	0,20
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

Pihlajalinna

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	Earnings per share (EPS)	x 100
Effective dividend yield, %	Dividend per share	Closing price for the financial year	x 100
P/E ratio	Closing price for the financial year	Earnings per share (EPS)	
Share turnover, %	Number of shares traded during the period	Average number of shares	x 100
Return on equity (ROE), %	Profit for the period (rolling 12 months)	Equity (average)	x 100
Return on capital employed, % (ROCE)	Profit before taxes (rolling 12 months) + financial expenses (rolling 12 months)	Total statement of financial position – non-interest-bearing liabilities (average)	x 100
Equity ratio, %	Equity	Total statement of financial position – prepayments received	x 100
Gearing, %	Interest-bearing net debt – cash and cash equivalents	Equity	x 100
EBITDA	Operating profit + depreciation, amortisation and impairment		
EBITDA, %	Operating profit + depreciation, amortisation and impairment	Revenue	x 100
Adjusted EBITDA [1]	Operating profit + depreciation, amortisation and impairment + adjustment items		

Adjusted EBITDA, % [1]	Operating profit + depreciation, amortisation and impairment + adjustment items / Revenue	x 100
Adjusted EBITDA, excluding IFRS 16	Operating profit + depreciation, amortisation and impairment + adjustment items - IFRS 16 adjustment	
Net debt/Adjusted EBITDA [1], rolling 12 months	Interest-bearing net debt - cash and cash equivalents / Adjusted EBITDA (rolling 12 months)	
Net debt/Adjusted EBITDA, excluding IFRS 16, rolling 12 months	Interest-bearing net debt excluding IFRS 16 - cash and cash equivalents / Adjusted EBITDA, excluding IFRS 16 (rolling 12 months)	
Cash flow after investments	Net cash flow from operating activities + net cash flow from investing activities	
Adjusted operating profit (EBIT) [1]	Operating profit + adjustment items	
Adjusted operating profit (EBIT),% [1]	Adjusted operating profit (EBIT) / Revenue	x 100
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA) [1]	Operating profit + adjustment items + amortisation and impairment of intangible assets	
Adjusted EBITA, % [1]	Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA) / Revenue	x 100
Profit before taxes (EBT)	Profit for the financial year + income tax	
Gross investments	Increase in tangible and intangible assets and in right-of-use assets	
Organic revenue growth, %	Revenue for the period - revenue from M&A transactions for the period - revenue for the previous period / Revenue for the previous period	x 100

[1] 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 following number(s)
-	deduct the following number(s)
+	add the following number(s)

EUR million	10–12/2022 3 months	10–12/2021 3 months	1–12/2022 12 months	1–12/2021 12 months
Return on equity (ROE), %				
Profit for period (rolling 12 months)/			7,7	19,1
Equity (average) x 100			122,7	118,4
Return on equity (ROE), %			**6,2**	**16,1**

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	10–12/2022 3 months	10–12/2021 3 months	1–12/2022 12 months	1–12/2021 12 months
Return on capital employed (ROCE), %				
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
Return on capital employed (ROCE), %			**2,3**	**8,8**

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	10–12/2022 3 months	10–12/2021 3 months	1–12/2022 12 months	1–12/2021 12 months
Equity ratio, %				
Equity/			122,9	122,6
Total statement of financial position -			661,6	457,1
Advances received x 100			0,0	0,9
Equity ratio, %			**18,6**	**26,9**

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

EUR million	10–12/2022 3 months	10–12/2021 3 months	1–12/2022 12 months	1–12/2021 12 months
Gearing, %				
Interest-bearing financial liabilities –			398,8	199,0
Cash and cash equivalents/			13,1	4,3
Equity x 100			122,9	122,6
Gearing, %			**313,8**	**158,8**

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	10–12/2022 3 months	10–12/2021 3 months	1–12/2022 12 months	1–12/2021 12 months
Net debt/adjusted EBITDA, rolling 12 months				
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
Net debt/adjusted EBITDA, rolling 12 months			**6,0**	**3,0**

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	10–12/2022	10–12/2021	1–12/2022 12 months	1–12/2021 12 months
Interest-bearing net debt, excluding IFRS 16, %				
Interest-bearing financial liabilities excluding IFRS 16 –			191,7	118,1
Cash and cash equivalents/			13,1	4,3
Equity x 100			127,6	125,4
Interest-bearing net debt, excluding IFRS 16, %			**139,95**	**90,8**

EUR million	10–12/2022	10–12/2021	1–12/2022	1–12/2021
Net debt/adjusted EBITDA, rolling 12 months, excluding IFRS 16				
Interest-bearing financial liabilities excluding IFRS 16 -			191,7	118,1
Cash and cash equivalents			13,1	4,3
Net debt/			178,6	113,8
Adjusted EBITDA excluding IFRS 16 (rolling 12 months)			40,2	49,3
Net debt/adjusted EBITDA, rolling 12 months, excluding IFRS 16			**4,4**	**2,3**

EUR million	10–12/2022 3 months	10–12/2021 3 months	1–12/2022 12 months	1–12/2021 12 months
EBITDA and Adjusted EBITDA				
Profit for period	-1,1	3,3	7,7	19,1
Income tax	1,7	-1,2	6,1	-5,1
Financial expenses	-2,7	-1,1	-8,1	-4,0
Financial income	0,4	0,1	0,7	0,2
Depreciation, amortisation and impairment	-12,0	-9,0	-45,5	-34,7
EBITDA	**11,5**	**14,5**	**54,4**	**62,6**
IFRS 3 costs	0,2	0,2	1,3	1,4
Entries related to the IFRIC Agenda Decision concerning cloud computing arrangements	0,1	0,1	0,3	0,6
Other EBITDA adjustments	0,2	0,0	8,2	0,7
Total EBITDA adjustments	**0,6**	**0,3**	**9,8**	**2,7**
Adjusted EBITDA	**12,0**	**14,9**	**64,2**	**65,3**

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	10–12/2022 3 months	10–12/2021 3 months	1–12/2022 12 months	1–12/2021 12 months
EBITDA, %				
EBITDA/	11,5	14,5	54,4	62,6
Revenue x 100	188,4	154,7	690,5	577,8
EBITDA, %	**6,1**	**9,4**	**7,9**	**10,8**

EUR million	10–12/2022 3 months	10–12/2021 3 months	1–12/2022 12 months	1–12/2021 12 months
Adjusted EBITDA, %				
Adjusted EBITDA/	12,0	14,9	64,2	65,3
Revenue x 100	188,4	154,7	690,5	577,8
Adjusted EBITDA, %	**6,4**	**9,6**	**9,3**	**11,3**

EUR million	10–12/2022 3 months	10–12/2021 3 months	1–12/2022 12 months	1–12/2021 12 months
Operating profit (EBIT) and Adjusted operating profit (EBIT)				
Profit for the period	-1,1	3,3	7,7	19,1
Income tax	1,7	-1,2	6,1	-5,1
Financial expenses	-2,7	-1,1	-8,1	-4,0
Financial income	0,4	0,1	0,7	0,2
Operating profit (EBIT)	**-0,6**	**5,6**	**8,9**	**27,9**
Entries related to the IFRIC Agenda Decision concerning cloud computing arrangements (reversal of amortisation) -	-0,1	-0,1	-0,4	-0,3
Other adjustments to amortisation and impairment	**0,2**	**0,2**	**0,3**	**0,0**
Total EBITDA adjustments	0,6	0,3	9,8	2,7
Total operating profit (EBIT) adjustments	**0,6**	**0,4**	**9,7**	**2,4**
Adjusted operating profit (EBIT)	**0,1**	**6,0**	**18,6**	**30,3**
PPA amortisation	0,7	0,7	2,7	3,0
Amortisation and impairment of other intangible assets	1,5	1,1	5,4	4,0
Entries related to the IFRIC Agenda Decision concerning cloud computing arrangements (reversal of amortisation)	0,1	0,1	0,4	0,3
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA)	**2,2**	**7,8**	**26,7**	**37,3**

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

EUR million	10–12/2022 3 months	10–12/2021 3 months	1–12/2022 12 months	1–12/2021 12 months
Operating profit (EBIT), %				
Operating profit/	-0,6	5,6	8,9	27,9
Revenue x 100	188,4	154,7	690,5	577,8
Operating profit (EBIT), %	**-0,3**	**3,6**	**1,3**	**4,8**

EUR million	10–12/2022 3 months	10–12/2021 3 months	1–12/2022 12 months	1–12/2021 12 months
Adjusted operating profit (EBIT), %				
Adjusted operating profit/	0,1	6,0	18,6	30,3
Revenue x 100	188,4	154,7	690,5	577,8
Adjusted operating profit (EBIT), %	**0,0**	**3,9**	**2,7**	**5,3**

EUR million	10–12/2022 3 months	10–12/2021 3 months	1–12/2022 12 months	1–12/2021 12 months
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA), %				
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA) /	2,2	7,8	26,7	37,3
Revenue x 100	188,4	154,7	690,5	577,8
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA), %	**1,2**	**5,1**	**3,9**	**6,5**

EUR million	10–12/2022 3 months	10–12/2021 3 months	1–12/2022 12 months	1–12/2021 12 months
Cash flow after investments				
Net cash flow from operating activities	22,5	24,8	64,9	56,9
Net cash flow from investing activities	-6,9	-5,8	-83,4	-32,1
Cash flow after investments	**15,5**	**19,0**	**-18,6**	**24,9**

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	10–12/2022 3 months	10–12/2021 3 months	1–12/2022 12 months	1–12/2021 12 months
Profit before taxes				
Profit for period	-1,1	3,3	7,7	19,1
Income tax	1,7	-1,2	6,1	-5,1
Profit before taxes	**-2,8**	**4,6**	**1,5**	**24,2**

EUR million	10–12/2022 3 months	10–12/2021 3 months	1–12/2022 12 months	1–12/2021 12 months
Gross investments				
Property, plant and equipment at end of period	58,7	45,0	58,7	45,0
Right-of-use assets at end of period	197,7	95,6	197,7	95,6
Other intangible assets at end of period	22,8	14,9	22,8	14,9
Goodwill at end of period	251,0	188,9	251,0	188,9
Depreciation, amortisation and impairment for period are added	12,0	9,0	45,5	34,7
-				
Property, plant and equipment at beginning of period	55,6	43,9	45,0	44,0
Right-of-use assets at beginning of the period	197,6	98,8	95,6	102,8
Other intangible assets at beginning of period	21,7	14,9	14,9	15,3
Goodwill at beginning of period	249,5	188,6	188,9	173,6
Proceeds from the sale of property, plant and equipment during period	-0,1	-0,3	-3,0	-1,5
Gross investments	**18,0**	**7,4**	**234,5**	**44,8**

EUR million	10–12/2022 3 months	10–12/2021 3 months	1–12/2022 12 months	1–12/2021 12 months
Organic revenue growth, %				
Revenue for period -	188,4	154,7	690,5	577,8
Revenue from M&A transactions during period	22,4	3,6	77,9	11,0
Revenue for previous period	154,7	137,2	577,8	508,7
Organic revenue growth /	**11,3**	**13,9**	**34,8**	**58,1**
Revenue for previous period x 100	154,7	137,2	577,8	508,7
Organic revenue growth, %	**7,3**	**10,1**	**6,0**	**11,4**
Revenue growth due to M&A transactions, %	**14,5**	**2,6**	**13,5**	**2,2**
Revenue growth	33,7	17,5	112,7	69,1
Revenue growth, %	21,8	12,8	19,5	13,6

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

Description of adjustment items applied to adjusted EBITDA and adjusted EBIT

EUR million	10–12/2022 3 months	10–12/2021 3 months	1–12/2022 12 months	1–12/2021 12 months	2021
EBITDA	**11,5**	**14,5**	**54,4**	**62,6**	**62,6**
Adjustments to EBITDA					
Dismissal-related expenses	0,0	0,0	0,5	0,4	0,4
Costs arising from integration of acquired businesses	0,1		1,9		
District Court's ruling, Jämsän Terveys			4,7		
Onerous contracts				-0,2	-0,2
IFRS 3 costs	0,2	0,2	1,3	1,4	1,4
Entries related to the IFRIC Agenda Decision concerning cloud computing arrangements	0,1	0,1	0,3	0,6	0,6
Other items with cash flow effect	0,1		0,4	0,5	0,5
Other items with no cash flow effect			0,7		
Adjustments to EBITDA in total	**0,6**	**0,3**	**9,8**	**2,7**	**2,7**
Adjusted EBITDA	**12,0**	**14,9**	**64,2**	**65,3**	**65,3**
Depreciation, amortisation and impairment	-12,0	-9,0	-45,5	-34,7	-34,7
Adjustments to depreciation, amortisation and impairment					
Entries related to the IFRIC Agenda Decision concerning cloud computing arrangements (reversal of amortisation)	-0,1	-0,1	-0,4	-0,3	-0,3
Closure of operating locations	0,2	0,2	0,3	0,0	0,0
Adjustments to depreciation, amortisation and impairment in total	**0,1**	**0,1**	**-0,1**	**-0,3**	**-0,3**
Adjustments to operating profit in total	**0,6**	**0,4**	**9,7**	**2,4**	**2,4**
Adjusted operating profit (EBIT)	**0,1**	**6,0**	**18,6**	**30,3**	**30,3**
PPA amortisation	0,7	0,7	2,7	3,0	3,0
Other amortisation and impairment of intangible assets	1,4	1,0	5,0	3,7	3,7
Entries related to the IFRIC Agenda Decision concerning cloud computing arrangements (reversal of amortisation)	0,1	0,1	0,4	0,3	0,3
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA)	**2,2**	**7,8**	**26,7**	**37,3**	**37,3**
Operating profit (EBIT)	**-0,6**	**5,6**	**8,9**	**27,9**	**27,9**

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

EUR million	10–12/2022 3 months	10–12/2021 3 months	1–12/2022 12 months	1–12/2021 12 months	2021
Revenue			2,4		
Materials and services			2,0		
Employee benefit expenses	0,0	0,0	1,3	0,4	0,4
Other operating expenses	0,5	0,3	4,2	2,3	2,3
EBITDA adjustment items total	**0,6**	**0,3**	**9,8**	**2,7**	**2,7**
Depreciation, amortisation and impairment	0,1	0,1	-0,1	-0,3	-0,3
Operating profit (EBIT) adjustment items total	**0,6**	**0,4**	**9,7**	**2,4**	**2,4**