Interim Report

1 January–31 March 2023

Pihlajalinna

Organic growth and efficiency improvement measures improved profitability - financial position strengthened

This interim report is unaudited. The comparison figures in brackets refer to the corresponding period in the previous year.

A brief look at January–March:

- Revenue amounted to EUR 187.8 (163.1) million – an increase of EUR 24.7 million, or 15.1 per cent.
- COVID-19 services[1)] revenue amounted to EUR 0.3 (8.4) million – a decrease of EUR -8.0 million.
- Organic growth was EUR 13.5 million, or 8.3 per cent. Without COVID-19 services, organic growth would have been EUR 21.5 million, or 13.2 per cent.
- The effect of M&A transactions[2)] on revenue growth was EUR 11.2 million, or 6.9 per cent.
- Adjusted EBITDA was EUR 21.4 (16.5) million – an increase of 30.0 per cent.
- Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA)[3)] was EUR 11.0 (7.8) million – an increase of 41.4 per cent.
- Earnings per share (EPS) was EUR 0.24 (0.23).
- The customer volumes[4)] of private clinics grew by 36 per cent year-on-year (23 per cent without M&A transactions), with remote services representing 38 per cent of all appointments.
- The sale of Pihlajalinna's dental care services to Hammas Hohde, which was announced at the end of the year 2022, was completed on 31 March 2023.
- Pihlajalinna issued EUR 20 million hybrid bond on 27 March 2023. The issue ensures that the Group has leeway in executing its strategy and stabilising its financial position.
- The Group's CEO changed: Pihlajalinna's founder and Chair of the Board of Directors Mikko Wirén started as interim CEO on 9 March 2023.

[1)] COVID-19 services include COVID-19 testing, sample collection, vaccination and other potential services that are directly related to managing the COVID-19 pandemic.
[2)] 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 services.

	1–3/2023 3 months	1–3/2022 3 months	change %	2022
INCOME STATEMENT				
Revenue, EUR million	187.8	163.1	15.1	690.5
EBITDA, EUR million	23.0	9.3	148.5	54.4
EBITDA, %	12.3	5.7	115.8	7.9
Adjusted EBITDA, EUR million [1)]	21.4	16.5	30.0	64.2
Adjusted EBITDA, % [1)]	11.4	10.1	12.9	9.3
Adjusted EBITDA excluding IFRS 16, EUR million 12 months [1)]	43.7	49.1	-11.0	40.2
Operating profit (EBIT), EUR million	10.5	-1.2	983.7	8.9
Operating profit (EBIT), %	5.6	-0.7	867.5	1.3
Adjusted operating profit (EBIT), EUR million [1)]	8.9	5.9	51.0	18.6
Adjusted operating profit (EBIT), % [1)]	4.8	3.6	31.1	2.7
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA), EUR million [1)]	11.0	7.8	41.4	26.7
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA), % [1)]	5.9	4.8	22.8	3.9
Profit before tax (EBT), EUR million	7.5	-2.7	381.3	1.5
SHARE-RELATED INFORMATION				
Earnings per share (EPS), EUR	0.24	0.23	4.0	0.42
Equity per share, EUR	6.58	5.50	19.8	5.50
OTHER KEY FIGURES				
Return on capital employed (ROCE), %	4.1	5.1	-20.3	2.3
Return on equity (ROE), %	8.1	13.9	-41.9	6.2
Equity ratio, %	22.2	20.5	8.3	18.6
Gearing, %	247.2	288.4	-14.3	313.8
Interest-bearing net debt, EUR million	364.7	359.6	1.4	385.7
Net debt/adjusted EBITDA, 12 months [1)]	5.3	5.4	-2.3	6.0
Gearing, excluding IFRS 16, % [1)]	100.5	117.4	-14.4	139.95
Interest-bearing net debt excluding IFRS 16, EUR million [1)]	153.8	149.9	2.6	178.6
Net debt/adjusted EBITDA, excluding IFRS 16, 12 months [1)]	3.5	3.1	15.2	4.4
Gross investments, EUR million [2)]	21.7	176.1	-87.7	234.5
Cash flow from operating activities, EUR million	18.9	15.5	21.9	64.9
Cash flow after investments, EUR million	13.1	-28.2	146.5	-18.6
Average number of personnel (FTE)	5,216	4,819	8.3	5,167
Personnel at the end of the period (NOE)	7,094	6,623	7.1	7,016
Practitioners at the end of the period	2,072	1,691	22.5	1,812
NPS, private clinics	78.4	76.7	2.22	77.1
NPS, municipal outsourcing activities	70.4	72.8	-3.30	72.6

[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 businesses and business locations, gains and losses on the sale of businesses, costs arising from operational restructuring and the integration of acquired businesses, costs related to the termination of employment relationships as well as fines and corresponding compensation payments. Pihlajalinna also presents costs according to the IFRS Interpretations Committee's new Agenda Decision concerning cloud computing arrangements, and reversals of amortisation, as adjustment items.

EBITDA adjustments amounted to EUR -1.6 (7.2) million for the review period. Adjustments to operating profit amounted to EUR -1.6 (7.1) 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 unchanged

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 amortization and impairment of intangible assets (EBITA) to improve from the previous year's level (EUR 26.7 million in 2022).
- The Group has initiated measures to strengthen its financial position. Change negotiations that were concluded in March 2023 and efficiency improvement programs in complete outsourcing agreements are expected to improve Pihlajalinna's profitability. Price increases are expected to compensate the effects of inflation.

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

Pihlajalinna's interim CEO Mikko Wirén:

During the review period, Pihlajalinna changed its focus from M&A transactions and the growth of the network of operating locations to improving the profitability of the Group's existing business operations. Pihlajalinna has continued to concentrate on organic growth while at the same time changing its focus to systematic management, the efficacy of services produced for customers, and the occupational wellbeing of the company's personnel.

During the review period, Pihlajalinna's revenue increased by 15.1 per cent to EUR 187.8 million (163.1). The strong organic growth of private healthcare services continued at a rate of nearly 24 per cent. This corresponds to organic growth of EUR 21.1 million, excluding the decline of EUR 8 million in COVID-19 services. The organic growth was driven particularly by the successful growth of supply and the capacity of operating locations, as well as the positive development of customer sales. Compared to the beginning of 2022, the number of practitioners has increased approximately by 1 000 or by 94 per cent. Adjusted EBITA increased by 41.4 per cent to EUR 11.0 million (7.8). Profitability was improved particularly by continued strong organic growth, the improved capacity utilisation rate of operating locations, price increases, and the realisation of the efficiency improvement measures initiated in 2022 in public services.

For Pihlajalinna, 2023 began with several changes. The company has simplified its operating model and, consequently, the structure of the Management Team. In addition, we moved from eight geographical areas to five in private healthcare services. As a result of the change negotiations, we improved the efficiency of our operations by adjusting the share of administrative duties for healthcare professionals and by reducing 67 other position. As a result of these actions, we estimate to achieve annual cost savings of approximately EUR 4.5 million.

We also completed the sale of our dental care services at the end of March 2023. The divestment simplifies our business structure. However, we will use a strong partnership model to continue to provide dental care services for our occupational healthcare customers, for example. During the review period, we decided that four operating locations will be closed or combined with other operating locations in the same area. This will result in cost savings of approximately EUR 0.5 million. The effects of the divestment of dental care services, the simplification of the network of operating locations and the change negotiations on Pihlajalinna's profit performance will become evident gradually from the second quarter of 2023 onwards.

We will continue to assess our network of operating locations and the integration of acquired companies. We were successful in integrating Pohjola Hospital into Pihlajalinna in 2022. We have significantly increased the supply of high value-added services at the units compared to the companies' previous service provision. While the synergies from the other acquisitions carried out in 2022 have been delayed, they will be realised during this year.

In March 2023 we issued a EUR 20 million hybrid bond in a challenging operating environment. The hybrid bond ensures that the Group has leeway in executing its strategy. The net proceeds from the transaction were used for the repayment of drawings under Pihlajalinna's existing revolving credit facility. Due to improved profitability, the sale of the dental care services and the issue of the hybrid bond, the company's financial position improved significantly during the review period, and the waiver terms of the creditor banks ceased to be in effect, which reduces the cost of the company's debt.

The newly established wellbeing services counties started their operations in challenging circumstances at the beginning of 2023. The queues for non-urgent specialised care continued to grow, with over 160,000 customers waiting. The tightened care guarantee and staffing requirements further increases difficulties when at the same time the availability and retention of personnel are challenging, and labor costs are rising along with the general cost inflation. The number of patients waiting treatment for longer than stipulated by the legislation governing the care guarantee is rising significantly. The supervising authorities did not act in response to the situation during the COVID-19 pandemic. It is clear that current situation cannot continue for long. As a company, we have reacted to the situation by increasing the efficiency of our own operations in order to adapt to the upcoming changes in wages. We also offer innovative cooperation models to the wellbeing services counties to relieve the challenging situation.

We have continued our negotiations with the Pirkanmaa, Central Finland and South Ostrobothnia wellbeing services counties regarding service referrals and cost sharing under our complete outsourcing agreements. The agreements remain in effect, but the discussions on the division of responsibilities are still ongoing.

The strong growth of remote services continued. In review period remote appointments represented 38 per cent of all appointments. The significance of remote services is emphasised particularly in our occupational healthcare segment, where we now serve over 280,000 end customers. We will continue to strengthen our multi-channel services this year in all our customer groups and ensure the role of remote services as part of a comprehensive chain of care.

Our highly competent professionals are Pihlajalinna's most important asset. At the end of the review period, the Group had 7,094 employees and 2,072 practitioners. This year, we are focusing heavily on promoting the occupational wellbeing of our personnel. We launched a key project on work ability management in collaboration with Finland's leading pension insurance companies. The project aims to improve job satisfaction for all Pihlajalinna's personnel and address the exceptionally high rate of sickness-related absences. As a part of the project, we have specified sickness-related absence rate calculation to be in line with the generally used model defined by Confederation of Finnish Industries. The sickness-related absence rate in 2022 was 6.7 per cent. In the review period the sickness-related absence rate was 6.3 per cent when year earlier it was 8.0 per cent.

We will continue with our initiated determined measures to strengthen Pihlajalinna's profitability and financial position. The assessment of the network of operating locations and the integration of the acquired business to achieve synergies will continue. Following the change in our operating model and several acquisitions, we will ensure that the company has the best day-to-day management practices in place at all levels of the organisation. I am confident that the joint action taken by all our personnel will produce both short-term and long-term results in our operations.

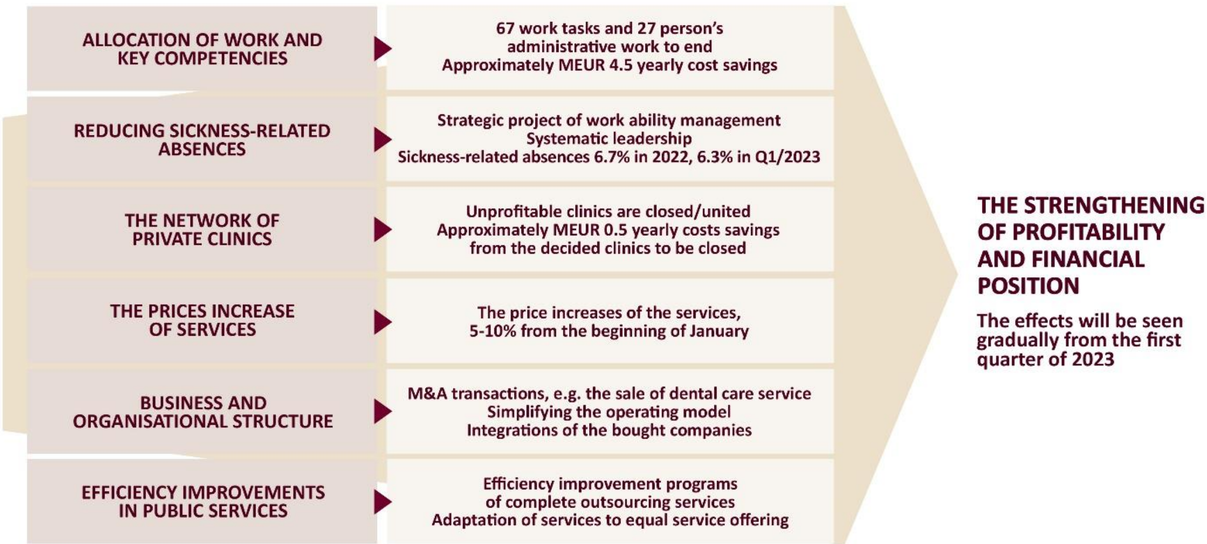
Efficiency improvement program 2023

Pihlajalinna initiated measures to strengthen its profitability and financial position in 2022 in public services and expanded the scope of the measures to include private healthcare services at the beginning of 2023. The measures cover several areas and their effects will become evident gradually in 2023.

The company made the necessary price increases to its services at the beginning of the year, conducted change negotiations during the review period, scaled down its network of operating locations, simplified the regional operating model in private healthcare services and clarified the business portfolio by divesting dental care services. The change negotiations and the downscaling of the network of operating locations will produce annual cost savings of approximately EUR 5 million.

To strengthen its financial position, the company issued an EUR 20 million hybrid bond in March. The net proceeds from the transaction were used for the repayment of drawings under Pihlajalinna's existing revolving credit facility. Due to improved profitability, the divestment of dental care services and the issue of the hybrid bond, the company's financial position improved significantly during the review period, and the waiver terms of the creditor banks ceased to be in effect, which reduced the cost of the company's debt financing.

Measures to strengthen profitability and financial position



The operating environment

The demand for healthcare services in Finland

The size of the Finnish healthcare market is estimated to be about EUR 15 billion, of which approximately 75 per cent is funded and produced by the public sector. The demand for healthcare services is strong and the growth outlook is positive due to ageing population, the development of digital services and the continued strong trend of health and wellness. The use of private medical expenses insurance is also growing, with some 1.3 million people already covered by private medical expenses insurance in Finland.

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

As a result of the reform of social and healthcare services, the responsibility for organising social and healthcare services was transferred to the 21 newly established wellbeing services counties and the City of Helsinki on 1 January 2023. Private sector operators produce 22 per cent of all social and healthcare services, and the private sector accounts for approximately half of the total production of primary care services. The wellbeing services counties have numerous challenges to solve. Simultaneously, they also have opportunity to improve efficiency of their service production. The multi-producer model incentivises private service providers to develop new operating practices and technologies that can improve service productivity and impact. In the multi-producer model, services are produced and provided by the public sector, the private sector and the third sector with close cooperation.

Population ageing, morbidity and wellbeing-related problems affect the demand for social and healthcare services, the growing need for services, and costs. Mental health problems have increased significantly, particularly among young people, and more than half of all disability pensions are being granted for reasons related to mental health. Cooperation between employers, occupational healthcare and pension insurance companies is increasingly important for ensuring preventive and cost-effective healthcare.

Queues for treatment and care guarantee

The residual effects of the COVID-19 pandemic on Finnish healthcare are extensive, and queues for treatment continue to grow. According to the Finnish Institute for Health and Welfare, over 160,000 patients were waiting for access to non-urgent specialised care at the end of 2022. Of these, almost 21,000 patients (12.7%) had waited for access to care for more than six months, and that figure had nearly doubled over the past year.

The legislation concerning care guarantee will change in September 2023. The maximum times for accessing non-urgent primary care will be gradually tightened: patients must receive access to care within 14 days of the assessment of the need for care from September 2023 onwards, and within seven days starting from November 2024.

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

One of the greatest challenges facing our society is the shortage of labour in the social and healthcare sector, which is also reflected in the growing queues for treatment. The availability of skilled labour has become a more difficult issue over the past few years, and the 2023 labour forecast for the municipal sector estimates that the shortage of social and healthcare service professionals in the public sector alone was nearly 38,000 persons in 2022.

In round-the-clock nursing services for the elderly, staffing requirement of 0.7 employees per customer will enter into effect in December 2023. It is 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. The Ministry of Finance estimates that as many as 200,000 new workers will be needed in social and healthcare services by 2035.

In accordance with the two-year collective agreement for the healthcare service sector (TPTES), which entered into effect in May 2022, individual monthly wages and pay scales will be raised at least 1.9 per cent from June 2023 onwards. The final increase will be determined in separate negotiations aimed at a resolution that is aligned with the general wage increase.

A two-year collective agreement was signed for the private social services sector (SOSTES) in May 2022. The extent of wage increases in 2023 was left open in the collective agreement. SuPer and Sote ry gave notice to the agreement on 30 April 2023. Negotiations on the wage increases for 2023 are still ongoing.

The proposal for a new collective agreement approved in October 2022, together with the municipal sector agreement approved earlier in summer 2022, will increase the earnings of social and healthcare service personnel by at least 13 per cent on average during the agreement period 2022–2025. The SOTE collective agreement covers some 180,000 employees whose annual labor costs amount to approximately EUR 8.6 billion.

Economic forecasts and inflation

Russia's war of aggression in Ukraine and energy crisis have had a major impact on the economy in the euro area. Economic growth has slowed, inflation has accelerated and market interest rates have risen. According to the Bank of Finland's forecast, the economy will contract by 0.2% in 2023. According to the forecast, the economy will grow by 0.9 per cent in 2024 and 1.5 per cent in 2025. Economic uncertainty may lead to weaker-than-projected economic growth in Finland.

The general uncertainty has weakened consumers' purchasing power and reduced investments. Consumer confidence decreased to the lowest level on record in 2022. In March 2023, the consumer confidence indicator was at a weak level with a balance of -10.8 (-10.5).

Consumer prices rose exceptionally quickly in 2022. The upward pressure on consumer prices is expected to ease this year. The inflation rate in 2022 was 7.1 per cent, with inflation of 4.6 per cent projected for 2023.

Sustainability

Events during the review period

In March Pihlajalinna published a sustainability report in accordance with the Global Reporting Initiative (GRI) standard as a part of the annual report. Company systematically continues to develop sustainability efforts in 2023.

The work ability management is one of the company's key themes for the current strategy period. In 2022, Pihlajalinna launched cooperation project with pension insurance companies. One of the main objectives of the project is to reduce sickness-related absences. Pihlajalinna's sickness-related absence rate* was 6.3 (8,0) per cent. In full year 2022 sickness-related absence rate was 6,7 per cent.

The company follows actively the Net Promoter Score (NPS) to measure the customer experience, which is one of the key sustainability indicators. The customer experience of the appointments continued positive development and the NPS was 78.4 (76.7). The NPS for complete and partial outsourcing arrangements decreased to 70.4 (72.8).

*Sickness-related absence rate calculation have been specified to be in line with generally used model defined by Confederation of Finnish Industries.

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, congregations, wellbeing services counties 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 80,000 in the public sector customers group.

January–March 2023

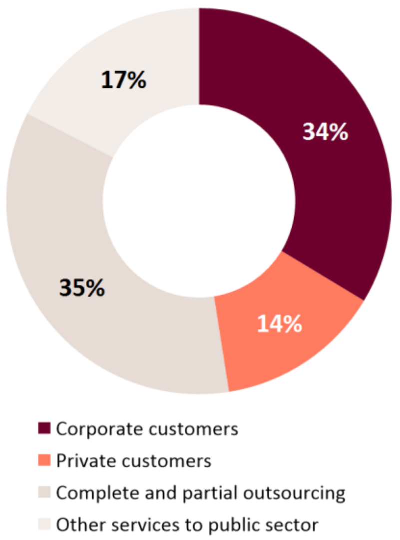
EUR million	1–3/2023	1–3/2022	change	change %	2022
Corporate customers	69.8	51.3	18.4	35.9 %	225.3
of which insurance company customers	36.3	20.4	15.9	78.2 %	98.4
Private customers	28.8	23.6	5.2	22.2 %	103.2
Public sector	108.9	106.5	2.4	2.2 %	435.5
of which complete and partial outsourcing agreements	72.6	74.4	-1.8	-2.4 %	303.9
of which staffing	6.9	5.9	0.9	15.8 %	24.8
of which occupational healthcare and other services	29.4	26.2	3.3	12.5 %	106.8
Intra-Group sales	-19.6	-18.3	-1.3	7.4 %	-73.5
Total consolidated revenue	**187.8**	**163.1**	**24.7**	**15.1 %**	**690.5**

Revenue from **corporate customers** amounted to EUR 69.8 (51.3) million, an increase of EUR 18.4 million, or 35.9 per cent. Sales to insurance company customers increased by EUR 15.9 million, or 78.2 per cent. M&A transactions contributed EUR 7.3 million to the increase in revenue. Organic growth was EUR 11.2 million, or 21.8 per cent. In the corporate customer group, revenue from COVID-19 services amounted to EUR 0.1 (3.9) million, a decrease of EUR -3.8 million. The customer volumes of Pihlajalinna's private clinics increased by 41 per cent year-on-year. Without the effect of M&A transactions, customer volumes would have increased by 28 per cent.

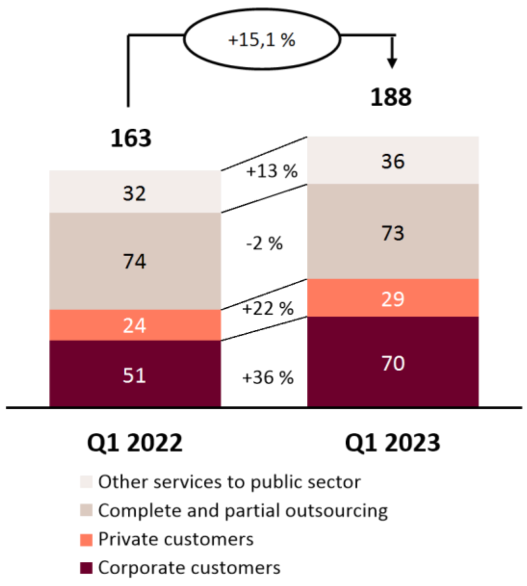
Revenue from **private customers** amounted to EUR 28.8 (23.6) million, an increase of EUR 5.2 million, or 22.2 per cent. M&A transactions contributed EUR 2.9 million to the increase in revenue from private customers. Organic growth was EUR 2.3 million, or 9.9 per cent. In the private customer category, revenue from COVID-19 services came to EUR 0.0 (0.9) million, representing a decrease of EUR -0.9 million. The customer volumes of Pihlajalinna's private clinics increased by 26 per cent. Without the effect of M&A transactions, customer volumes would have increased by 11 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 108.9 (106.5) million, an increase of EUR 2.4 million, or 2.2 per cent. M&A transactions increased revenue from the public sector by EUR 1.1 million. Revenue from COVID-19 services came to EUR 0.0 (3.5) million, representing a decrease of EUR -3.4 million. The preliminary agreement concluded with representatives of the Wellbeing Services County of Pirkanmaa on transferring the cost liability of demanding specialised care away from the company decreased revenue by EUR -5.7 million. The decrease was compensated by annual price increases in complete and partial outsourcing arrangements and the growth of public sector revenue from occupational health services, residential services and remote services. The customer volumes of Pihlajalinna's private clinics increased by 33 per cent year-on-year. Without the effect of M&A transactions, customer volumes would have increased by 19 per cent.

REVENUE BY CUSTOMER GROUP Q1 2023, %



REVENUE BY CUSTOMER GROUP, EUR MILLION



Consolidated revenue and result

January–March 2023

Pihlajalinna's revenue totalled EUR 187.8 (163.1) million, an increase of EUR 24.7 million, or 15.1 per cent. Revenue from COVID-19 services was EUR 0.3 (8.4) million, representing a decrease of EUR -8.0 million. Organic growth was EUR 13.5 million, or 8.3 per cent. Without COVID-19 services, organic growth would have been EUR 21.5 million, or 13.2 per cent. M&A transactions accounted for EUR 11.2 million, or 6.9 per cent, of the growth in revenue. The preliminary agreement concluded with representatives of the Wellbeing Services County of Pirkanmaa on transferring the cost liability of demanding specialised care away from the Group decreaed revenue by EUR -5.7 million during the review period.

EBITDA was EUR 23.0 (9.3) million, an increase of EUR 13.8 million, or 148.5 per cent. Adjusted EBITDA was EUR 21.4 (16.5) million, an increase of EUR 4.9 million, or 30.0 per cent. EBITDA adjustments totalled EUR -1.6 (7.2) million. EBITDA for the review period has been adjusted for the gain of EUR 3.5 million recognised on the sale of dental care services and employment termination costs of EUR -1.0 million, which are treated as items affecting comparability. In the comparison period, a write-down of EUR -4.6 million recognised due to the outcome of the District Court hearing concerning the dispute between Jämsän Terveys Oy and the City of Jämsä was treated as an adjustment item.

The profitability of primary care and social services in complete outsourcing agreements improved year-on-year due to the efficiency improvement programme and a decrease in sickness-related absences. The profitability of surgical operations improved due to higher volumes. The profitability of clinic operations and occupational healthcare services was lower than in the comparison period due to decrease in COVID-19 services.

Depreciation, amortisation and impairment amounted to EUR 12.5 (10.5) million. Adjustments to depreciation, amortisation and impairment amounted to EUR 0.0 (-0.1) million. Depreciation of intangible assets amounted to EUR 2.0 (1.8) million, of which depreciation related to purchase price allocations amounted to EUR 0.5 (0.7) million. Depreciation, amortisation and impairment of property, plant and equipment amounted to EUR 2.9 (2.5) million, and depreciation and impairment of right-of-use assets totalled EUR 7.7 (6.2) million.

Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA) was EUR 11.0 (7.8) million. The adjusted EBITA margin was 5.9 (4.8) per cent. Adjustments to EBIT amounted to EUR -1.6 (7.1) million.

Pihlajalinna's EBIT was EUR 10.5 (-1.2) million, an increase of EUR 11.7 million. Adjusted EBIT amounted to EUR 8.9 (5.9) million, an increase of EUR 3.0 million.

The Group's net financial expenses amounted to EUR -3.0 (-1.5) million. The interest expenses increased due to the higher market interest rates and a one percentage point increase in the highest margin level in accordance with the waiver agreement related to the company's financing arrangement. The waiver terms expired at the end of April due to the issue of hybrid bond, the divestment of dental care services and Pihlajalinna's improved profitability. Profit before taxes amounted to EUR 7.5 (-2.7) million. Taxes in the income statement amounted to EUR -1.6 (5.2) 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 6.2 million, was recognised through the income statement during the financial year 2022.

Profit came to EUR 5.9 (2.6) million. Earnings per share (EPS) was EUR 0.24 (0.23).

Consolidated statement of financial position and cash flow

Pihlajalinna Group's total statement of financial position amounted to EUR 664.7 (609.9) million. The growth is mainly attributable to business acquisitions in 2022. Consolidated cash and cash equivalents amounted to EUR 15.1 (6.5) million.

Net cash flow from operating activities in the quarter amounted to EUR 18.9 (15.5) million. Taxes paid amounted to EUR 0.9 (-4.2) million. The change in net working capital was EUR -2.4 (10.3) million. Working capital totalling EUR 0.4 (13.2) million was released from trade and other payables. Working capital amounting to EUR -3.7 (-2.7) million was tied up in trade and other receivables and EUR 0.2 (0.2) million was released from inventories. Changes in provisions released EUR 0.7 (-0.4) million in working capital.

Net cash flow from investing activities totalled EUR -5.8 (-43.7) million during the quarter. The business acquisitions had an impact of EUR 0.0 (-33.4) million on net cash flow from investing activities. Investments in tangible and intangible assets amounted to EUR -11.5 (-10.2) million, and the proceeds from the disposal of tangible assets amounted to EUR 0.1 (0.1) million. The divestment of the Group's dental care services improved net cash flow from investing activities for the review period by EUR 5.7 million.

The Group's cash flow after investments (free cash flow) was EUR 13.1 (-28.2) million for the quarter.

Net cash flow from financing activities totalled EUR -11.1 (30.4) million. Pihlajalinna issued EUR 20 million hybrid bond on March 2023. The change in financial liabilities, including changes in credit limits, amounted to EUR -22.5 (39.6) million. Payments for financial lease liabilities amounted to EUR -7.9 (-6.5) million, and interest paid and other financial expenses amounted to EUR 0.8 (-2.0) million. During the first quarter of 2023, the Group sold the interest swap that was effective on the financial statements date. The sale had an effect of approximately EUR 3.9 million on the net cash flow of interest paid and other financial expenses. A total of EUR -1.2 (-0.1) million in dividends was paid to non-controlling interests. The Group has acquired its own shares for its incentive scheme and the remuneration of the Board of Directors in the amount of EUR 0.0 (-0.6) million.

The Group's gearing was 247.2 (288.4) per cent. Interest-bearing net debt amounted to EUR 364.7 (359.6) million.

Return on capital employed was 4.1 (5.1) per cent and return on equity was 8.1 (13.9) per cent.

Hybrid bond

Pihlajalinna issued EUR 20 million hybrid bond on 27 March 2023. The hybrid bond bear a fixed interest rate of 12.00 percent per annum until 27 March 2026 ("Reset Date"), and from the Reset Date, a floating interest rate as defined in the terms and conditions of the capital securities.

The hybrid bond is instrument that is subordinated to the company's other debt obligations. The hybrid bond does not have a specified maturity date. Pihlajalinna is entitled to redeem the hybrid bond on the Reset Date and thereafter on each interest payment date. The hybrid bond will be treated as equity in Pihlajalinna's IFRS consolidated financial statements. The hybrid bond does not confer to the holders the rights of a shareholder and do not dilute the holdings of the current shareholders.

The net proceeds from the hybrid bond were used for the repayment of drawings under Pihlajalinna's existing revolving credit facility and for general financing purposes.

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 year, 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 2022, the sustainability targets linked to the financing arrangement did not cause any changes in the loan margins.

In late 2022, Pihlajalinna and the creditor banks agreed on a temporary increase to the covenants of the financing arrangement and increasing the highest margin by one percentage point from the beginning of 2023 until the third quarter of the year. The creditor banks waived off the increase to the highest margin and the other waiver terms in late April when the company demonstrated it would remain under the original covenants for the next 12 months.

The original gearing covenant of the financing arrangement is 115 per cent and the leverage covenant is 3.75. At the end of the review period, leverage in accordance with the financing arrangement stood at 3.34 and gearing was 100 per cent.

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 review period, Pihlajalinna had EUR 65 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 entered into effect in March 2023 and remain in effect until 25 March 2027.

Complete and partial outsourcing agreements

Company	Pihlajalinna's holding 31 Dec 2022	Pihlajalinna's holding 31 Mar 2023	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	1–3/2023 3 months	1–3/2022 3 months	2022	2021
INCOME STATEMENT				
Revenue, EUR million	66.7	68.3	281.4	277.0
EBITDA, EUR million	4.9	-3.1	6.0	6.6
EBITDA, %	7.3	-4.5	2.1	2.4
Adjusted EBITDA, EUR million	4.9	2.3	11.5	6.7
Adjusted EBITDA, %	7.3	3.4	4.1	2.4
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA), EUR million	4.2	1.6	8.8	4.1
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA), %	6.3	2.4	3.1	1.5

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 7,094 (6,623), an increase of 471 persons or 7 per cent. The Group's personnel averaged 5,216 (4,819) persons as full-time equivalents, an increase of 398 persons or 8 per cent. The Group employee benefit expenses totalled EUR 82.9 (73.2) million, an increase of EUR 9.7 million or 13 per cent.

Acquisitions increased the number of personnel by approximately 140 persons year-on-year. Other increases in personnel in Pihlajalinna's network of operating locations and telephone services for insurance companies amounted to approximately 330 persons. In the review period, sickness-related absences rate amongst the Group's own personnel calculated by using model defined by Confederation of Finnish Industries was 6.3 (8.0) per cent. In 2022, the sickness-related absences rate was 6.7 per cent.

On 10 January 2023, Pihlajalinna announced it is assessing its operations and organisation, and commencing change negotiations with the aim of strengthening profitable growth and the Group's financial position. The aim of the change negotiations was to use open dialogue with personnel representatives to find long-term solutions for the company. The change negotiations concerned the network of private clinics, regional management and the Group's general management. Approximately 650 of the Group's 7,000 employees were within the scope of the functions in question.

The change negotiations were concluded during the review period. As a result of the negotiations, Pihlajalinna simplified its operating model and organisation. The Group moved from eight geographical areas to five geographical areas in private healthcare services.

At the beginning of the change negotiations, Pihlajalinna estimated that 40–60 positions may be reduced, and the administrative duties of 30–40 employees may be discontinued or reduced. As a result of the negotiations, 67 positions were reduced and the administrative duties of 27 employees were adjusted. The figures include employment relationships that ended during the negotiations.

Management Team

Pihlajalinna announced on 8th of March, 2023 simplifying its operating model in order to strengthen its profitable growth and financial position. As part of the change, the Group's Commercial operations was integrated into the Private healthcare services business and the Group's general administration. In addition, the Group's HR function was merged into the business operations.

Pihlajalinna Plc announced 9th of March, 2023 the change of CEO. Pihlajalinna's founder and Chair of the Board of Directors Mikko Wirén will act as interim CEO until new CEO is appointed.

Interim CEO Mikko Wirén serves as the Chair of the Management Team. The Management Team also includes CIO Antti-Jussi Aro, COO Private Clinic and Hospital Services Timo Harju, CFO Tarja Rantala, CMO Sari Riihijärvi, COO Public Services Eetu Salunen and CLO Marko Savolainen.

Board of Directors

The Annual General Meeting on 4 April 2023 resolved that the number of the members of the Board of Directors shall be fixed at eight members instead of the previous seven. Heli Iisakka, Hannu Juvonen, Leena Niemistö, Seija Turunen and Mikko Wirén were re-elected to serve as members of the Board of Directors until the next Annual General Meeting. Kim Ignatius, Tiina Kurki and Jukka Leinonen were elected as a new Board Members.

The Annual General Meeting elected Jukka Leinonen as the Chair of the Board and Leena Niemistö as the Vice-Chair of the Board.

Shareholders' Nomination Board

The Shareholders' Nomination Board is comprised of Juha Koponen (LocalTapiola-Group), Mikko Wirén (MWW Yhtiö Oy), Tomi Yli-Kyyny (Fennia Mutual Insurance Company) and Carl Petterson (Elo Mutual Pension Insurance Company).

Committees nominated by the Board

Pihlajalinna Plc's Board of Directors appointed the following members to its committees at its constitutive meeting on 4 April 2023:

Audit Committee: Seija Turunen (chair), Kim Ignatus, Heli Iisakka and Tiina Kurki
People Committee: Hannu Juvonen (chair), Leena Niemistö and Jukka Leinonen

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

Remuneration of the members of the Board of Directors

The Annual General Meeting of 4 April 2023 resolved that the Board of Directors will be paid the following annual remuneration for the term ending at the conclusion of the Annual General Meeting 2024: the Chair of the Board of Directors EUR 60,000, the Vice Chair of the Board of Directors and to the Chairs of the Committees EUR 40,000, and to the other members EUR 30,000.

The annual remuneration shall be paid in company shares and in cash, with approximately 40 per cent of the remuneration used to acquire shares in the name and on behalf of the members of the Board of Directors, and the remainder paid in cash. The remuneration can be paid either entirely or partially in cash if the member of the Board of Directors has, on the day of the General Meeting, 4 April 2023, been in possession of over EUR 1,000,000 worth of company shares. The company is responsible for the expenses and transfer tax arising from the acquisition of the shares. The remuneration to be paid in shares can be paid by transferring company shares in possession of the company to the members of the Board of Directors or by purchasing shares directly on behalf of the Board members within three weeks after the interim report for the period of 1 January–31 March 2023 has been published. If this is not possible due to legal or other regulatory reasons, such as insider regulations, the shares will be transferred or purchased at the earliest possible time thereafter or, alternatively, the remuneration will be paid in cash. If the term of a Board member ends before the Annual General Meeting of 2024, the Board is entitled to decide on the possible recovery of the remuneration in a manner it deems appropriate.

In addition, the AGM decided that each Board member shall be paid a cash meeting fee of EUR 600 for each Board and Committee meeting. Reasonable travel expenses will also be reimbursed to the members of the Board in accordance with the Group's travel policy.

Board authorisations

The Annual General Meeting on 4 April 2023 authorised the Board of Directors to decide on the acquisition of a maximum of 2,260,000 shares, which is approximately 10 per cent of the company's current share capital. Own shares may be repurchased on the basis of the authorisation only by using unrestricted equity. Targeted share acquisition is possible. The authorisation is effective until the next Annual General Meeting, or until 30 June 2024 at the latest.

The Annual General Meeting also authorised the Board of Directors to decide on a share issue and other special rights conferring an entitlement to shares under Chapter 10, Section 1 of the Limited Liability Companies Act. The number of shares issued pursuant to the authorisation may not exceed 2,260,000 shares, which corresponds to approximately 10 per cent of all existing shares in the company. The authorisation concerns both the issuance of new shares and the sale or transfer of the company's own shares. The authorisation permits a targeted share issue. The authorisation is effective until the next Annual General Meeting, or until 30 June 2024 at the latest.

Auditors and auditing

At Pihlajalinna's Annual General Meeting held on 4 April 2023, KPMG Oy Ab, a firm of authorised public accountants, was elected as the company's auditor for the financial year 1 January–31 December 2023. Assi Lintula, APA, is the principal auditor.

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 0.31 per cent of all shares and votes. At the end of the review period, the company had 15,668 (15,894) shareholders.

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	1–3/2023	1–3/2022	2022
No. of shares outstanding at end of period	22,549,644	22,554,828	22,549,644
Average no. of shares outstanding during period	22,549,644	22,592,643	22,560,271
Highest price, EUR	9.15	13.18	13.18
Lowest price, EUR	6.82	9.54	8.48
Average price, EUR [1)]	8.39	11.81	11.06
Closing price, EUR	7.47	12.26	8.52
Share turnover, 1,000 shares	979	1,863	3,770
Share turnover, %	4.3	8.2	16.7
Market capitalisation at end of period, EUR million	168.4	276.5	192.1

[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 of economic growth, supply chain disruptions, high inflation and rising market interest rates. 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 affects Pihlajalinna's business operations through potential increases in the number of respiratory infections, as was the case in 2022. This may lead to an increased 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 profitable growth in accordance with the company's strategy.

Monitoring and forecasting with regard to the covenants included in the company's financing agreements is a significant part of the company's risk management. The company's financing agreement and the hybrid bond issued on 27 March 2023 are described 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 company's personnel expenses may be increased by the general development of wages in the social and healthcare sector and change in the staffing requirement concerning nurses in December 2023. The costs of wage harmonisation in the social and healthcare sector in relation to the creation of the wellbeing services counties also 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 access to additional financing.

The most significant risks and uncertainties in social and healthcare services are linked to the policies and legislation implemented in Finnish society.

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 by the end of October 2023 whether their subcontracting agreements will continue. According to the assessment of the company's management, its fixed-term service agreements will remain in effect, as agreed, with the wellbeing services counties until the end of the term for each agreement.

Determining the annual profitability of the Group's fixed-term complete social and healthcare services outsourcing agreements may become accurate with a delay. The group may not always be aware of the actual costs of the agreements at the time of preparing the financial statements, and the agreements 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 interim report.

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 previous financial year. The ruling decreased revenue in previous financial year by EUR 2.4 million, and EBITDA was encumbered by EUR 4.6 million in previous financial year. 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.

Jämsän Terveys Oy has recognised as revenue and recorded in its receivables EUR 1.3 (1.2) million, mainly COVID-19-related costs for the 2022 year, which the City 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 4.6 (4.3) 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 and interest on late payments. 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 (1.3) 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 Kuusiolinna Terveys Oy has recognised as revenue and recorded in its receivables amounts to EUR 0.2 (0.0) million.

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 (0.6) million.

The Group's receivables include the above-mentioned items totalling EUR 8.1 million. In financial statement for the year 2022 the Group's receivables include the above-mentioned items totalling EUR 7.4 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.

Events after the review period

Annual General Meeting

The Annual General Meeting was held on 4 April 2023. The meeting adopted the Financial Statement including the Consolidated Financial Statement for the financial period 1 January–31 December 2022 and discharged the members of the company's Board of Directors and the CEO from liability for the financial year 2022.

In accordance with the proposal of the Board of Directors, the AGM decided that no dividend will be distributed for the financial year that ended on 31 December 2022.

The AGM approved the Remuneration Report concerning the remuneration of Pihlajalinna's Board of Directors and CEO in 2022. The other decisions of the AGM are reported in this interim report under the subheadings Board of Directors, Committees nominated by the Board, Remuneration of the members of the Board of Directors, Board authorisation and Auditors and auditing.

Pihlajalinna's financial reporting in 2023

Half Year Financial Report January–June: Friday, 11 August 2023
Interim Report January–September: Friday, 3 November 2023

Helsinki, 27 April 2023

The Board of Directors of Pihlajalinna Plc

Consolidated income statement

EUR million	1–3/2023 3 months	1–3/2022 3 months	2022
Revenue	**187.8**	**163.1**	**690.5**
Other operating income	4.8	1.7	4.9
Materials and services	-66.9	-64.2	-267.2
Employee benefit expenses	-82.9	-73.2	-296.6
Other operating expenses	-19.8	-18.2	-77.2
Share of profit in associated companies and joint ventures	0.0	0.0	0.0
EBITDA	**23.0**	**9.3**	**54.4**
Depreciation, amortisation and impairment	-12.5	-10.5	-45.5
Operating profit (EBIT)	**10.5**	**-1.2**	**8.9**
Financial income	0.1	0.1	0.7
Financial expenses	-3.1	-1.6	-8.1
Profit before taxes	**7.5**	**-2.7**	**1.5**
Income tax	-1.6	5.2	6.1
Profit for the period	**5.9**	**2.6**	**7.7**
Attributable to:			
To the owners of the parent company	5.5	5.3	9.5
To non-controlling interests	0.4	-2.7	-1.9
Earnings per share calculated on the basis of the result for the period attributable to the owners of the parent company (EUR)			
Basic	0.24	0.23	0.42
Diluted	0.24	0.23	0.42

Consolidated statement of comprehensive income

EUR million	1–3/2023 3 months	1–3/2022 3 months	2022
Profit for the period	**5.9**	**2.6**	**7.7**
Other comprehensive income that will be reclassified subsequently to profit or loss			
Cash flow hedge	-0.5	0.4	5.1
Income tax on other comprehensive income	0.1	-0.1	-1.0
Other comprehensive income for the reporting period	-0.4	0.3	4.1
Total comprehensive income for the reporting period	**5.5**	**2.9**	**11.7**
Attributable to:			
To the owners of the parent company	5.1	5.6	13.6
To non-controlling interests	0.4	-2.7	-1.9

Consolidated statement of financial position

EUR million	31 Mar 2023	31 Mar 2022	2022
ASSETS			
Non-current assets			
Property, plant and equipment	62.8	52.8	58.7
Goodwill	250.9	229.9	251.0
Other intangible assets	22.6	20.1	22.8
Right-of-use assets	201.2	204.6	197.7
Interests in associates	2.1	0.3	2.4
Other investments	1.2	1.2	0.9
Other receivables	11.0	9.1	9.2
Deferred tax assets	16.6	14.7	17.3
Total non-current assets	**568.4**	**532.7**	**560.0**
Current assets			
Inventories	4.1	3.5	4.3
Trade and other receivables	76.3	66.2	76.8
Current tax assets	0.8	1.0	2.1
Cash and cash equivalents	15.1	6.5	13.1
Current assets held for sale			5.3
Total current assets	**96.3**	**77.2**	**101.6**
Total assets	**664.7**	**609.9**	**661.6**

EUR million	31 Mar 2023	31 Mar 2022	2022
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	0.1	0.1	0.1
Fair value reserve	3.7	0.3	4.1
Reserve for invested unrestricted equity	116.5	116.5	116.5
Hybrid bond	20.0		
Retained earnings	2.7	1.8	-6.2
Profit for the period	5.5	5.3	9.5
	148.4	**124.0**	**124.0**
Non-controlling interests	-0.9	0.7	-1.1
Total equity	**147.5**	**124.7**	**122.9**
Deferred tax liabilities	8.3	6.8	8.5
Provisions	0.1	1.1	0.1
Lease liabilities	202.9	207.8	201.2
Financial liabilities	146.0	130.7	168.0
Other non-current liabilities	0.8	1.0	0.8
Total non-current liabilities	**358.1**	**347.4**	**378.7**
Trade and other payables	125.0	109.4	127.5
Current tax liabilities	0.6	0.7	0.0
Provisions	0.8	0.2	
Lease liabilities	29.9	26.3	28.3
Financial liabilities	2.8	1.3	3.1
Current liabilities held for sale			1.1
Total current liabilities	**159.0**	**137.8**	**160.1**
Total liabilities	**517.1**	**485.2**	**539.8**
Total equity and liabilities	**664.7**	**609.9**	**661.6**

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**	**Hybrid bond**	**Retained earnings**	**Non-controlling interests**	**Equity Total**
Total equity, 1 Jan 2022	**0.1**	**116.5**	**0.0**		**2.5**	**3.5**	**122.6**
Profit for the period					5.3	-2.7	2.6
Comprehensive income for the period			0.3				0.3
Dividends paid						-0.1	-0.1
Acquisition of own shares					-0.6		-0.6
Share-based benefits					-0.1		-0.1
Total transactions with owners					**-0.7**	**-0.1**	**-0.8**
Changes in NCI without a change in control					0.0	0.0	0.0
Total changes in subsidiary shareholdings					**0.0**	**0.0**	**0.0**
Total equity, 31 Mar 2022	**0.1**	**116.5**	**0.3**		**7.0**	**0.7**	**124.7**

	Equity attributable to owners of the parent company						
EUR million	**Share capital**	**Reserve for invested unrestricted equity**	**Fair value reserve**	**Hybrid bond**	**Retained earnings**	**Non-controlling interests**	**Equity Total**
Total equity, 1 Jan 2023	**0.1**	**116.5**	**4.1**		**3.3**	**-1.1**	**122.9**
Profit for the period					5.5	0.4	5.9
Total comprehensive income for the period			-0.4				-0.4
Dividends paid							0.0
Acquisition of own shares							0.0
Share-based benefits							0.0
Total transactions with owners					**0.0**	**0.0**	**0.0**
Changes in NCI without a change in control					-0.2	-0.1	-0.4
Other changes			0.0		0.1	-0.1	-0.1
Total changes in subsidiary shareholdings					**-0.2**	**-0.2**	**-0.4**
Proceeds from hybrid bond				20.0			20.0
Hybrid bond interests and expenses					-0.4		-0.4
Total equity, 31 Mar 2023	**0.1**	**116.5**	**3.7**	**20.0**	**8.2**	**-0.9**	**147.5**

Consolidated statement of cash flows

EUR million	1–3/2023 3 months	1–3/2022 3 months	2022
Cash flow from operating activities			
Profit for the period	5.9	2.6	7.7
Adjustments to cash flow from operating activities:			
Taxes	1.6	-5.2	-6.1
Depreciation, amortisation and impairment	12.5	10.5	45.5
Financial income and expenses	3.1	1.5	7.4
Other	-2.7	0.0	-0.1
Net cash generated from operating activities before change in working capital	**20.3**	**9.3**	**54.3**
Change in working capital	-2.4	10.3	16.8
Interest received	0.1	0.1	0.7
Taxes paid	0.9	-4.2	-6.9
Net cash flow from operating activities	**18.9**	**15.5**	**64.9**
Cash flow from investing activities			
Investments in tangible and intangible assets	-11.5	-10.2	-29.0
Proceeds from disposal of property, plant and equipment and intangible assets and prepayments	0.1	0.1	0.4
Changes in other receivables and investments	0.0		-1.8
Sale of subsidiaries with time-of-sale liquid assets deducted	7.7		
Granted loans	-2.1	-0.2	-0.7
Dividends received	0.0	0.0	0.0
Acquisition of subsidiaries less cash and cash equivalents at date of acquisition		-33.4	-52.3
Net cash flow from investing activities	**-5.8**	**-43.7**	**-83.4**
Cash flow from financing activities			
Changes in non-controlling interests	0.0		-0.4
Acquisition of own shares		-0.6	-1.5
Proceeds from and repayment of borrowings	-22.5	39.6	75.2
Repayment of lease liabilities	-7.9	-6.5	-29.0
Interest and other operational financial expenses	0.8	-2.0	-8.3
Dividends paid and other profit distribution	-1.2	-0.1	-8.6
Proceeds from hybrid bond	20.0		
Hybrid bond interests and expenses	-0.4		
Net cash flow from financing activities	**-11.1**	**30.4**	**27.4**
Changes in cash and cash equivalents	2.0	2.2	8.9
Cash at beginning of period	13.1	4.3	4.3
Cash at end of period	**15.1**	**6.5**	**13.1**

Notes to the interim report

Accounting policies

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

The interim report applies the accounting policies presented in the consolidated financial statements for 2022. 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 interim report 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 interim report 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 interim report 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 interim report. The section *Risks and uncertainties in business operations* in this interim report presents key accounting estimates and decisions based on management judgement. The significant judgments made by management and the key accounting estimates and decisions based on management judgement were mainly the same as those that applied to the consolidated financial statements for the year 2022 and there has been no significant changes in these.

Revenue by region

Pihlajalinna reports its sales revenue divided into the following geographical regions:

- Southern Finland includes Pihlajalinna's business operations in the regions of Uusimaa, South West Finland, Päijät-Häme, Kymenlaakso and South Karelia.
- Mid-Finland includes Pihlajalinna's business operations in the regions of Pirkanmaa, Satakunta, Kanta-Häme, Central Finland, South Savo, North Karelia and North Savo.
- Ostrobothnia includes Pihlajalinna's business operations in the regions of Southern Ostrobothnia, Ostrobothnia and Central Ostrobothnia.
- Northern Finland includes Pihlajalinna's business operations in the regions of North Ostrobothnia, Kainuu and Lapland.

EUR million	1–3/2023 3 months	1–3/2022 3 months	muutos-%
Southern Finland	48.2	43.9	9.7 %
Mid-Finland	97.0	89.2	8.7 %
Ostrobothnia	33.4	33.2	0.9 %
Northern Finland	12.9	10.5	22.1 %
Other operations	16.0	0.8	1818.8 %
Intra-Group sales	-19.6	-14.5	35.0 %
Consolidated revenue	**187.8**	**163.1**	**15.1 %**

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 number of people within the scope of the Group's occupational healthcare services is approximately 200,000 in the corporate customers group.
- 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, congregations, wellbeing services counties and the public administration when purchasing social and healthcare outsourcing services, residential services, occupational healthcare services and staffing services. The number of people within the scope of the Group's occupational healthcare services is over 80,000 in the public sector customers group.

EUR million	1–3/2023 3 months	1–3/2022 3 months	change %
Corporate customers	69.8	51.3	35.9 %
of which insurance company customers	36.3	20.4	78.2 %
Private customers	28.8	23.6	22.2 %
Public sector	108.9	106.5	2.2 %
of which complete outsourcing	72.6	74.4	-2.4 %
of which staffing	6.9	5.9	15.8 %
of which occupational healthcare and other services	29.4	26.2	12.5 %
Intra-Group sales	-19.6	-18.3	7.4 %
Consolidated revenue	**187.8**	**163.1**	**15.1 %**

Sale of dental care services

Pihlajalinna announced in late 2022 that it will sell its dental care services to Hammas Hohde Oy. The divestment was completed on 31 of March, 2023. The Group has recorded 3.5 million sales profit from the divestment in other operating income.

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 matching share plan, as the minimum objectives set for the programme were not achieved.

Contingent liabilities and commitments

EUR million	31 Mar 2023	31 Mar 2022	2022
Collateral given on own behalf			
Mortgage on company assets			0.2
Sureties	3.7	4.3	4.2
Lease deposits	0.2	0.5	0.6
Properties' VAT refund liability	0.0	0.1	0.0
Lease commitments for off-balance sheet leases	0.4	0.8	1.3

Investment commitments for the Group's development, additional and replacement investments amounted to approximately EUR 8.0 (3.5) million. The investment commitments are related to ICT infrastructure, business premises investments, additional and replacement investments in clinical equipment and information system projects.

Changes in intangible assets

EUR million	31 Mar 2023	31 Mar 2022	2022
Acquisition cost at beginning of period	325.7	247.9	247.9
Additions	1.8	1.5	7.5
Business combinations	0.0	46.5	73.3
Transfers between items	-0.1	0.0	0.0
Reclassifications	0.0	0.0	-3.0
Disposals	-0.1	0.0	0.0
Acquisition cost at end of period	327.4	296.0	325.7
Accumulated depreciation at beginning of period	-51.9	-44.2	-44.2
Depreciation and amortisation for period	-2.0	-1.8	-7.7
Accumulated depreciation at end of period	-53.8	-46.0	-51.9
Carrying amount at end of period	**273.6**	**250.0**	**273.8**

Changes in property, plant and equipment

EUR million	31 Mar 2023	31 Mar 2022	2022
Acquisition cost at beginning of period	123.6	104.2	104.2
Additions	6.9	9.8	24.8
Business combinations	0.0	0.4	1.4
Transfers between items	0.2	0.0	0.1
Reclassifications	0.0	0.0	-6.5
Disposals	0.0	-0.1	-0.5
Acquisition cost at end of period	130.6	114.4	123.6
Accumulated depreciation at beginning of period	-64.8	-59.2	-59.2
Depreciation and amortisation for period	-2.9	-2.5	-10.6
Reclassifications	4.9	0.0	4.9
Accumulated depreciation on disposals	0.0	0.0	0.2
Accumulated depreciation at end of period	-67.8	-61.6	-64.8
Carrying amount at end of period	**62.8**	**52.8**	**58.7**

Changes in right-of-use assets

EUR million	31 Mar 2023	31 Mar 2022	2022
Acquisition cost at beginning of period	320.0	192.3	192.3
Additions	12.8	5.1	26.5
Business combinations	0.0	112.7	105.5
Transfers between items	18.4	0.0	0.1
Disposals	-4.8	-3.5	-4.4
Acquisition cost at end of period	346.4	306.7	319.9
Accumulated depreciation at beginning of period	-122.2	-96.7	-96.7
Depreciation and amortisation for period	-7.7	-6.2	-27.2
Transfers between items	-18.4	0.0	0.0
Accumulated depreciation on disposals	3.1	0.9	1.7
Accumulated depreciation at end of period	-145.2	-102.0	-122.2
Carrying amount at end of period	**201.2**	**204.6**	**197.7**

Right-of-use assets and lease liabilities

EUR million	Right-of-use asset items 31 Mar 2023	Lease liabilities 31 Mar 2023
Carrying amount at beginning of period	197.7	106.2
Changes	11.1	134.4
Depreciation and amortisation	-7.7	
Repayments of lease liabilities		-7.9
Carrying amount at end of period	**201.2**	**232.8**

On 31 March 2023, EUR 210,9 million of the lease liabilities were the result of the adoption of IFRS 16 and EUR 21.9 million were financial lease liabilities in accordance with previous accounting standards.

EUR million	Right-of-use asset items 31 Mar 2022	Lease liabilities 31 Mar 2022
Carrying amount at beginning of period	95.6	106.2
Changes	115.2	134.3
Depreciation and amortisation	-6.2	
Repayments of lease liabilities		-6.5
Carrying amount at end of period	**204.6**	**234.1**

On 31 March 2022, EUR 209.6 million of the lease liabilities were the result of the adoption of IFRS 16 and EUR 24.7 million were financial lease liabilities in accordance with previous accounting standards.

Financial Expenses

milj. euroa	1–3/2023 3 months	1–3/2022 3 months	2022
Financial Expenses			
Interest expenses from financial liabilities carried at amortised cost	-2.1	-0.6	-3.4
Interest expenses on lease liabilities	-0.9	-0.7	-3.4
Other financial expenses	-0.2	-0.3	-1.2
Total	**-3.1**	**-1.6**	**-8.1**

Financial assets and liabilities by measurement category

31 Mar 2023	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			0.2	0.2	0.2
Other receivables	level 2			0.1	0.1	0.1
Current financial assets						
Trade receivables				56.0	56.0	56.0
Other receivables	level 2			0.2	0.2	0.2
Interest derivatives	level 2		0.7		0.7	0.7
Cash and cash equivalents				15.1	15.1	15.1
Total		**1.2**	**0.7**	**71.6**	**73.4**	**73.4**
Carrying amounts of financial liabilities						
Non-current financial liabilities						
Loans from financial institu-	level 2			145.3	145.3	145.3
Lease liabilities	level 2			202.9	202.9	202.9
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			1.2	1.2	1.2
Cheque account with credit						
Contingent considerations	level 3	1.6			1.6	1.6
Lease liabilities	level 2			29.9	29.9	29.9
Trade and other payables				27.9	27.9	27.9
Total		**1.8**		**407.8**	**409.5**	**409.5**

31 Dec 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			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		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**

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 arrangements 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 year, 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 2022, the sustainability targets linked to the financing arrangement did not cause any changes in the loan margins.

In late 2022, Pihlajalinna and the creditor banks agreed on a temporary increase to the covenants of the financing arrangement and increasing the highest margin by one percentage point from the beginning of 2023 until the third quarter of the year. The creditor banks waived off the increase to the highest margin and the other waiver terms in late April when the company demonstrated it would remain under the original covenants for the next 12 months.

The original gearing covenant of the financing arrangement is 115 per cent and the leverage covenant is 3.75. At the end of the review period, leverage in accordance with the financing arrangement stood at 3.34 and gearing was 100 per cent.

Pihlajalinna issued EUR 20 million hybrid bond on 27 March 2023. The hybrid bond bear a fixed interest rate of 12.00 percent per annum until 27 March 2026 (“Reset Date”), and from the Reset Date, a floating interest rate as defined in the terms and conditions of the capital securities.

The hybrid bond is instrument that is subordinated to the company’s other debt obligations. The hybrid bond do not have a specified maturity date. Pihlajalinna is entitled to redeem the hybrid bond on the Reset Date and thereafter on each interest payment date. The hybrid bond will be treated as equity in Pihlajalinna’s IFRS consolidated financial statements. The hybrid bond does not confer to the holders the rights of a shareholder and do not dilute the holdings of the current shareholders.

The net proceeds from the hybrid bond were used for the repayment of drawings under Pihlajalinna’s existing revolving credit facility and for general financing purposes.

The Group has credit limit agreements valid until further notice, totalling EUR 10 million. The notice period of the credit limit agreements is one month. At the end of the review period, Pihlajalinna had EUR 65 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 entered into effect in March 2023 and remain in effect 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 Mar 2023	less than 1 year	1-2 years	2-3 years	3-4 years	over 4 years
Loans from financial institutions	146.5	-5.2	-4.9	-145.2	0.0	
Lease liabilities	232.8	-33.3	-30.1	-26.9	-22.2	-133.2
Other interest-bearing liabilities	0.6	-0.1	-0.1	-0.1	-0.1	-0.6
Contingent considerations	1.8	-1.6	0.0	0.0	-0.2	
Trade payables	27.9	-27.9				
Total	**409.5**	**-68.0**	**-35.1**	**-172.2**	**-22.4**	**-133.9**

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	-1,710.3	-6.3	-6.3	-206.1	
Trade payables	41.7	-41.7				
Total	**442.4**	**-82.7**	**-35.6**	**-193.6**	**-22.2**	**-133.6**

Trade and other receivables

Due to the general economic situation, 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 behavior of customers.

The Group recognised impairment losses of EUR 0.2 (0.2) million on trade receivables. The Group recognised impairment losses of EUR 0.0 (0.0) million related to contract assets.

Contract assets 7.3 (6.7) million are included to the prepayments and accrued income in the below table.

EUR million	31 Mar 2023	31 Dec 2022
Trade receivables	56.0	54.6
Prepayments and accrued income	19.2	20.1
Current subleases	0.9	0.9
Other receivables	0.2	1.2
Total	**76.3**	**76.8**

Age distribution of trade receivables

EUR million	31 Mar 2023	of which written down	Net 31 Mar 2023	31 Dec 2022	of which written down	Net 31 Dec 2022
Not yet due	33.4	0.0	33.4	33.3	0.0	33.3
Past due						
Less than 30 days	6.5	0.0	6.5	8.5	0.0	8.5
30–60 days	2.0	-0.1	2.0	1.5	-0.1	1.4
61–90 days	3.1	-0.1	3.0	0.9	-0.2	0.8
More than 90 days	11.5	-0.4	11.1	11.1	-0.5	10.6
Total	**56.6**	**-0.6**	**56.0**	**55.3**	**-0.8**	**54.6**

Pihlajalinna

Quarterly information

EUR million	Q1/23	Q4/22	Q3/22	Q2/22	Q1/22	Q4/21	Q3/21	Q2/21
INCOME STATEMENT								
Revenue	187.8	188.4	165.2	173.7	163.1	154.7	140.6	142.5
EBITDA	23.0	11.5	18.1	15.6	9.3	14.5	18.2	15.0
EBITDA, %	12.3	6.1	10.9	9.0	5.7	9.4	12.9	10.5
Adjusted* EBITDA	21.4	12.0	18.9	16.9	16.5	14.9	19.3	15.9
Adjusted* EBITDA, %	11.4	6.4	11.4	9.7	10.1	9.6	13.8	11.1
Depreciation and amortisation	-12.5	-12.0	-11.5	-11.5	-10.5	-9.0	-8.8	-8.5
Operating profit (EBIT)	10.5	-0.6	6.6	4.1	-1.2	5.6	9.4	6.5
Operating profit, %	5.6	-0.3	4.0	2.4	-0.7	3.6	6.7	4.6
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA)	11.0	2.2	9.4	7.3	7.8	7.8	12.3	8.9
Adjusted EBITA, %	5.9	1.2	5.7	4.2	4.8	5.1	8.7	6.3
Financial income	0.1	0.4	0.1	0.1	0.1	0.1	0.1	0.1
Financial expenses	-3.1	-2.7	-2.1	-1.7	-1.6	-1.1	-0.9	-1.0
Profit before taxes (EBT)	7.5	-2.8	4.5	2.5	-2.7	4.6	8.5	5.6
Income tax	-1.6	1.7	-0.5	-0.3	5.2	-1.2	-1.7	-1.1
Profit for the period	5.9	-1.1	4.0	2.1	2.6	3.3	6.8	4.5
Share of the result for the period attributable to owners of the parent company	5.5	-0.7	3.3	1.7	5.3	4.3	7.0	4.3
Share of the result for the period attributable to non-controlling interests	0.4	-0.4	0.8	0.4	-2.7	-0.9	-0.1	0.2
EPS	0.24	-0.03	0.14	0.08	0.23	0.19	0.31	0.19
Average number of personnel (FTE)	5,216	5,167	5,092	5,061	4,819	4,746	4,731	4,665
Change in personnel during the quarter	49	75	31	243	73	15	66	221

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 – Hybrid bond interest expenses net of tax / 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	1–3/2023	1–3/2022	2022
Return on equity (ROE), %			
Profit for period (rolling 12 months)/	11.0	17.2	7.7
Equity (average) x 100	135.2	123.6	122.7
Return on equity (ROE), %	**8.1**	**13.9**	**6.2**

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	1–3/2023	1–3/2022	2022
Return on capital employed (ROCE), %			
Profit before taxes (rolling 12 months) +	11.7	16.1	1.5
Financial expenses (rolling 12 months)	9.6	4.6	8.1
/	21.3	20.7	9.6
Total statement of financial position at beginning of period -	661.6	457.1	457.1
non-interest-bearing liabilities at beginning of period	138.9	135.5	135.5
	522.8	321.6	321.6
Total statement of financial position at end of period -	664.7	609.9	661.6
Non-interest-bearing liabilities at end of period	137.3	119.2	138.9
	527.4	490.7	522.8
Average x 100	525.1	406.1	422.2
Return on capital employed (ROCE), %	**4.1**	**5.1**	**2.3**

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	1–3/2023	1–3/2022	2022
Equity ratio, %			
Equity/	147.5	124.7	122.9
Total statement of financial position -	664.7	609.9	661.6
Advances received x 100	0.0	1.5	0.0
Equity ratio, %	**22.2**	**20.5**	**18.6**

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	1–3/2023	1–3/2022	2022
Gearing, %			
Interest-bearing financial liabilities –	379.8	366.0	398.8
Cash and cash equivalents/	15.1	6.5	13.1
Equity x 100	147.5	124.7	122.9
Gearing, %	**247.2**	**288.4**	**313.8**

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	1–3/2023	1–3/2022	2022
Net debt/adjusted EBITDA, rolling 12 months			
Interest-bearing financial liabilities -	379.8	366.0	398.8
Cash and cash equivalents	15.1	6.5	13.1
Net debt/	364.7	359.6	385.7
Adjusted EBITDA (rolling 12 months)	69.2	66.6	64.2
Net debt/adjusted EBITDA, rolling 12 months	**5.3**	**5.4**	**6.0**

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	1–3/2023	1–3/2022	2022
Interest-bearing net debt, excluding IFRS 16, %			
Interest-bearing financial liabilities excluding IFRS 16 –	168.9	156.4	191.7
Cash and cash equivalents/	15.1	6.5	13.1
Equity x 100	153.1	127.7	127.6
Interest-bearing net debt, excluding IFRS 16, %	**100.5**	**117.4**	**139.95**

EUR million	1–3/2023	1–3/2022	2022
Net debt/adjusted EBITDA, rolling 12 months, excluding IFRS 16			
Interest-bearing financial liabilities excluding IFRS 16 -	168.9	156.4	191.7
Cash and cash equivalents	15.1	6.5	13.1
Net debt/	153.8	149.9	178.6
Adjusted EBITDA excluding IFRS 16 (rolling 12 months)	43.7	49.1	40.2
Net debt/adjusted EBITDA, rolling 12 months, excluding IFRS 16	**3.5**	**3.1**	**4.4**

EUR million	1–3/2023	1–3/2022	2022
EBITDA and Adjusted EBITDA			
Profit for period	5.9	2.6	7.7
Income tax	-1.6	5.2	6.1
Financial expenses	-3.1	-1.6	-8.1
Financial income	0.1	0.1	0.7
Depreciation, amortisation and impairment	-12.5	-10.5	-45.5
EBITDA	**23.0**	**9.3**	**54.4**
IFRS 3 costs	0.5	0.8	1.3
Entries related to the IFRIC Agenda Decision concerning cloud computing arrangements	0.4	0.0	0.3
Other EBITDA adjustments	-2.5	6.4	8.2
Total EBITDA adjustments	**-1.6**	**7.2**	**9.8**
Adjusted EBITDA	**21.4**	**16.5**	**64.2**

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	1–3/2023	1–3/2022	2022
EBITDA, %			
EBITDA/	23.0	9.3	54.4
Revenue x 100	187.8	163.1	690.5
EBITDA, %	**12.3**	**5.7**	**7.9**

EUR million	1–3/2023	1–3/2022	2022
Adjusted EBITDA, %			
Adjusted EBITDA/	21.4	16.5	64.2
Revenue x 100	187.8	163.1	690.5
Adjusted EBITDA, %	**11.4**	**10.1**	**9.3**

EUR million	1–3/2023	1–3/2022	2022
Operating profit (EBIT) and Adjusted operating profit (EBIT)			
Profit for the period	5.9	2.6	7.7
Income tax	-1.6	5.2	6.1
Financial expenses	-3.1	-1.6	-8.1
Financial income	0.1	0.1	0.7
Operating profit (EBIT)	**10.5**	**-1.2**	**8.9**
Entries related to the IFRIC Agenda Decision concerning cloud computing arrangements (reversal of amortisation) -	-0.1	-0.1	-0.4
Other adjustments to amortisation and impairment	**0.2**		0.3
Total EBITDA adjustments	-1.6	7.2	9.8
Total operating profit (EBIT) adjustments	**-1.6**	**7.1**	**9.7**
Adjusted operating profit (EBIT)	**8.9**	**5.9**	**18.6**
PPA amortisation	0.5	0.7	2.7
Amortisation and impairment of other intangible assets	1.5	1.2	5.4
Entries related to the IFRIC Agenda Decision concerning cloud computing arrangements (reversal of amortisation)	0.1	0.1	0.4
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA)	**11.0**	**7.8**	**26.7**

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	1–3/2023	1–3/2022	2022
Operating profit (EBIT), %			
Operating profit/	10.5	-1.2	8.9
Revenue x 100	187.8	163.1	690.5
Operating profit (EBIT), %	**5.6**	**-0.7**	**1.3**

EUR million	1–3/2023	1–3/2022	2022
Adjusted operating profit (EBIT), %			
Adjusted operating profit/	8.9	5.9	18.6
Revenue x 100	187.8	163.1	690.5
Adjusted operating profit (EBIT), %	**4.8**	**3.6**	**2.7**

EUR million	1–3/2023	1–3/2022	2022
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA), %			
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA) /	11.0	7.8	26.7
Revenue x 100	187.8	163.1	690.5
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA), %	**5.9**	**4.8**	**3.9**

EUR million	1–3/2023	1–3/2022	2022
Cash flow after investments			
Net cash flow from operating activities	18.9	15.5	64.9
Net cash flow from investing activities	-5.8	-43.7	-83.4
Cash flow after investments	**13.1**	**-28.2**	**-18.6**

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	1–3/2023	1–3/2022	2022
Profit before taxes			
Profit for period	5.9	2.6	7.7
Income tax	-1.6	5.2	6.1
Profit before taxes	**7.5**	**-2.7**	**1.5**

EUR million	1–3/2023	1–3/2022	2022
Gross investments			
Property, plant and equipment at end of period	62.8	52.8	58.7
Right-of-use assets at end of period	201.2	204.6	197.7
Other intangible assets at end of period	22.6	20.1	22.8
Goodwill at end of period	250.9	229.9	251.0
Depreciation, amortisation and impairment for period are added	12.5	10.5	45.5
-			
Property, plant and equipment at beginning of period	58.7	45.0	45.0
Right-of-use assets at beginning of the period	197.7	95.6	95.6
Other intangible assets at beginning of period	22.8	14.9	14.9
Goodwill at beginning of period	251.0	188.9	188.9
Proceeds from the sale of property, plant and equipment during period	-1.9	-2.6	-3.0
Gross investments	**21.7**	**176.1**	**234.5**

EUR million	1–3/2023	1–3/2022	2022
Organic revenue growth, %			
Revenue for period -	187.8	163.1	690.5
Revenue from M&A transactions during period	11.2	15.9	77.8
Revenue for previous period	163.1	139.9	577.8
Organic revenue growth /	**13.5**	**7.3**	**34.9**
Revenue for previous period x 100	163.1	139.9	577.8
Organic revenue growth, %	**8.3**	**5.2**	**6.0**
Revenue growth due to M&A transactions, %	**6.9**	**11.3**	**13.5**
Revenue growth	24.7	23.2	112.7
Revenue growth, %	15.1	16.6	19.5

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

Description of adjustment items applied to adjusted EBITDA and adjusted operating profit

EUR million	1–3/2023 3 months	1–3/2022 3 months	2022
EBITDA	**23.0**	**9.3**	**54.4**
Adjustments to EBITDA			
Dismissal-related expenses	1.0		0.5
Costs arising from integration of acquired businesses	0.1	0.7	1.9
District Court's ruling, Jämsän Terveys		4.7	4.7
Gains on the sale of businesses	-3.5		
IFRS 3 costs	0.5	0.8	1.3
Entries related to the IFRIC Agenda Decision concerning cloud computing arrangements	0.4	0.0	0.3
Other items with cash flow effect		0.4	0.4
Other items with no cash flow effect		0.7	0.7
Adjustments to EBITDA in total	**-1.6**	**7.2**	**9.8**
Adjusted EBITDA	**21.4**	**16.5**	**64.2**
Depreciation, amortisation and impairment	-12.5	-10.5	-45.5
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
Closure of operating locations	0.2		0.3
Adjustments to depreciation, amortisation and impairment in total	**0.0**	**-0.1**	**-0.1**
Adjustments to operating profit in total	**-1.6**	**7.1**	**9.7**
Adjusted operating profit (EBIT)	**8.9**	**5.9**	**18.6**
PPA amortisation	0.5	0.7	2.7
Other amortisation and impairment of intangible assets	1.4	1.1	5.0
Entries related to the IFRIC Agenda Decision concerning cloud computing arrangements (reversal of amortisation)	0.1	0.1	0.4
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA)	**11.0**	**7.8**	**26.7**
Operating profit (EBIT)	**10.5**	**-1.2**	**8.9**

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

EUR million	1–3/2023 3 months	1–3/2022 3 months	2022
Revenue		2.4	2.4
Other operating income	-3.5		
Materials and services	0.1	2.7	2.7
Employee benefit expenses	0.9	0.5	1.3
Other operating expenses	0.9	1.6	3.5
EBITDA adjustment items total	**-1.6**	**7.2**	**9.8**
Depreciation, amortisation and impairment	0.0	-0.1	-0.1
Operating profit adjustment items total	**-1.6**	**7.1**	**9.7**