Pihlajalinna

ANNUAL REPORT 2023

Contents

Pihlajalinna's Annual Report 2023 comprises five parts: The Year 2023, Sustainability, Remuneration, Corporate Governance and Finances.

In the section The Year 2023, Pihlajalinna provides information on its business operations and strategy, as well as the operating environment and the trends that shape it. The company's value creation model is also described in the same section. The Sustainability section describes Pihlajalinna's sustainability management and sustainability programme, and discusses the company's sustainability themes. We report on sustainability in accordance with the Global Reporting Initiative (GRI) standard. This report complies with the Core requirements of the GRI Standards.

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

Pihlajalinna's Annual Report 2023 is published in Finnish and English. Unless otherwise stated, figures in parentheses refer to the corresponding period last year.

The Year 2023

Sustainability

Remuneration

Corporate Governance

Finances

Pihlajalinna in brief

Pihlajalinna is one of the leading private providers of social and healthcare services in Finland. The Group offers comprehensive and high-quality private clinic and hospital services, as well as occupational healthcare and insurance cooperation services. In addition, to the wellbeing services counties Pihlajalinna offers social and healthcare service production models, in which the cooperation between the public and private sectors guarantees effective services for citizens.

Pihlajalinna's customers include private individuals, corporations, insurance companies and wellbeing services counties, for whom the company provides a wide range of local, remote and digital services. Pihlajalinna's shares are listed on Nasdaq Helsinki Ltd.

Pihlajalinna contributes to health and wellbeing in Finland, and we pay all of our taxes to Finland. The Group employs more than 9,000 healthcare professionals. The head office is located in Tampere.

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

REVENUE 2023
EUR 720.0 million

Customer satisfaction
79.1
for appointments
on the Net Promoter Score scale

ADJUSTED EBITA
EUR 37.8 million

6,880
employees
2,208
practitioners

160
operating locations

Over 1.8
million visits at receptions of private healthcare services

CEO's review

Towards an even more impactful Pihlajalinna

Pihlajalinna's year 2023 was in many ways eventful. In spite of occasional challenges, we succeeded operationally well – the company's revenue and comparable profitability reached record levels. Additionally, sickness-related absences reduced and the satisfaction of both personnel and customers increased. This was made possible by focusing determinedly throughout the year on strengthening the company's profitability and financial position, focusing on our customers and quality as well as developing the company's leadership and the well-being of the personnel.

Organic growth exceeded 10 per cent. Revenue increased to EUR 720 million, driven particularly by the insurance company customer group, driven by our hospital operations, and occupational healthcare services, where we take care of more than 280,000 customers. The growth in supply was driven by the successful recruitment of professionals which are extremely important to us – at the end of 2023, we had over 2,200 practitioners. Pihlajalinna's adjusted EBITA developed consistently in 2023, reaching an all-time high of EUR 37.8 (26.7) million. Profitability was strengthened by the company's purposeful measures – we were successful in increasing supply and achieved economies of scale, and we managed to compensate for the general rise in costs by making price adjustments to our services and implementing many efficiency improvement measures.

The healthcare services market is growing, especially with the increasing demand for private health insurance and the growth in the need for public healthcare services. Cost and wage inflation in the sector is expected to continue. We have a busy but promising year ahead of us. We expect our revenue and adjusted EBITA to increase compared to 2023.

Impactful and responsible

We have over 9,000 professionals at Pihlajalinna. Having a high level of wellbeing and job satisfaction among our professionals is essential for our ability to promote health and wellbeing in an impactful and responsible manner. In 2023, we continued our purposeful efforts to promote the work ability and job satisfaction of our personnel, and we focused on work ability management, among other things. Our goal-driven efforts have enabled us to increase job satisfaction and reduce sickness-related absences.

The objective of our operations is to produce high-quality, impactful and responsible social and healthcare services. The prevention of illness is in everyone's interest and helps reduce costs in the long term. With this in mind, we invest in services that can help reduce prolonged sickness-related absences, permanent disability and costs to the employer and society. Prevention is emphasised particularly in occupational healthcare, in which area the share of preventive work was 66 (61) per cent among physicians.

It is important to us that when accidents or illnesses occur, we can offer quick and high-quality chains of care. This includes also accidents that require surgery. The aim is to restore the patient's functional capacity as quickly as possible. Indeed, access to treatment within the target time is an important indicator of the effectiveness of surgical operations and chain of care for accident insurance customers. In 2023, 81 per cent of customers were offered access to surgical treatment within the target time of five days.

Taking care of the environment is also important to us in Pihlajalinna. Most of the greenhouse gas emissions from our operations are generated in the supply chain, but we want to do our best for the environment in our everyday work. Our operations are guided by the ISO 14001 environmental management certificate that was awarded to us in 2023.

In 2023, Pihlajalinna continued to systematically develop its sustainability programme and prepare for CSRD-compliant sustainability reporting in the future. We conducted Pihlajalinna's first double materiality assessment (DMA) in autumn 2023. This enables the company to progress towards CSRD-compliant reporting. We will continue our sustainability efforts as part of further increasing the impact of our operations.

I want to take this opportunity to thank everyone at Pihlajalinna for the past year – you made our success possible. I also wish to thank all our customers for their trust in our services. I believe that consistency, purposefulness, and collaborative efforts will lead us in the right direction and make us even more impactful for all of Pihlajalinna's stakeholders.

TUOMAS HYYRYLÄINEN
CEO

Key events 2023

2 Jan 2023 Pihlajalinna announces it will sell its dental care business to Hammas Hohde

8 Mar 2023 Pihlajalinna streamlines its operations to strengthen its financial position

9 Mar 2023 Pihlajalinna has a change of CEO. Pihlajalinna's founder and Chairman of the Board of Directors Mikko Wirén is appointed as the interim CEO.

20 Mar 2023 Pihlajalinna issues EUR 20 million hybrid capital securities

27 Mar 2023 Pihlajalinna expands its services in Lappeenranta and moves to new premises

29 Mar 2023 Pihlajalinna expands its surgical operations at Pihlajalinna Tilkka in the Uusimaa region

31 Mar 2023 The number of practitioners at Pihlajalinna passes the milestone of 2,000 experts

3 Apr 2023 Pihlajalinna expands its operations in Kainuu and opens a new location in Kajaani

28 Apr 2023 Tuomas Hyyryläinen is appointed as the CEO of Pihlajalinna. He took up his post on 1 September 2023.

2 May 2023 Pihlajalinna Dextra Munkkivuori expands and revamps its operations

4 May 2023 Pihlajalinna launches Kotiklinikka, which makes remote consultations more efficient

12 Jun 2023 Pihlajalinna opens family community home Mathilda in Jyväskylä

18 Sep 2023 Pihlajalinna deepens its partnership with Fennia

30 Oct 2023 Pihlajalinna is granted an ISO 14001 environmental management certificate

14 Nov 2023 Pihlajalinna is selected as the occupational health service provider for the wellbeing services county of Päijät-Häme

Strategy

Pihlajalinna's strategic priorities are the renewal of services for private customers and the cooperation in social and healthcare services. The company continuously develops the service experience for consumers and serves its customers across an increasingly broad range of channels. Pihlajalinna has an impactful presence where the company's customers need its services.

In 2023, the wellbeing services county reform significantly changed the operating environment in social and healthcare services. Strong experience of working as a partner to public healthcare helps Pihlajalinna solve the future challenges of society in cooperation with the wellbeing services counties.

The strategy is executed by enhancing digitalisation and the customer, employee and practitioner experience, and by focusing on the development of operational performance, impactful and sustainable business, and data orientation.

Operating ethically, sustainably and responsibly is key to achieving the strategic objectives. Progress towards the objectives is measured by, for example, financial indicators, the increase in the number of appointment times and procedures available to customers, and Net Promoter Scores (NPS), which measure the customer experience and employee experience.

PIHLAJALINNA´S STRATEGY 2021–2025

Operating environment and trends

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 industry's growth drivers, such as the ageing of the population and people's interest in health, have increased the demand for and consumption of health services. The demand for private medical expenses insurance is also growing, with 1.3 million people already covered by private medical expenses insurance in Finland. At the same time, labour shortages pose challenges to the sector.

As demand has increased, the operating environment for social and healthcare services has remained challenging, and the wellbeing services counties began their operations at the beginning of 2023 in fairly demanding circumstances.

Consumers' expectations concerning their own finances and the Finnish economy improved slightly year-on-year in 2023, but confidence remained low at the end of the year. In December 2023, the balance figure of the consumer confidence indicator stood at -13.3 (-18.5). The rise in prices, tighter monetary policy and weak export demand are weighing down the growth of the Finnish economy. According to the Bank of Finland, inflation slowed during the year, partly due a decrease in energy prices, which supported household purchasing power. However, the increase in interest rates will dampen the growth of both investments and private consumption in the coming years, and the Ministry of Finance projects economic growth of only 0.7 per cent in 2024, followed by 2.0 per cent in 2025.

The care backlog in non-urgent specialised care continues to grow. According to the National Institute for Health and Welfare, nearly 178,000 patients were waiting for access to non-urgent specialised care at the end of August 2023. Of these, 17 per cent had been waiting for access to care for over six months.

Labour shortage

The availability of social and healthcare professionals is one of the biggest issues facing Finnish society. Labour shortages make access to treatment slower, and the recruitment of competent professionals is challenging.

The Ministry of Finance estimates that as many as 200,000 new workers will be needed in the industry over the period 2020–2035. The 2023 labour forecast for the municipal sector estimated that the shortage of social and healthcare service professionals in the public sector alone was nearly 38,000 persons in 2022.

The implementation of the 0.7 staffing ratio for 24-hour elderly care was postponed from 2023 to 2028 due to the new Government Programme. The Government Programme also notes that the staffing ratio should be met by utilising all employee groups approved by law and leveraging the opportunities presented by technology.

The competition for skilled professionals is intensifying, and there are challenges related to the attractiveness of the industry and the retention of professionals. The significance of successful recruitment and effective cooperation with educational institutions, for example, continues to grow. Service digitalisation and remote services respond to the increased shortage of professionals.

Digitalisation

The COVID-19 pandemic accelerated the digitalisation of healthcare, and the rapid development of technological solutions is continuing in the industry. While digital services transform healthcare, they simultaneously increase customer expectations and demands concerning services.

Health technology is becoming part of daily life, remote consultations are becoming common and people can measure their health in many ways. The use of artificial intelligence in predicting and diagnosing illnesses is increasingly becoming a part of the care chain. The wellbeing services counties expect private service providers to offer agile and scalable service models and digital solutions.

Overall wellbeing and health

Interest in one’s health and wellbeing continues to grow, especially among younger people. Health awareness has increased and people have higher expectations of living long lives in good health. People’s wealth is reflected in investments in their own health. More and more people have the ability to take out voluntary medical expenses insurance, for example.

The health of Finns has improved on the whole, but there are large differences between socioeconomic groups. At the same time, the reduced level of physical activity among people in general and lifestyle changes are reflected in lifestyle diseases, which increase as the population ages.

Mental health problems have increased in recent years, particularly among young people. Half of all disability pensions are now granted for reasons related to mental health. Employers’ social responsibility is growing in significance, and cooperation with occupational healthcare is increasingly important. Efforts are made to curb costs to society by focusing on maintaining health and wellbeing and the prevention of problems.

The ageing of the population

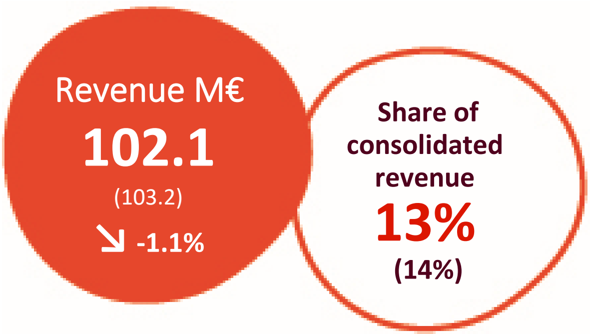
The ageing of the population has a significant impact on the dependency ratio in Finland and the increasing prevalence of age-related illnesses. The number of people over 65 years of age is growing relative to other age groups. According to population projections by Statistics Finland, by the end of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

The population is becoming concentrated in growth centres. In municipalities with a negative net migration rate and in rural areas, the population is ageing and there are increasing challenges related to the availability of healthcare services. Healthcare costs are also increased by the rapid ageing of the population, which presents challenges to the wellbeing services counties.

Customer groups

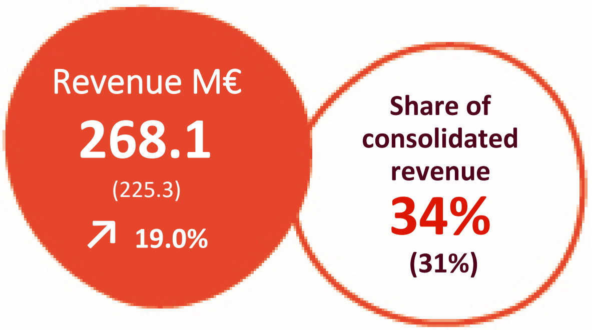
Pihlajalinna's customer groups are corporate customers, private customers and public sector customers. In 2023, Pihlajalinna had over 1.8 million customer visits in private healthcare. The customer volumes of private clinics increased by 8 per cent year-on-year. Revenue growth was driven particularly by the insurance company customer group and occupational healthcare services.

Private customers



Private customers are private individuals who pay for services themselves. Pihlajalinna serves private customers at its private clinics and hospitals, for example. Private customers' direct reimbursement by insurance companies is increasing, which reduces the revenue figure presented for private customers.

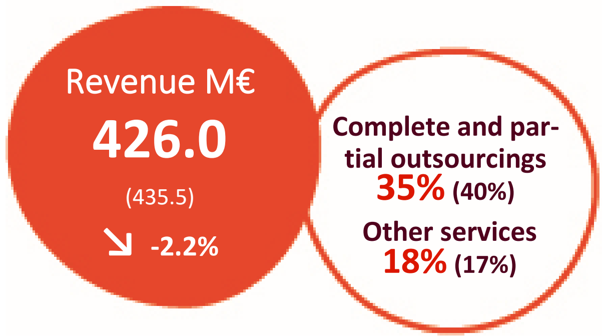
Corporate customers



The corporate customer group consists of Pihlajalinna's occupational health customers, insurance company customers and other corporate contract customers. In 2023, we served over 200,000 individual customers in occupational healthcare in the corporate customer group.

Revenue from insurance customers amounted to EUR 135.8 million, representing a year-on-year increase of 38 per cent. The company further deepened the co-operation with its insurance company partners in 2023. For example, the company signed a significant agreement with Fennia, under which Pihlajalinna will remain the main partner for Fennia for the period 2024–2027.

Public sector



The public sector customer group consists of public sector organisations in Finland, such as wellbeing services counties, parishes and the public administration when purchasing social and healthcare outsourcing services, residential services, occupational health services and staffing services. The number of people within the scope of the Group's occupational healthcare services is approximately 80,000 in the public sector customers group.

Revenue from the complete and partial outsourcing agreements with the public sector totalled EUR 283.2 million in 2023, representing a decrease of 7 per cent.

Services

Pihlajalinna develops services that promote people's health. It is easier, more inexpensive and more straightforward for the body to keep a person healthy rather than cure someone who is already ill. Pihljalinna wants to be an impactful and responsible industry pioneer that provides rapid and easy care where and when customers need it. This objective is pursued by developing services for private customers, occupational healthcare customers, insurance customers and the public sector alike.

Private clinic services

Pihlajalinna's network covers all of Finland's largest regional centres, where the company offers not only general practitioner services but also comprehensive services for specialised care, as well as surgical services and emergency and on-call services.

It is important that persons in need of help can get treatment quickly and that they are offered the smoothest possible care path, regardless of the channel through which they sought treatment. The aim is to ensure that the customer is quickly directed to the right expert and that they are taken care of throughout the care path.

For customer companies in occupational healthcare, Pihlajalinna offers services that help maintain working capacity with the aim of supporting organisations and helping them achieve their goals. It is important to analyse the needs of the customer company and align the goals of the cooperation so that each company and its personnel can be supported in the best possible way.

In addition to general practitioners, specialists and nurses' appointments and emergency and on-call services, the services offered to private and occupational healthcare customers include, among other things, physiotherapy and diverse examinations.

Examinations

Pihlajalinna offers a comprehensive range of laboratory and eye examinations. The medical imaging services require a high level of competence from the experts, and the company uses modern equipment to carry out magnetic, X-ray and ultrasound examinations, for example.

The services also include various clinical physiology examinations focused on human physiological functions.

Medical procedures and surgeries

Pihlajalinna's hospitals provide quick and convenient access to treatment without queues. Procedures can be scheduled according to each customer's needs.

At Pihlajalinna's hospitals, customers are treated by the leading experts in Finland. The surgeons are experienced specialists in their respective fields, and the other medical personnel are highly competent and well-versed in surgical operations.

Remote services

In 2023, 40 (38) per cent of all uses of our services were carried out through Pihlajalinna's remote channels. Operating with a multi-channel approach is one of the company's strengths, and the company invests in developing the availability of services. Remote services equalise regional differences and enable cost-effective service production.

In 2023, remote services were developed further with regard to the Pihlajalinna Health App, remote consultations and the digital care path, and by launching digital health centres and Kotiklinikka remote examination devices.

Public services

Pihlajalinna's public services produce diverse and impactful social and healthcare services for the wellbeing services counties that started their operations at the beginning of 2023. Studies have shown that the most cost-efficient and resource-efficient approach to producing social and healthcare services in the public sector is the multi-producer model, which involves service production and provision through cooperation between the public sector, the private sector and non-profit organisations. Pihlajalinna provides wellbeing services counties with diverse and innovative social and healthcare services in basic and specialised care, for example.

The company also produces diverse service models for the public sector, also taking into account their scalability on various digital platforms. The digital health centres launched by joint ventures between Pihlajalinna and wellbeing services counties to provide more effective services for municipal residents are a good example of these developments.

The responsible doctor service developed by Pihlajalinna is used to produce medical services for the elderly and people with mental health conditions in their residential environment in collaboration with the wellbeing services counties. The model has won awards for the good results it has produced. In 2023, it served approximately 16,000 elderly people in 15 wellbeing services counties. The average NPS (Net Promoter Score) for the service was 93 in 2023.

Stakeholder engagement

Pihlajalinna is a significant operator in social and healthcare services in Finland. The company has a number of stakeholders whose expectations it aims to meet through open dialogue. Meaningful engagement with different stakeholders is ensured by using diverse channels of communication.

The company's key stakeholders include private-sector and public-sector customers, consumers and corporate customers. Highly competent and professional personnel are Pihlajalinna's most important resource in responding to the expectations of other stakeholders.

Operating in the social services and healthcare sector requires close engagement with the public authorities, decision-makers and industry organisations. In addition, as a listed company, Pihlajalinna creates value for its shareholders and engages in open dialogue with the media.

Stakeholder	Stakeholder expectations	Pihlajalinna's response to the expectations	Channels of engagement
Consumers	High-quality and effective treatment and care Competent and professional healthcare personnel Diverse remote services Smooth appointment booking and service use Reliability and data protection	Professional and competent personnel Adequate resources and personnel training Continuous development of remote channels and the recruitment of experts Multi-channel development of appointment booking services Extensive and up-to-date data processing and information security	Interaction in services Customer service channels Customer satisfaction surveys Feedback channels Social media
Customer organisations: wellbeing services counties, HUS, insurance companies and businesses	Clearly defined objectives and effective flow of information in cooperation Addressing data protection and information security	Professional and competent personnel Adequate resources Personnel training Continuous development of remote channels and the recruitment of experts Providing solutions to the changes in the operating environment	Personal interaction Customer service channels Customer satisfaction surveys
Personnel and practitioners	Clear job descriptions and targets Target-setting and development discussions Development of leadership and supervisory work Enhancing collaboration in statutory employer-employee cooperation and the management of occupational wellbeing Occupational safety and health and the threat of violence Equality in all operations	Target-setting and development discussions at the individual and team level Development of supervisory work Active communication and dialogue Personnel, non-discrimination and equality policies	Personal interaction Personnel information sessions Target-setting and development discussions Training and coaching Intranet Pihlis Pulse personnel survey Statutory employer-employee cooperation, occupational safety and health meetings and the Together forum Pihlajalinna Academy training portal Anonymous whistleblowing channel
Shareholders	The company's strategic management and increasing shareholder value Transparent and regular communication Sharing of understanding regarding changes in the operating environment and their impacts Risk management Development of sustainability and reporting on sustainability	Good leadership, a consistent strategy and a goal-driven roadmap Active communication on the development and progress of business and strategy Extensive scanning and analysis of the operating environment A comprehensive risk management process Adequate resource allocation for sustainability efforts	Quarterly and annual reporting Quarterly earnings webcasts Stock exchange releases and website IR meetings General Meeting
The public authorities and decision-makers	Compliance Active dialogue Effective transfer of information	Active dialogue and responding to requirements Cooperation in meetings and events	Cooperation The authorities' channels Reporting and disclosures
Media	Reliability, openness, timeliness and speed of communication	Quick responses to media requests Assigning the right experts to interviews Active dialogue	Open communication and timely disclosures Active cooperation in response to media requests
Industry organisations	Smooth cooperation that promotes the industry's common goals, in which the company shares its expertise	Open dialogue on topics related to the industry Sharing current themes and ideas	Website Responding to requests for information Personal meetings

Impact and value creation

Basis for

Human resources
- Committed and competent personnel
- Equal and encouraging work culture
- High-quality customer service

Immaterial resources
- Service solutions
- Stakeholder engagement
- Partnerships
- Reputation and brand
- Innovations
- Digital solutions
- ISO 9001 quality certification
- ISO 14001 environmental certification

Financial resources
- Invested capital
- Capital expenditure

Fixed resources
- Properties
- Procedure and reception facilities
- Medical devices
- Diagnostic equipment
- IT tools

Purchased resources
- IT software and services
- Products and services
- Work clothes
- Washing and cleaning agents

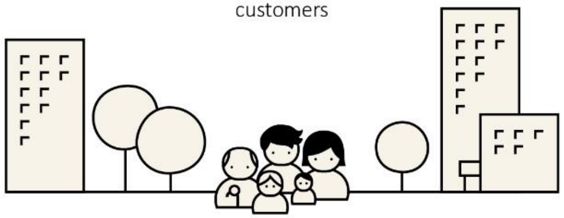
Natural resources
- Energy (electricity and heat)
- Water
- Raw materials in used products

Activities

Effectively present

Our services
General practitioner and medical specialist services
Specialised care
Hospital services
Occupational health services
Imaging
Laboratory services
Sports clinic
Outsourcing services
Care and special housing services
Mental health services
Remote services

Customer groups
Private customers
Corporate customers
Public sector
Insurance company customers



MISSION
We help people to live a better life

VISION
We bring wellbeing to everyone

VALUES
Ethics, energy, open-mindedness

Impacts

Customers
- Health and good life
- Reliable and accessible healthcare services
- Diverse service solutions
- Timely and correct care
- Strong information security and patient safety
- Corporate customers: healthy personnel, fast acces to care, shorter sickness absences

Personnel
- Meaningful work
- A valued and stable workplace
- Diverse and equal work culture
- Wages and salaries
- Competence development
- Diverse career opportunities
- Employee benefits that promote health and wellbeing

Shareholders and partners
- Stable investment
- Profitable growth
- Payment of divident
- Value creation for producers of goods and services
- A major and reputable social and healthcare service operator

Society
- Prevention of illnesses
- Reducing the costs of specialised care
- Wellbeing of the nation
- Access to healthcare services (regional equality)
- Support for the functioning of the public sector
- Support for the sustainable development goals
- Tax payment

Environment
- Efficient use of resources
- Minimising emissions
- Minimising waste generation and proper recycling

Pihlajalinna

Sustainability 2023

Sustainability management

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

Pihlajalinna's sustainability actions have a clear administrative structure, and they are carried out in accordance with guidelines and policies drawn up on the basis of international principles. Pihlajalinna's reporting on the year 2023 complies with the GRI standards. Each year, the company also completes Global Compact reporting and the EcoVadis sustainability assessment, for which Pihlajalinna received a bronze medal in 2023.

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

Pihlajalinna is committed to observing the following international principles:

- The Universal Declaration of Human Rights
- International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work
- The UN Guiding Principles on Business and Human Rights
- The OECD Guidelines for Multinational Enterprises

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

- The UN Global Compact initiative and principles
- Pihlajalinna's Code of Conduct
- Supplier Code of Conduct
- Governance practices

- Quality policy
- Risk management policy
- Patient safety policy
- Equality policy
- Environmental policy
- Data protection and information security policy and guidelines
- Disclosure policy and the disclosure rules of Nasdaq Helsinki
- Marketing guidelines for healthcare services

Pihlajalinna engages in active dialogue with various industry participants. Pihlajalinna is a member of the Finnish Association of Private Care Providers (HALI), which represents companies and organisations that produce social and healthcare services. HALI is a member of the Confederation of Finnish Industries EK. Pihlajalinna is also a member of the industry association Lääkäripalveluyhdistys LPY.

By managing responsibility clearly, Pihlajalinna wants to ensure that the company operates in a responsible and ethical manner and promotes and enables the achievement of the targets set for responsibility.

Responsibility and sustainability issues are divided into decision-making and implementation responsibilities as follows:

Sustainability programme

Pihlajalinna's mission is to help people to live a better life. The company has a significant role in society in the provision of social and healthcare services to citizens as a partner to the wellbeing services counties, as well as through occupational healthcare, insurance cooperation and services provided to consumer customers. In practice, this means taking responsibility for health and wellbeing by providing a comprehensive range of services across Finland with a focus on quality, impact, sustainability and patient safety.

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

The highest priorities in the company's operations are to look after the health of customers and ensure the wellbeing at work and equal treatment of the personnel. At Pihlajalinna high standard of expertise among healthcare professionals and continuously ensuring their competence constitutes the foundation of high-quality and impactful work with customers. The company adheres to the laws and regulations governing its industry but, each day, aims much higher than the regulatory requirements.

Pihlajalinna respects internationally recognised human rights and non-discrimination. Pihlajalinna does not condone discrimination based on employees', practitioners', customers' or partners' origin, nationality, religious beliefs, ethnicity, gender, age or any other such factor.

Pihlajalinna also wants to actively contribute to the wellbeing of the environment. Pihlajalinna's operations create direct environmental impacts particularly in the form of energy consumption and waste. The company also generates indirect greenhouse gas emissions through its supply chain. Pihlajalinna's day-to-day environmental efforts are guided by the company's commitment to ISO 14001 environmental certification.

Double materiality assessment (DMA)

Pihlajalinna's sustainability efforts are based on the identification of materiality. In 2023, Pihlajalinna began to integrate the requirements of the EU's Corporate Sustainability Reporting Directive (CSRD) into its reporting so that the company will be able to report in compliance with the CSRD starting from the disclosures on the year 2024. A double materiality assessment (DMA) was carried out in 2023, which involved extensive stakeholder engagement and a comprehensive expert assessment and workshop analysis of impacts, risks and opportunities (IRO). More information on IRO is provided in the Board of Directors' report in the sections on non-financial information starting from page 74.

Sustainability programme

Pihlajalinna continued to focus on three sustainability themes in 2023: responsibility for health and wellbeing, responsibility for personnel, and sustainable business.

The key indicators specified for the themes are access to surgical treatment within the target time, the share of preventive work in occupational healthcare, and customer and employee satisfaction. The themes and results are described in more detail in the following table on sustainability themes, targets and results. Some of the indicators are also incorporated into the company's long-term loan agreement signed in 2022.

Sustainability theme	Sustainability target	Target and results in 2023	Target for 2024
Responsibility for health and wellbeing	Access to surgical treatment within the target time	The target set for access to surgical treatment was for 67.5% of customers to have access to treatment within the target time of five (5) days. The target was achieved, with the outcome being 81.1 per cent.	The target for 2024 is at least 70%.
	Customer satisfaction (NPS)	Pihlajalinna aims for an excellent customer experience in all service channels and at all business locations. The NPS for Pihlajalinna's appointments was 79.1 (77.1) and the NPS for complete and partial outsourcing arrangements was 74.7 (72.3).	The overall NPS target for 2025 is 80.
	The share of preventive activities by occupational health physicians in occupational healthcare	Preventive work increases employee wellbeing and reduces employers' costs. Pihlajalinna's minimum target for the share of preventive work in the invoicing of occupational health physicians was 60% in 2023, and the outcome was 65.8%.	The target for 2024 is at least 60%.
Responsibility for personnel	Employee Satisfaction (eNPS)	The personnel are the company's most valuable asset, and monitoring and responding to job satisfaction are strategic objectives. The eNPS target for the Group as a whole in 2023 was +8. This was not achieved, with the result being +4. The Group's eNPS excluding complete and partial outsourcing arrangements was +10.	The target for 2024 is +12.
	Reducing sickness-related absences among the personnel	In calculating the sickness-related absence rate, Pihlajalinna adopted the general calculation model specified by the Confederation of Finnish Industries in 2023. Pihlajalinna's sickness-related absence rate in 2023 was 5.7% (6.7%).	The aim is to further reduce sickness-related absences.
Sustainable business	Ethical operating practices	Pihlajalinna has Code of Conduct training that is mandatory for all Pihlajalinna professionals. The revised Code of Conduct training was released in October and it had been completed by approximately 30% of the personnel by the end of 2023.	The target is for the digital training to be completed by a minimum of 70% of the personnel by the end of 2024.
	Environmental responsibility	In 2023, the accuracy of Pihlajalinna's carbon footprint calculation was improved by including all Pihlajalinna operating locations based on either actual or estimated consumption. Pihlajalinna's private healthcare services have operated in accordance with a certified ISO 14001 environmental management system since autumn 2023.	In 2024, Pihlajalinna will continue to increase the specificity of its environmental calculations and target-setting to cover not only Scope 1 and Scope 2 emissions but also Scope 3 emissions. The company will also create a climate roadmap for itself. Pihlajalinna's goal is to be carbon-neutral in terms of its own direct (Scope 1) and indirect (Scope 2) greenhouse gases by 2030.

Responsibility for health and wellbeing

Clinical quality and impact are among Pihlajalinna's key strategic priorities. In 2023, the company continued a development effort that covers all of the organisation's functions and is aimed at enhancing dialogue with customers and other stakeholders, considering the views of the various parts of the organisation and creating systematic structures and a culture of performance measurement to support the management, development and monitoring of quality and impact.

Quality policy guides operations

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

Pihlajalinna's occupational healthcare and private clinics, hospitals and residential services use an ISO 9001:2015 certified quality management system. The following Pihlajalinna joint ventures have an ISO 9001 quality management certificate: Jämsän Terveys' treatment departments 2 and 4 and surgery department 5, Kuusiolinna Terveys' acute care and rehabilitation departments, Kolmostien Terveys' inpatient department and Mäntänvuoren Terveys' inpatient department.

Pihlajalinna's private healthcare services, i.e. private clinics, occupational health services and hospitals, are certified under the ISO 14001 environmental management standard.

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

The objective is a quick chain of care

The objective of surgical operations is to implement a quick and high-quality chain of care, enabling quick recovery and rehabilitation for the customer and the restoration of work ability following an accident or surgery. Access to treatment, the duration of sickness-related absences and rehabilitation are monitored by means of various tools, which makes it possible to address deviations and comprehensively develop the operations.

Access to treatment within the target time is an important indicator of the effectiveness of surgical operations and chain of care for accident insurance customers. The target time for access to surgical procedures for customers who are unable to work is five (5) weekdays. In 2023, the target was for 67.5% of customers to have access to surgical procedures within the target time. The target was achieved, with the outcome being 81.1 per cent. The target for 2025 is at least 70 per cent.

Pihlajalinna produces outsourcing services in public healthcare, where access to care is measured by the T3 indicator, which is the number of days until the third available appointment. Pihlajalinna's average T3 indicators in public healthcare in 2023 were nine days for non-urgent appointments with a physician and five days for non-urgent appointments with a nurse.

Investments in preventive healthcare

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

Focusing on prevention is a key objective, especially in occupational healthcare. This is monitored on a vocational group-specific basis. In 2023, Pihlajalinna's minimum target for the share of preventive work was 62.5 per cent of total invoicing for occupational health physicians and 75 per cent for occupational health nurses. In 2023, preventive work accounted for 65.8 (61.1) per cent of invoicing for occupational healthcare physicians and 81.4 (79.7) per cent of invoicing for occupational healthcare nurses.

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

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

Patient safety

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

Pihlajalinna's quality management is based on comprehensive self-monitoring, external quality assurance and comprehensive monitoring by the authorities. A self-monitoring programme in accordance with the Act on the Supervision of Social Welfare and Health Care Services was drawn up in 2023. The self-monitoring programme and plans are reviewed and updated annually or as necessary when there are changes in the activities or the operating environment. Self-monitoring makes it possible to quickly identify and address risks related to quality or safety. All business locations have a reporting system for the personnel to report any observed deviations. Customers report any problems they observe either directly to the personnel or through Pihlajalinna's feedback systems.

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

With regard to patient safety in surgical operations, Pihlajalinna monitors the number of treatment-related deep infections in the surgical area, among other things. The number of surgery-related infections has remained low. In 2023, the rate was 0.22 per cent (2022: 0.11 per cent).

Remote services increase equality

In 2023, 40 per cent (38) of Pihlajalinna's appointments took place remotely.

Remote services can help increase equality among customers by improving the availability of services even in areas where in-person services or a given expert service is not available. Remote services also reduce the time spent by customers on the use of services as well as the related costs, while also decreasing adverse environmental impacts such as transport emissions.

The company explore opportunities to utilise remote services in promoting public health and preventing diseases together with the wellbeing services counties, targeting services particularly at patient groups that generate high costs.

Patient safety indicators

	2023	2022	2021
Complaints	8.77*	6*	16.34*
Official complaints	0.32*	0.22*	0.39*
Patient injury notifications	0.27*	0.11*	0.08*
Patient injuries	0*	0.06*	0*
Total number of appointments	1,847,253	1,783,662	1,267,010

The number of appointments, complaints, official complaints and patient injury notifications include Pihlajalinna's private healthcare services, i.e. private clinics, private hospitals, occupational health centres and dental clinics (which were divested on 1 April 2023) and cases that occurred in those services and which the Group was informed of. The Group does not necessarily receive information about complaints, official complaints or patient injury notifications related to the operations of practitioners working at Pihlajalinna's clinics.

* The number is reported per 100,000 appointments.

In late 2023, Pihlajalinna launched digital health centres in our joint ventures to provide faster and more convenient access to care for the customers. The digital health centres use chat and video appointments. They can be used to facilitate the treatment of conditions such as common cold symptoms and skin symptoms, as well as the renewal of prescriptions and the issuance of sick leave certificates.

The company also developed its remote services in 2023 by launching remote examination devices for home use by customers. The devices enable basic examinations in the customer's home. Physicians use the data transmitted by the devices to make a diagnosis during a remote consultation. The remote examination equipment is also used in nurse-assisted remote consultations with general practitioners and pediatricians. This speeds up the process of receiving a diagnosis and a prescription.

The eDiabetes service is a digital treatment model that provides diabetes patients with access to care from an experienced diabetes doctor and diabetes nurse on a location-independent basis. The nationwide Weight Management Clinic also operates on a remote basis, with specialists, weight management nurses and other experts helping the customers with comprehensive weight management.

Measuring customer satisfaction

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

The NPS for Pihlajalinna's appointments in 2023 was 79.1 (77.1). The NPS for complete and partial outsourcing arrangements was 74.7 (72.3). The combined NPS for all of the Group's functions was 69. The target set for 2023 was 76, and this was not achieved. For 2025, Pihlajalinna has set a target of 80.

As part of the development of quality and impact, the company launched a pilot project on the renewal of the measurement and reporting of the customer experience in 2023. The scope of the project will be expanded in 2024 to cover the entire Group. The aim is to incorporate the measurement of the health benefits obtained by the customer into the measurement of the customer experience, and to make more effective use of feedback in the management of operations and teams.

PIHLAJALINNA'S NPS FOR APPOINTMENTS	NPS FOR COMPLETE AND PARTIAL OUTSOURCING ARRANGEMENTS
79.1	**74.7**
(2022: 77.1)	(2022: 72.6)

Collecting customer feedback

The systematic collection and processing of customer feedback enables Pihlajalinna to develop services, processes and operating models according to the customers' wishes.

Customer feedback is requested by text message from all customer groups after they use the services of the contact centre, a private clinic or a hospital. Customers can also submit open feedback to Pihlajalinna in connection with feedback surveys. Feedback is also collected by means of a customer feedback form on the website, a feedback survey incorporated into the online booking tool and feedback devices in treatment and service situations.

Feedback on customer service situations is also collected from the personnel in accordance with Pihlajalinna's feedback process. The responses to open-ended feedback questions highlight the significant role played by nursing staff in creating a positive customer experience.

Pihlajalinna's customers particularly appreciate the highly competent and professional personnel, warm-hearted service and customer engagement. The customers have also characterised Pihlajalinna's chat services and remote consultations as quick and convenient ways to use the company's services.

The most critical feedback received in 2023 concerned delays and occasional congestion in telephone services. Themes related to booking appointments and using services on other people's behalf were highlighted as development areas in the customer feedback.

Responsibility for personnel

Pihlajalinna wants to be the first choice among professionals in its industry. The company's goal is an excellent personnel experience. This is pursued by purposefully developing work community skills, leadership and occupational safety, treating experts equally and fairly and by creating a framework for personal and professional growth.

In 2023, Pihlajalinna had 6,880 (7,016) employees and 2,208 (1,812) practitioners. All of Pihlajalinna's operations take place in Finland. The employee exit turnover was 18.7 (18.9) per cent.

The number of new employment relationships in 2023 was 1,041, of whom 87 per cent were women and 13 per cent were men.

Personnel by professional group, incl. practitioners	2023	2022	2021
Physicians and dentists	2,508	2,437	2,033
Healthcare personnel	4,680	4,546	3,794
Other personnel	1,300	1,262	1,053
Administration	593	574	479
Executive management	7	9	7
Total	**9,088**	**8,828**	**7,367**
Gender, %	**2023**	**2022**	**2021**
Female	86	86	86
Male	14	14	14
Employment relationship, %	**2023**	**2022**	**2021**
Full-time	56	49	49
Part-time	19	18	17
On-call personnel	25	33	34
Employment contract, %	**2023**	**2022**	**2021**
Valid indefinitely	77	74	72
Fixed-term	23	26	28
Parental leave	**2023**	**2022**	**2021**
Number of personnel who took parental leave	406	455	411
women, %	85	87	88
men, %	15	13	12

The figures are reported as of the end of the reporting period, 31 December 2023.

Age distribution of the personnel, years	2023	2022	2021
<20	1.7%	1.8%	1.8%
20–29	13.7%	14.0%	15.7%
30–39	24.7%	24.1%	23.5%
40–49	24.5%	23.3%	22.2%
50–59	21.4%	21.6%	21.3%
60<	14.0%	15.1%	15.4%

Employee engagement and feedback

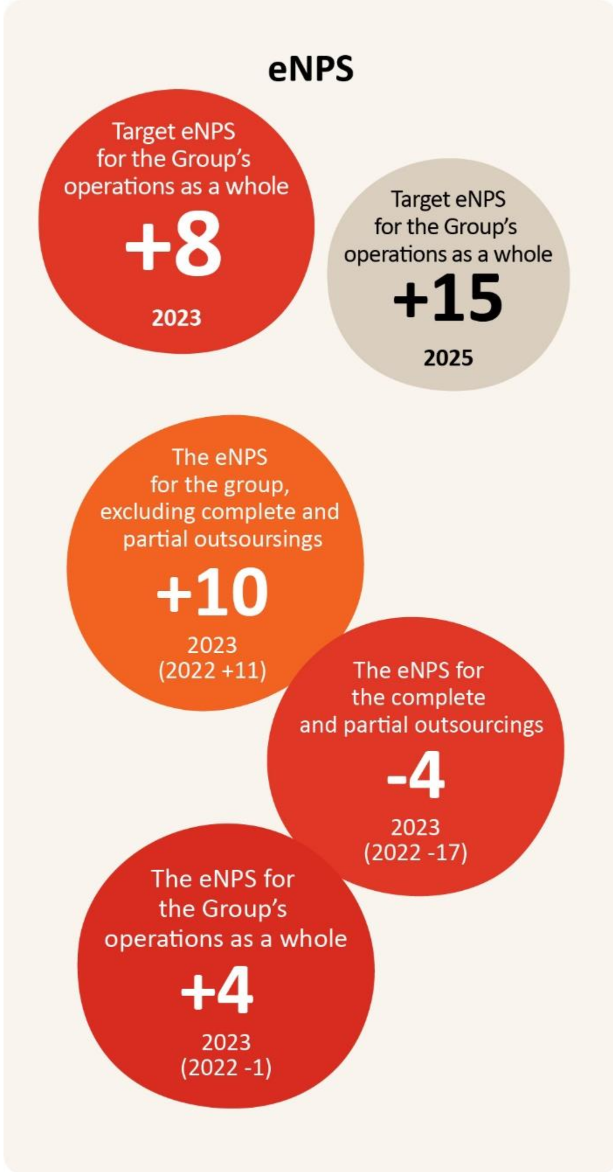
Pihlajalinna actively listens to its personnel. Pihlis Pulse personnel survey is carried out twice a year. It is an important tool for assessing, monitoring and developing the state and practices of the work community, as well as for dialogue between personnel and supervisors.

The Pihlis Pulse survey consists of five different indicators, which are perceived work ability, supervisory work, opportunities for influence, team cohesion and competence. The last Pihlis Pulse survey of the year was carried out in October 2023. The response rate was 53 per cent (41%).

Pihlis Pulse also measures the employee experience by means of the eNPS (Employee Net Promoter Score) indicator. The eNPS index can range from +100 to -100. The views and opinions of the company among practitioners who work for Pihlajalinna are monitored by means of a Pulse survey aimed at practitioners as well as regular practitioner evenings.

In 2023, the response rate of Pihlis Pulse increased 12 percentage units.

Pihlis Pulse survey	2023	2022	2021
Response rate	53%	41%	42%
Perceived work ability (scale 1–10)	8.0	8.0	8.1
Supervisory work (scale 1–5)	3.9	3.7	3.8
Opportunities for influence (1–5)	3.9	3.8	3.9
Cohesion (1–5)	3.5	3.5	3.5
Competence (1–5)	3.7	3.6	3.7



High-quality supervisory work

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

Supervisors are provided with regular induction training on topics such as processes and tools related to supervisory work. In addition, national and regional briefings are organised for supervisors on a monthly basis.

In addition to induction training, more experienced supervisors are provided with in-depth coaching focused on themes such as coaching-oriented management, managing wellbeing at work, business competence, business intelligence and customer experience management.

Supervisors are offered training activities in cooperation with educational institutions, leading to a vocational qualification in first-level management. In 2023, a total of 13 Pihlajalinna supervisors started studies aimed at the qualification. Supervisors have the opportunity to receive feedback on their performance through annual target-setting and development discussions and the Pihlis Pulse survey, for example.

A strong focus on recruitment

Pihlajalinna continued to develop recruitment in 2023. The aim is to enhance the recruitment process and focus on a positive candidate experience.

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

The company engages in open and transparent recruitment where the selection criteria for each job are predetermined on the basis of the skills required for the position and/or the working conditions, for example. Supervisors communicate with candidates transparently throughout the recruitment process.

Aiming for a diverse work community

The aim of Pihlajalinna's recruitment activities is to create a diverse work community where candidates of all backgrounds and ages are considered, and candidates are not excluded on inappropriate grounds when it comes to inviting candidates for interviews, for example.

Pihlajalinna also engages in international recruitment, which helps to increase the diversity of the work community. To ensure a smooth process and high quality, international recruitment is carried out as Pihlajalinna's own activity in partnership with a subcontractor. In 2022, Pihlajalinna was joined by a pilot group of 20 employees from the Philippines. The integration, induction training and wellbeing at work of these employees were promoted in 2023. The experiences gained from the pilot project will support the continued development of international recruitment.

The following principles are observed at Pihlajalinna to promote equality:

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

Induction training

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

Induction training is carried out under a Group-wide induction training plan and in accordance with the unit-specific induction training process, where applicable.

Competence development

Developing the competence of the personnel ensures that the Group has highly competent, professional and motivated personnel.

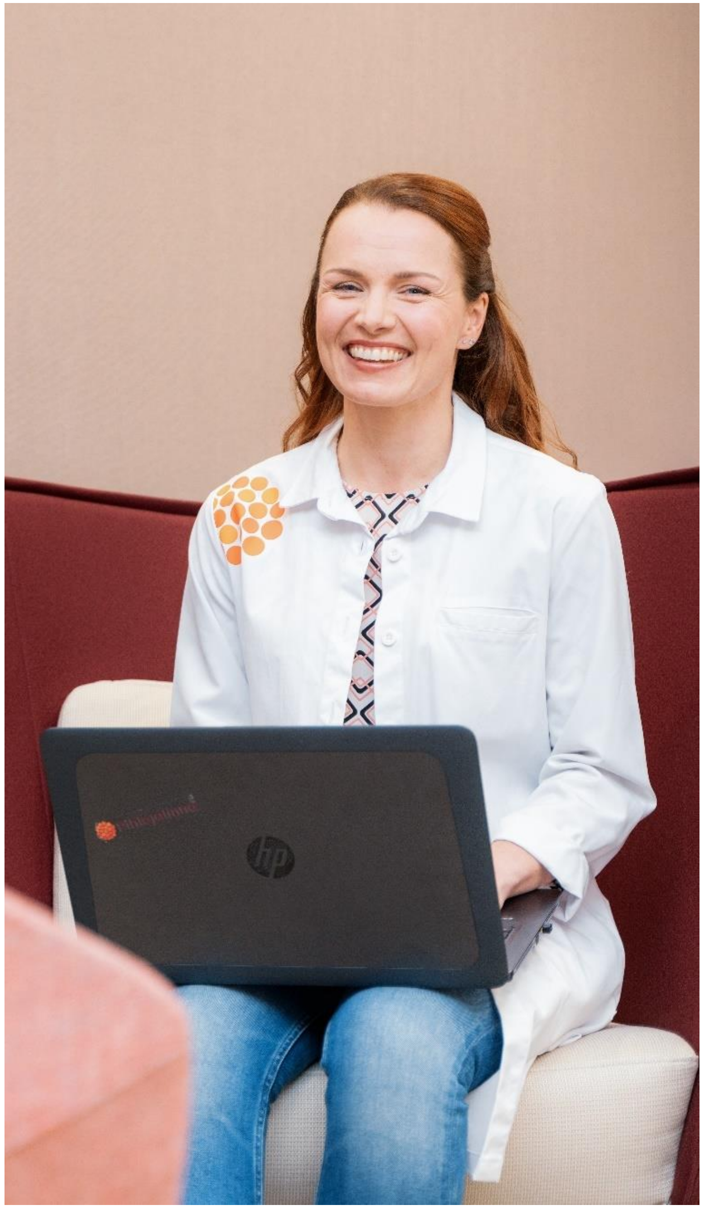
All Pihlajalinna employees are within the scope of annual development discussions. Target-setting and development discussions involve two parts: a team discussion and a one-to-one discussion between the supervisor and the employee. The aim of the target-setting and development discussions is to motivate teams and strengthen their collective understanding of the team's purpose and objectives as well as its development areas and related actions. The discussions are also aimed at ensuring that each team member has the necessary competencies and conditions for success at their work.

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

The competence and professional development of employees is also ensured through various internal and external training activities and by supporting the professional specialisation and degree studies of the employees.

The total amount of training for the personnel came to 77,104 training hours in 2023, which corresponds to 11.2 hours per employee. In addition, Pihlajalinna offers comprehensive training to physicians, both those employed directly by the company and practitioners. A total of 4,638 professionals participated in Pihlajalinna's training activities in 2023.

The total amount of training for the personnel came to 77,104 hours in 2023.



Pihlajalinna Academy

Pihlajalinna Academy is an online learning environment for personnel that offers frequently updated content to support competence development, such as general and professional induction training, remote lectures on medical and occupational healthcare-related topics, systems training and independent study material on many topics. Pihlajalinna Academy is also a key tool in the development and training of supervisors at Pihlajalinna.

Confidential cooperation

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

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

Employee wellbeing

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

The most typical work-related illnesses and causes of sickness-related absences in the healthcare sector include mental health-related absences caused by the psychological stress associated with the work, musculoskeletal disorders caused by the physical demands of the work, and various infections that are easily transmitted in treatment situations. Work-related illnesses and the causes of absences are monitored at the annual level at Pihlajalinna.

Pihlajalinna employees are covered by statutory occupational health services as well as occupational accident and occupational disease insurance. The practitioners who work for Pihlajalinna are responsible for their own occupational health services and insurance. Employees who work at least 15 hours per month are provided with occupational health services that exceed the statutory requirements.

Pihlajalinna also provides wellbeing, sports and cultural benefits (ePassi Flex) for permanent, part-time and fixed-term employees when their employment relationship has lasted for at least six consecutive months. Pihlajalinna also provides all of its employees with comprehensive leisure-time accident insurance that covers all sporting activities and has no ceiling on compensation.

Occupational healthcare at Pihlajalinna is based on prevention and an active caring model, which involves training supervisors to address work ability issues among employees as early as possible. There is an emphasis on seamless cooperation between employees, occupational healthcare and supervisors. Employees have the opportunity to influence the development of the occupational health services through various feedback channels, occupational safety and health delegates, shop stewards and Together representatives.

In the active care model, early support is complemented by return-to-work planning and targeted support, with occupational healthcare, the employee and the supervisor together assessing the risks of the job and seeking appropriate solutions. When there are changes to employment relationships, the Group provides guidance, training and support to the employees concerned. In managing wellbeing at work and supporting work ability, Pihlajalinna engages in active cooperation with pension and insurance companies. Pihlajalinna's employees also have access to the Mielen huoli mental health service, which provides them with low-threshold discussion-based assistance with mental health issues.

Work ability as a strategic priority

At Pihlajalinna, the goal is to help everyone to maintain their wellbeing and succeed in their work. To this end, the development of work ability is one of the most important themes for the current strategy period.

In 2023, Pihlajalinna continued the unique cooperation project to develop work ability management with pension insurance companies. One of the main objectives of the project is to reduce sickness-related absences and create a competitive advantage in business when the model is later offered to the company's customers as well. The project aims to turn wellbeing at work into a competitive advantage for attracting the leading professionals in the industry to work at Pihlajalinna. The project also involves developing Pihlajalinna's employer image and reputation as a responsible healthcare operator that is there for people.

The purposeful efforts to improve the wellbeing at work of the personnel is reflected in reduced sickness-related absences, among other outcomes. Pihlajalinna's sickness-related absence rate in 2023 was 5.7 (6.7) per cent.

An application to support work ability was introduced throughout the Group in April 2023. It supports supervisors and guides them to operate in accordance with Pihlajalinna's active caring model. Supervisors were also provided support in the form of targeted training, active caring workshops and induction training.

Occupational safety management

At Pihlajalinna, impacts related to occupational safety are managed as part of the management of business operations. The occupational safety and health organisation implements cooperation between the employer and the employees. Its scope covers all of the Group's operations.

The management of occupational safety and health risks aims to identify work-related hazards, risks and adverse effects, and to systematically eliminate or reduce these. Working environment risks are assessed by Pihlajalinna's units at least once a year and whenever significant changes happen.

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

Occupational safety and health action plan

Pihlajalinna has an occupational safety and health action plan based on risk assessments. The action plan sets out responsibilities and performance indicators

related to occupational safety. Drafting an occupational safety and health action plan is a legal requirement, and the action plan is reviewed annually. Pihlajalinna's local occupational safety and health committees also prepare local action plans and set local occupational safety targets.

Effective from the beginning of 2024, the Group's occupational safety and health committee are replaced by cooperation groups. In private healthcare services, the cooperation groups are appointed for each business area. In public healthcare services, they are appointed on a company-specific basis. The groups have quarterly meetings and their members include a representative of the Group's regional management, the regional shop steward, the occupational safety and health delegate, the occupational safety and health manager and the personnel manager.

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

Occupational safety training, such as exercises on first-hand fire extinguishing and evacuation, is organised at the operating locations based on the local assessment of needs.

Everyone is responsible for making occupational safety observations

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

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

Accidents and accident frequency, employees

	2023	2022	2021
Number of accidents	330	300	369
Accident frequency (per million hours worked)	26	34	49
Serious occupational accidents*, number	2	6	8
Serious occupational accidents, frequency	0.2	0.7	1.0
Occupational accidents resulting in serious injury**, number	0	2	0
Occupational accidents resulting in serious injury, frequency	0	0.24	0
Incapacity for work, number of days	318	845	1,578

The frequency figures are calculated per 1,000,000 hours worked. The figures presented in the table reflect accidents at work that involved persons who are in an employment relationship with Pihlajalinna (excluding Forever fitness centres). Commuting accidents between the home and the workplace are not included in the figures.
* Accidents at work resulting in an absence of at least 30 days.
** Accidents resulting in serious injury are accidents from which the employee cannot recover to the state of health they had before the accident, or from which the employee does not recover, or is not expected to recover, to the state of health they had before the accident within six months of the accident.
The comparison figures for the previous years have been restated due to the processing times of accidents becoming prolonged and the data changing as a result.

Sustainable business

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

Ethics and integrity

Pihlajalinna complies with the currently valid legislation, the orders issued by authorities and the rules and regulations concerning listed companies. In addition, the principles followed in the company's operations are recorded in the Code of Conduct. Code of Conduct training is part of Pihlajalinna's induction training programme, and the training became mandatory for all Pihlajalinna professionals in 2023. Pihlajalinna also requires its suppliers and partners to comply with the principles set out in the Code of Conduct.

Pihlajalinna is committed to the UN Sustainable Development Goals and the principles of responsible business of the Global Compact. Pihlajalinna's sustainability efforts are based on a double materiality assessment carried out in 2023 in accordance with the Corporate Sustainability Reporting Directive (CSRD). Stakeholders were also engaged in the double materiality assessment.

In addition to Global Compact reporting and the GRI Standards, Pihlajalinna's sustainability efforts are also assessed in accordance with the EcoVadis sustainability assessment. In 2023, Pihlajalinna achieved a bronze medal in the EcoVadis rating, which assesses companies' sustainability from the perspective of environmental issues, labour and human rights, ethical operating practices and sustainable sourcing.

Pihlajalinna has a confidential whistleblowing channel that can be used for reporting misconduct and problems in the organisation. Pihlajalinna's legal affairs

Incidents and legal action

	2023	2022	2021
Incidents of corruption or bribery	0	0	0
Violations of competition law	0	0	0
Fines or penalties for violating environmental regulations	0	0	0
Fines or penalties for violating laws and regulations pertaining to social and economic responsibility	0	0	0
Whistleblower notifications	10	4	-*
Investigation completed	9	4	-*
Incidents leading to subsequent action	2	0	-*

*The whistleblowing channel was introduced in Pihlajalinna Group in July 2022.

unit is responsible for processing whistleblower notifications, and the company's Board of Directors monitors messages submitted via the whistleblowing channel and the actions taken in response to them.

A total of 10 notifications were submitted via the whistleblowing channel in 2023 (4 in 2022). The investigation has been completed for nine of these cases. The whistleblower notifications concerned incidents related to the equal treatment of employees, bullying and the Code of Conduct. Two of the investigated incidents led to further action.

Equality and respect for human rights

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

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

The Group Management Team is responsible for ensuring that the personnel is familiar with the Code of Conduct, and supervisors are responsible for adherence to the Code of Conduct. New supervisors are familiarised with the Code of Conduct by means of induction training designed specifically for them. The online Code of Conduct training that was launched in late 2023 and is mandatory for all of the company's personnel was completed by approximately 30 per cent of Pihlajalinna professionals by the end of the year.

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

Remuneration

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

More information on the remuneration of the management and the Board of Directors is provided in the company's Remuneration Report on page 47.

In accordance with Pihlajalinna's equality and non-discrimination plan, a balanced gender distribution is sought in the composition of the Board of Directors and the Management Team. In 2023, the Board of Directors had a total of eight members, four of whom were women and four were men. Of the seven members of Pihlajalinna's Management Team, two were women and five were men.

Transparent communications and responsible marketing

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

Information security and data protection

At Pihlajalinna, the purpose of data protection and the management of information security is to ensure the secure processing of all of Pihlajalinna's data, particularly patient and personal data, as well as the protection of the privacy of patients, customers and the company's personnel. The management of information security aims to ensure the integrity, confidentiality and availability of information.

Management of information security and data protection

The Group takes account of the continuously increasing information security requirements that come with the development of digital services. Pihlajalinna strengthens its information security by applying up-to-date and secure methods, such as strong authentication practices, external monitoring and continuous testing. Data protection and information security are an important part of Pihlajalinna's ISO 9001 certified quality management system.

The Group's information security principles are documented in Pihlajalinna's data protection and information security policy. Pihlajalinna's principles, guidelines and policies concerning information security are reviewed and updated regularly, at least once a year. Pihlajalinna regularly organises information security

training and provides guidelines on information security to its personnel to ensure that Pihlajalinna's information security policies are appropriately implemented in practice.

Pihlajalinna's suppliers and external service providers are required to commit to compliance with the information security standards set by Pihlajalinna. Audits are conducted on suppliers. When external services change, information security requirements are reviewed. The sustainability of suppliers is taken into consideration in tendering.

Pihlajalinna has an external Security Operations Centre (SOC) that ensures the continuous monitoring of the organisation's information security and identifies and responds to information security threats and deviations in order to protect the organisation's information systems and data.

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

Information security management

Pihlajalinna's information security organisation was revamped in 2023 when the Chief Information Officer appointed a Chief Information Security Officer (CISO). Pihlajalinna has an Information Security Officer who reports to the CISO. The person in charge of data protection is Pihlajalinna's Chief Medical Officer, who appoints the company's data protection officers. Pihlajalinna has also enhanced cooperation between the data protection and information security teams by establishing a cross-functional cooperation group that meets regularly.

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

Risk management and threat analysis

Data protection and information security risks are assessed and analysed regularly and always in the new system specification phase and in connection with significant changes. Pihlajalinna also takes advantage of general and targeted threat analyses to guide resource allocation and activities related to information security.

Information security breaches and incidents

Pihlajalinna's target for data protection is zero successful attempts to gain unauthorised access. This target was achieved in 2023.

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

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

In total, the SOC reviews 10,000–35,000 information security incidents each month. Of these, the SOC escalated 89 to Pihlajalinna in 2023. Of these information security incidents, one was assigned a critical priority and two were assigned a high priority. There were no significant information security incidents in 2023 that led to loss of data or financial damage.

Information security development measures and investments

Pihlajalinna continuously develops its cyber security. One of the most significant development in 2023 was an organisational renewal and establishing a separate information security unit. Pihlajalinna also upgraded the information security of terminal devices by deploying the advanced EDR/XDR product family supplied by the market leader. A vulnerability management suite was also deployed from the same product family to achieve strategic benefits in the form of simple integrations. Going forward, Pihlajalinna will also have mandatory information security training for everyone.

Pihlajalinna has adopted a cyber security development plan for 2023–2027. The plan guides the development of information security and the monitoring of the targets set for information security in the coming years.

Impactful healthcare services for wellbeing services counties

Sustainable social and healthcare services are efficient. Wellbeing services counties' limited resources and collective tax revenue need to be converted into the highest possible amount of wellbeing. In Pihlajalinna's outsourcing services, the focus of preventive, quick and effective primary care is on keeping people as healthy as possible, which reduces the need for specialised care.

Pihlajalinna has a joint venture providing public social and healthcare services in three wellbeing services counties. Pihlajalinna's joint ventures are Jämsän Terveys in Central Finland, Kolmostien Terveys and Mäntänvuoren Terveys in Pirkanmaa, and Kuusiolinna Terveys in Ostrobothnia. In addition, Pihlajalinna has the Jokilaakson Terveys Oy hospital, which provides public specialised care in Jämsä.

Pihlajalinna has a comprehensive network of hospitals and private clinics, along with extensive diagnostic services. They give us the ability to help with the quick reduction of the critical backlog of healthcare queues in Finland. We have demonstrated that the multi-provider model enables cost-effective and impactful healthcare services for customers. For example, the results of the IMPRO research project by the Academy of Finland (1/2023) reveal that the complete outsourcing model of Pihlajalinna has had a significant effect on the total costs of healthcare services.

Tax responsibility and tax footprint

The most significant direct economic impacts on society arise from procurements, the remuneration of personnel and practitioners, and the payment of taxes and tax-like charges. A large proportion of the goods and services purchased by Pihlajalinna are sourced from Finnish companies.

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

Pihlajalinna pays all of its taxes to Finland

The Group pays all of its taxes to Finland. The Group's operations have significant local economic impacts, especially in the regions where Pihlajalinna has complete outsourcing agreements for public services.

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

Pihlajalinna's tax footprint illustrates the taxes and tax-like charges paid to society for the Group's operations. In 2023, Pihlajalinna's operations generated a total of EUR 164.8 (155.7) million in payments to society. A large proportion of Pihlajalinna's tax footprint consists of salary taxes, namely withholding taxes and employer's contributions. In addition, Pihlajalinna paid a total of EUR 129.8 (112.5) million in fees to practitioners, for which the practitioners themselves pay the taxes involved. Corporate income tax represented EUR 0.5 (2.0) million of Pihlajalinna's tax footprint.

Tax footprint

EUR million	2023	2022	2021
Direct tax payable for the period			
Income tax (business income tax)	0.5	2.0	5.3
Employer's pension contributions	45.5	42.0	35.3
Social security contributions	4.0	3.3	3.2
Employer's unemployment insurance contributions	4.6	4.3	3.5
Contribution to accident insurance and group life insurance	1.2	1.6	1.6
Employer contributions, total	55.3	51.2	43.7
Property taxes	0.1	0.2	0.1
Transfer taxes	0.0	0.9	0.4
Direct tax payable for the period, total	**56.0**	**54.2**	**49.5**
Value added taxes, estimate	**20.5**	**20.1**	**14.3**
Tax for the period			
Withholding taxes	62.4	57.8	48.0
Employee pension contributions	20.0	18.4	15.8
Employee unemployment insurance contributions	3.9	3.6	2.9
Payroll tax, total	86.3	79.8	66.7
Net value-added tax	2.1	1.5	1.4
Total tax for the period	**88.3**	**81.3**	**68.1**
Tax footprint	**164.8**	**155.7**	**131.9**

Economic value added and distributed

EUR 1,000	2023	2022	2021
Economic value added			
Revenue and other operating income	727,620	695,517	581,102
Distribution of economic value added			
Operating cost	363,052	372,701	280,990
Employee wages and benefits	324,781	298,365	256,991
Payments to providers of capital	7,450	16,839	8,897
Payments to government	392	6,921	2,596
Donations	298	289	196
Economic value retained for the development of operations	**31,647**	**402**	**31,432**

Procurement principles

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

In 2023, Pihlajalinna continued to integrate the Code of Conduct into all contractual partner models in the context of procurement activities as well as rental properties. Partners are required to monitor the guidelines and report any related changes to Pihlajalinna. Failure to rectify any deficiencies may lead to the termination of cooperation.

Of Pihlajalinna's 45 largest framework agreement partners, 30 have signed Pihlajalinna's Supplier Code of Conduct. The aim is to extend the coverage to all framework agreements by the end of 2024.

Pihlajalinna audited IT suppliers in the context of the Group's ISO 27002 quality certificate in 2023. The company also has the right to conduct audits under all of its procurement agreements. No audits other than IT audits were conducted in 2023. Sustainability has also been incorporated into tendering criteria to ensure that candidates in competitive tendering are always evaluated against sustainability criteria as well.

Human rights compliance in the supply chain is of vital importance. Unethical practices such as forced labour and the use of child labour are prohibited in all stages of the supply chain. Suppliers must respect the human rights defined in the United Nations (UN) Declaration on Human Rights and the standards on workers' rights defined in the International Labour Organization's (ILO) Conventions.

Pihlajalinna and its partners ensure product and patient safety by using only professionally qualified personnel, for example. The Group's IT security guidelines also cover subcontractors. Pihlajalinna and its cooperation network oppose corruption and bribery and are committed to the principles of fair competition.

Pihlajalinna's suppliers must comply with the applicable environmental legislation and standards in their operations. Suppliers must identify the key environmental impacts of their operations at all of their business locations, prevent the adverse environmental impacts of their operations and develop environmental impact management to reduce and minimise negative environmental impacts. Suppliers must also strive to reduce the greenhouse gas emissions arising from their operations. Pihlajalinna has an ISO 14001 environmental management certificate for its operations. The certificate was granted in autumn 2023.

The procurement units in each business area provide annual training to procurement personnel on the principles of sustainable procurement.

The procurement principles cover five topics:

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

Environmental responsibility

Responsibility for the environment is part of Pihlajalinna's sustainable business. Responsibility for the environment concerns all of Pihlajalinna Group's activities, and its significance has increased as the service network has been expanded to cover all of Finland. The Group's systematic environmental management is based on the ISO 14001 framework. As part of Pihlajalinna's management system, it establishes consistent operating practices for the systematic development of environmental efforts.

In 2023, Pihlajalinna continued the development and implementation of measures that increase the wellbeing of the environment in accordance with the principles of continuous improvement. Pihlajalinna's private healthcare services, meaning private clinics, hospitals and occupational health services, have operated in accordance with a certified ISO 14001 environmental management system since autumn 2023. The ISO 9001:2015 quality management system certificate covers private clinic services, laboratory services, customer service and service housing with 24-hour assistance. As part of environmental management, Pihlajalinna's updated environmental policy lays out the approach to environmental issues and guides decision-making.

As a rule, the Group's environmental impacts consist of the consumption of materials, waste, energy and the movement of personnel. Direct environmental impacts arise particularly in the form of energy consumption and waste. In addition, most of the company's greenhouse gas emissions arise indirectly in the supply chain.

The most significant energy savings in 2023 were achieved by making the use of rental premises more efficient. These measures included the consolidation of operating locations, discontinuing the use of unnecessary premises and adjusting the opening hours of operating locations. Efficiency in the use of premises at the operating locations has also been improved by enhancing operational control. In selecting operating locations, Pihlajalinna aims to primarily use the existing building stock and upgrade the technical building systems to improve energy efficiency where necessary. LED lighting is introduced whenever alterations to lighting are made. Pihlajalinna has started the process of optimising the heating and other technical systems of operating theatres. The measures will be put into practice in the second quarter of 2024.

Pihlajalinna will further develop location-specific calculations in 2024 and assess the opportunities of using artificial intelligence in the compilation of consumption reports. The aim is to improve the availability of comparable performance indicators in the monitoring of savings and efficiency improvement measures.

Development of climate efforts

The calculation of emissions is part of Pihlajalinna's purposeful environmental responsibility efforts, the aim of which is to provide a transparent overview of the significant greenhouse gas emissions of the company's value chain. The calculation enables Pihlajalinna to target its actions at the largest sources of emissions and consequently engage in impactful climate action.

Pihlajalinna's first carbon footprint calculation in accordance with the GHG Protocol was carried out in 2022, using data for the year 2021. The accuracy of the calculation has subsequently been improved with regard to direct and indirect greenhouse gas emissions (Scope 1 and 2).

In 2024, Pihlajalinna will revise its carbon footprint calculations to cover not only Scope 1 and Scope 2 emissions but also Scope 3 emissions. The company's goal is to report emissions comprehensively in its reporting on the year 2024. In connection with expanding the scope of emission calculations, the company will also create a climate roadmap aimed at the development of ecologically sustainable social and healthcare operations.

Pihlajalinna switched to zero-emission electricity in its own electricity purchases at the end of 2022. The purchasing of zero-emission electricity is one important aspect of managing Pihlajalinna's climate impacts.

Over the past three years, Pihlajalinna's patient appointments have shifted to remote channels to a significant degree, with 40 per cent of appointments now taking place remotely. Remote appointments with customers reduce indirect climate emissions by reducing customer and employee traffic to the company's business locations.

Emissions

In 2023, Pihlajalinna's carbon footprint (Scope 1 and 2, location-based) totalled 3,434 tCO_2e (2022: 1,997 tCO_2). The largest sources of Scope 1 and 2 emissions were purchased electricity (50%) and district heating (41%). Cars account for approximately 8 per cent of Pihlajalinna's emissions, and the remaining emissions arise from oil heating and district cooling. Calculated using the market-based method, renewable energy accounted for 31 per cent of the energy used by Pihlajalinna, while nuclear power accounted for 21 per cent. Pihlajalinna's emission intensity was very low at 0.0007 $kgCO_2e$/€ (Scope 1 and 2 emissions).

Scope 1

Pihlajalinna's direct greenhouse gas emissions (Scope 1) amounted to 413 tCO_2e in 2023 (2022: 166 tCO_2e). The emissions arise mainly from the fuel consumption of leased cars. Data on potential diffuse emissions could not be collected. The calculation of Scope 1 emissions is 90 per cent based on actual fuel consumption and the remainder has been estimated on the basis of costs.

Scope 2

Indirect greenhouse gas emissions (Scope 2, location-based) amounted to 3,021 tCO_2e (2022: 1,831 tCO_2). The emissions originated from the consumption of electricity, heat and cooling in leased and company-owned premises and the electricity consumption of leased cars. Most of the Scope 2 emission data was either obtained directly from metering devices, invoices or agreements or calculated by taking the total consumption of the property and allocating a proportion of it to Pihlajalinna's premises based on the floor area. Data for the remaining locations was estimated based on the floor area and the specific consumption figures calculated for the other locations. For market-based emission calculations for locations where the origin of the energy was unknown, the residual distribution emission factor of electricity or the average emission factor for district heating in Finland was used.

Electricity purchases in 2023 totalled 17,181 MWh, with renewable energy representing 19 per cent and nuclear power 52 per cent of the total (2022: 12,440 MWh, of which 95 per cent was renewable or zero-emission electricity). District heating purchases totalled 21,291 MWh (2022: 4,090 MWh).

Changes from the previous year

Pihlajalinna further specified the company's carbon footprint calculations in 2023. All Pihlajalinna operating locations were included in the calculation, based on either actual or estimated consumption. The calculations for 2022 only included emissions for which measured data was available.

Total energy consumption in 2023

Energy consumption	MWh	% Renewable	% Non-renewable
Electricity	17 181	19	52
Heating	21 291	48	-
Cooling	387	-	-
Oil	225	5	-
Cars	4 472	1	-
Total	**43,556**	**31**	**21**

Direct greenhouse gas emissions (Scope 1) in 2023

	tCO_2 market based	tCO_2 location based
Scope 1	413	413

Indirect greenhouse gas emissions (Scope 2) in 2023

	tCO_2 market based	tCO_2 location based
Scope 2	4,976	3,021

Carbon footprint calculation methodology

The emission calculations have been carried out in accordance with the Greenhouse Gas Protocol Corporate Standard and the supporting standards Corporate Value Chain (Scope 3), Accounting and Reporting Standard, and GHG Protocol Scope 2 Guidance. The consolidation approach used was operational control. This means that the emissions arising from energy at leased premises are included in Pihlajalinna's Scope 1 and 2 emissions. The exception is subleased locations, which are included in Pihlajalinna's Scope 3 emissions. Pihlajalinna has sought to include all greenhouse gas emissions specified in the standard in the calculations, and the figures are reported as carbon dioxide equivalents.*

Waste sorting and recycling

Pihlajalinna continuously develops its operations to reduce the generation of waste and improve waste reporting. As part of the environmental management plan, waste management and sorting plans were drawn up for all private healthcare service units and residential service units in 2023. Remote training on assessing and reducing the volume of waste, the appropriate sorting of waste and waste management by the personnel became mandatory for all of the personnel in 2023. Closer cooperation with stakeholders promoted the company's goals pertaining to the improvement of waste reporting. The identified challenges include the availability of comparable data for leased properties.

As part of the recycling of waste, decommissioned IT hardware is assessed by Pihlajalinna's IT department. Serviceable and necessary hardware is serviced and reused, while broken hardware is forwarded to electronics recycling.

Persons responsible for environmental matters have been designated for private clinics and business locations in hospital services. They ensure that environmental perspectives are taken into account in the unit's operations and monitor the implementation of the environmental programme. They meet once a month with external waste management experts to review and develop location-specific environmental plans and guidelines. They also prepare sorting plans for the units, acquire suitable waste collection containers and provide training and guidance to the personnel.

* The sources of the emission factors are the emission intensity figures for the production of electricity, heating and cooling as reported by the energy companies, Fingrid for the electricity network's emission intensity relative to average consumption, Statistics Finland for the average emission factor of district heating, the Energy Authority for the residual distribution emission factor of electricity, and the UK Department for Environment, Food & Rural Affairs for fuels. For fuels, the comprehensive database of emission factors provided by the UK Department for Environment, Food & Rural Affairs has been used, because Statistics Finland reports only carbon dioxide emissions. The emission factors reported by energy companies were mainly for the year 2022, as the figures for 2023 had not been published yet. For locations where the heating system or the emission factor of heating could not be determined, the most recent average emission factor for district heating production in Finland was used. The emission factor in question was calculated by Statistics Finland for 2021.

GRI Content index

Code	Indicator name	Location in the report	Additional information
2-1	Organizational details	Pihlajalinna in brief	
2-2	Entities included in the organization's sustainability reporting	Pihlajalinna in brief	
2-3	Reporting period, frequency and contact point	Information for shareholders	The report will be published in the spring with an annual publishing frequency. The publication date is 19 March 2024.
2-4	Restatements of information	CEO's review Audited financial statements	The divestment of oral health services took place on 31 March 2023.
2-5	External assurance		The sustainability information in the annual report has not been verified by a third party. The financial figures presented in the financial statements are audited by a third party.
2-6	Activities, value chain and other business relationships	Pihlajalinna in brief Impact and value creation	There are no significant changes compared to the previous reporting period.
2-7	Employees	Responsibility for personnel	The entire staff works in Finland. Employee numbers are reported as headcounts. There are no significant changes compared to the previous reporting period.
2-8	Workers who are not employees	Responsibility for personnel	External employee numbers are calculated as headcounts. External employees include healthcare professionals such as doctors and physiotherapists. External employees have indefinite employment contracts.
2-9	Governance structure and composition	Corporate governance statement 2023 – Members of the Board of Directors in the financial year 2023	There are no underrepresented

		Corporate governance statement 2023 – Board committees Corporate governance statement 2023 – The qualifications and independence of the Board members and the diversity of the Board of Directors	groups or stakeholder representation on the board or board committees.
2-10	Nomination and selection of the highest governance body	Corporate governance statement 2023 – The composition and election procedure of the Board of Directors Corporate governance statement 2023 – The qualifications and independence of the Board members and the diversity of the Board of Directors	Stakeholder representation, apart from shareholders, is not considered in the nomination and selection of the board.
2-11	Chair of the highest governance body	Corporate governance statement 2023 – Members of the Board of Directors in the financial year 2023	The chairman of the board is not a senior executive at Pihlajalinna.
2-12	Role of the highest governance body in overseeing the management of impacts	Sustainability management	
2-13	Delegation of responsibility for managing impacts	Board of Directors' report – Statement of non-financial information	
2-14	Role of the highest governance body in sustainability reporting	Board of Directors' report – Statement of non-financial information	
2-15	Conflicts of interest	Corporate governance statement 2023 – Related parties and principles for related party transactions	
2-18	Evaluation of the performance of the highest governance body	Corporate governance statement 2023 – III Internal control and risk management mechanisms	
2-19	Remuneration policies	Remuneration report 2023 – II Remuneration of the Board of Directors Remuneration report 2023 – Performance- and quality-based long-term incentive programme	
2-20	Process to determine remuneration	Remuneration report 2023 – Introduction	
2-22	Statement on sustainable development strategy	CEO's review	
2-23	Policy commitments	Sustainability management Sustainable business Board of Directors' report – Statement of non-financial information	During 2024, Pihlajalinna has started to initiate work on building the HRDD (Human Rights Due Diligence) process.
2-25	Processes to remediate negative impacts	Sustainable business	
2-26	Mechanisms for seeking advice and raising concerns	Sustainable business	
2-27	Compliance with laws and regulations	Sustainable business	
2-28	Membership associations	Sustainability management	
2-29	Approach to stakeholder engagement	Stakeholder engagement	
2-30	Collective bargaining agreements		100% of Pihlajalinna's staff are covered by collective bargaining agreements, excluding senior executives and management. The working conditions of senior exec-

			utives and management are defined in their employment contracts.
3-1	Process to determine material topics	Sustainability programme	
3-2	List of material topics	Sustainability programme	There are no significant changes compared to the previous reporting year.
3-3	Management of material topics	Sustainability programme	
201-1	Direct economic value generated and distributed	Table: Economic value added and distributed	
203-2	Significant indirect economic impacts	Impact and value creation	
204-1	Proportion of spending on local suppliers	Tax responsibility and tax footprint	Percentage is not available. The geographical definition of local is domestic, and all significant locations are all Pihlajalinna's locations in Finland.
205-1	Operations assessed for risks related to corruption	Sustainable business	Corruption-related risks are part of a broader assessment of business risks covering all Pihlajalinna's operations. Assessments are conducted regularly throughout the year.
205-2	Communication and training about anti-corruption policies and procedures	Sustainable business	Employee training: Training on the Code of Conduct is mandatory for all Pihlajalinna employees. By the end of 2023, 1,935, (approximately 30 %) of Pihlajalinna employees, had completed the new training program released in October 2023. Reporting to the board is done through channels such as Whistleblowing. Supplier Code of Conduct communicates principles related to corruption to business partners.
205-3	Confirmed incidents of corruption and actions taken	Table: Incidents and legal action	
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	Table: Incidents and legal action	
207-1	Approach to tax	Tax responsibility and tax footprint	There is no separate tax strategy; Pihlajalinna complies with Finnish legislation in collecting, remitting, and paying taxes. All taxes are paid to Finland.

207-4	Country-by-country reporting	Tax responsibility and tax footprint	
302-1	Energy consumption within the organisation	Environmental responsibility Table: Total energy consumption in 2023	Information on sold electricity, heat, cooling, and steam is not available.
305-1	Direct (Scope 1) GHG emissions	Environmental responsibility Table: Direct greenhouse gas emissions (Scope 1) in 2023 Carbon footprint calculation methodology	Emission breakdown is not available. Diffuse emissions, such as refrigerant leaks in buildings, have not been determined. Biogenic carbon dioxide emissions from cars: 17,302 kg CO2e. Comparison year is 2022 where applicable.
305-2	Indirect (Scope 2) GHG emissions	Environmental responsibility Table: indirect greenhouse gas emissions (Scope 2) in 2023 Carbon footprint calculation methodology	Market-based emissions: 4,976 tCO2e. Emission breakdown is not available. Comparison year is 2022 where applicable.
305-4	GHG emissions intensity	Environmental responsibility	Includes scope 1 and 2 emissions. Gases included in the calculation: CO2. Emission intensity: calculated revenue as a denominator.
308-1	New suppliers that were screened using environmental criteria	Sustainable business	Percentage is not reported.
401-1	New employee hires and employee turnover	Responsibility for personnel	Data is not available by age group.
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Responsibility for personnel	Benefits are offered to all employees, including part-time and fixed-term employees, if they have been employed for over 6 months.
401-3	Parental leave	Responsibility for personnel Responsibility for personnel Table: Parental leave	Reported as percentages. Data is not available for employees who returned from parental leave and were still employed 12 months after their return.
403-1	Occupational health and safety management system	Employee wellbeing	
403-2	Hazard identification, risk assessment and incident investigation	Occupational safety management	
403-3	Occupational health services	Employee wellbeing	
403-4	Worker participation, consultation, and communication on occupational health and safety	Employee wellbeing	Meeting frequency or participants are not reported.
403-5	Worker training on occupational health and safety	Occupational safety and health action plan	
403-6	Promotion of worker health	Employee wellbeing	Employees have comprehensive accident insurance.
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Occupational safety management	

403-8	Workers covered by an occupational health and safety management system	Employee wellbeing	All employees are covered by occupational health and safety.
403-9	Work-related injuries	Occupational safety observation belongs to everyone Table: Accidents and accident frequency, employees	Occupational injuries to external employees are not reported by Pihlajalinna.
403-10	Work-related ill health	Employee wellbeing	Numbers are not available; only sickness absence rates are reported. There is no data available for external employees. Work-related hazards are generally recognized risks in the industry.
404-1	Average hours of training per year per employee	Competence development	Data is not available by employee groups and/or gender.
404-2	Programs for upgrading employee skills and transition assistance programs	Competence development	Transition assistance programs are not reported.
404-3	Percentage of employees receiving regular performance and career development reviews	Competence development	Data is not available by different employee categories.
405-1	Diversity of governance bodies and employees	Responsibility for personnel	
406-1	Incidents of discrimination and corrective actions taken		One case considered discrimination (contrary to equality and non-discrimination laws) in 2023 led to compensation proceedings.
414-1	New suppliers that were screened using social criteria	Sustainable business	Percentage is not reported. Social responsibility aspects are included in procurement principles and partners' Code of Conduct.
415-1	Political contributions		No political contributions were made in 2023.
417-3	Incidents of non-compliance concerning marketing communications		No cases in 2023.
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Sustainable business	

Pihlajalinna

Remuneration Report 2023

INTRODUCTION

This Remuneration Report of Pihlajalinna Plc ("the Company" or "Pihlajalinna") is a Remuneration Report for Governing Bodies prepared in accordance with the Limited Liability Companies Act, the Securities Markets Act and the recommendations of the Corporate Governance Code 2020. The Remuneration Report contains information on the remuneration of the members of the Board of Directors and the CEO in the financial year 2023. The aim of the Remuneration Report is to provide a clear picture of the implementation of the Company's Remuneration Policy. The Remuneration Policy is available on the Company's investor website at investors.pihlajalinna.fi and it has been approved by the Annual General Meeting on 15 April 2020. The Pihlajalinna Board of Directors has approved the Remuneration Report for presentation to the Annual General Meeting in 2024.

The auditing firm KPMG Oy Ab, which served as Pihlajalinna Plc's auditor during the financial year 2023, has verified, in accordance with Ministry of Finance decree 608/2019, that the information referred to in Section 3 of the decree has been disclosed in this report.

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

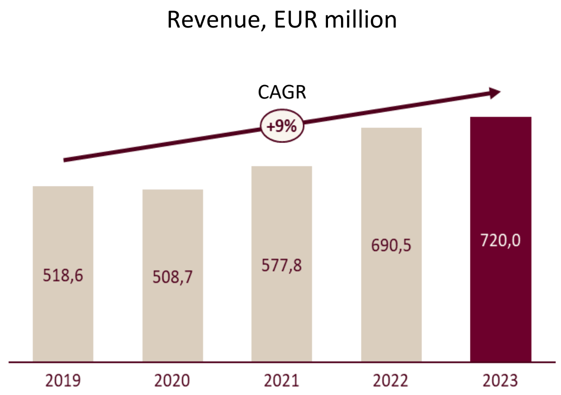
The following table and graphs present the development of the remuneration of the Board of Directors and the CEO compared to the development of the average remuneration of the Group's employees and the Group's financial performance in the past five financial years:

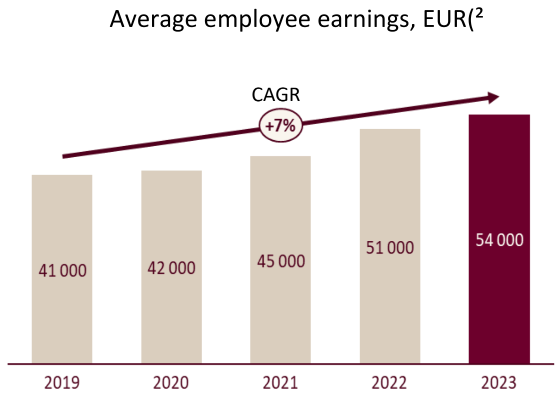
	2019	2020	2021	2022	2023
Total remuneration of the Board of Directors (1	487,000	473,000	588,000(*	491,000	397,000
Total remuneration of the CEO (1	285,000	433,000	405,000	333,000	647,000
Joni Aaltonen, CEO until 8 Mar 2023	285,000	433,000	405,000	339,000	353,000
Mikko Wirén, interim CEO 9 Mar - 31 Aug 2023					174,000
Tuomas Hyyryläinen, CEO from 1 Sep 2023					120,000
Average employee earnings (2	41,000	42,000	45,000	51,000	54,000
Revenue, EUR million	518.6	508.7	577.8	690.5	720.0
Operating profit (EBIT), EUR million	10.2	18.1	27.9	8.9	20.6
Profit for the period, EUR million	4.5	8.9	19.1	7.7	4.6

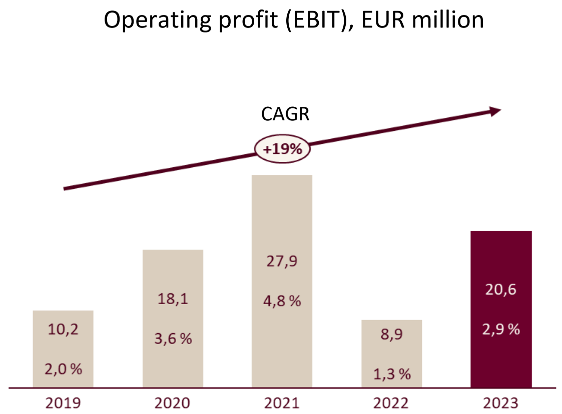
1) Rounded to the nearest thousand

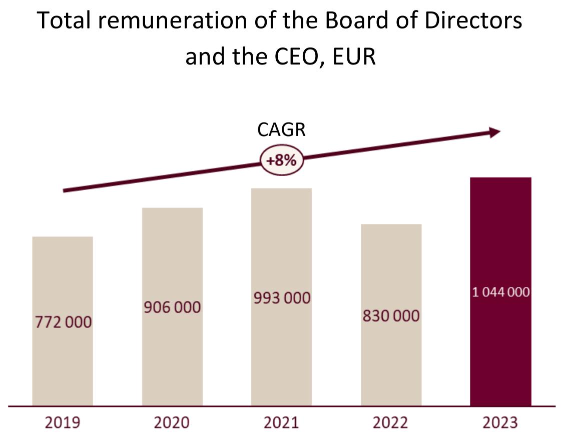
2) Average employee earnings have been calculated by dividing the total wages paid during the financial year by the number of employees as full-time equivalents (FTE), rounded to the nearest thousand

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









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

The Annual General Meeting 2023 resolved that the Chair of the Board be paid EUR 60,000 for the term of office ending at the Annual General Meeting 2024. In 2022, the full-time Chair of the Board was paid a fixed annual fee of EUR 250,000. The 2023 Annual General Meeting resolved to increase the annual remuneration of the Board's committees, the Vice-Chair of the Board and the members of the Board of Directors. In 2023, the Board of Directors was paid a one-time annual fee for its entire term, as in the previous year.

In accordance with the Remuneration Policy, the remuneration of the CEO is based on a fixed monthly salary including fringe benefits and separately decided variable remuneration components, such as long-term or short-term share-based incentive schemes, for example. Joni Aaltonen served as Pihlajalinna's CEO until 8 March 2023. Mikko Wirén served as the interim CEO from 9 March to 31 August 2023. Tuomas Hyyryläinen started as the CEO of Pihlajalinna on 1 September 2023. In 2022, CEO Joni Aaltonen was paid a retention bonus and performance-based remuneration for 2021 in addition to the fixed monthly salary in accordance with the long-term incentive plan. In 2023, no bonuses were paid under incentive schemes for the year 2022.

The development of the average earnings of employees has shown a growing trend. In 2022, several M&A transactions were carried out and the number of employees increased further. Approximately 81% (2022: 81%) of the Company's employees are within the scope of collective labour agreements. The development of wages for employees in these groups is guided by the general increases defined in the collective agreements.

II REMUNERATION OF THE BOARD OF DIRECTORS

Pihlajalinna's Annual General Meeting held on 4 April 2023 resolved that the Board of Directors would be paid the following annual remuneration for the term ending at the conclusion of the 2024 Annual General Meeting: the Chair of the Board EUR 60,000, the Vice-Chair of the Board and the Chairs of the Committees EUR 40,000, and the other members EUR 30,000.

The Annual General Meeting resolved that annual remuneration shall be paid in Company shares and in cash, with approximately 40 per cent of the remuneration used to acquire shares in the name and on behalf of the members of the Board of Directors, and the remainder paid in cash. The Company was responsible for the expenses and transfer tax arising from the acquisition of the shares. The remuneration could be paid either entirely or partially in cash if the member of the Board of Directors was, on the day of the Annual General Meeting, 4 April 2023, in possession of over EUR 1,000,000 worth of Company shares. If the term of a Board member ends before the next Annual General Meeting, the Board is entitled to decide on the possible recovery of the remuneration in a manner it deems appropriate.

The General Meeting also decided that each Board member shall be paid a meeting fee of EUR 600 for each Board and Committee meeting. Reasonable travel expenses will also be reimbursed to the members of the Board in accordance with the Company's travel policy.

In 2023, the fees paid to Pihlajalinna Plc's Board members for Board and Committee work totalled EUR 396,900 (2022: EUR 491,074). The amount paid in 2022 consisted of meeting fees and the annual fee paid to the Board of Directors for the term 2022–2023, which was paid to the Board members in the form of a lump sum in shares and in cash in May 2022. The amount paid in 2023 consists of meeting fees and the annual fee paid to the Board of Directors for the term 2023–2024, which was paid to the Board members in the form of a lump sum in shares and in cash in May 2023.

The Company does not use any share-based incentive schemes that apply to members of the Board of Directors. The members of the Company's Board of Directors did not receive remuneration during the financial year 2023 from Pihlajalinna Group companies other than the parent company Pihlajalinna Plc.

Remunerations paid to the Board of Directors in 2023, EUR

BOARD MEMBER		ANNUAL FEE (EUR), OF WHICH SHARES (EUR)	CASH (EUR)	MEETING FEES (EUR)	TOTAL REMUNERATION (EUR)	THE NUMBER OF SHARES TRANSFERRED AS PART OF THE ANNUAL FEE
Leinonen Jukka	Chair, since 4 Apr 2023	23,998	36,002	7,800	67,800	2,636
Niemistö Leena	Vice-Chair	15,996	24,004	13,800	53,800	1,757
Wirén Mikko	Member	0	30,000	13,800	43,800	0
Iisakka Heli	Member	11,999	18,001	13,300	43,300	1,318
Juvonen Hannu	Member, People and Sustainability Committee Chair	15,996	24,004	14,400	54,400	17,757
Turunen Seija	Member, Audit Committee Chair	15,996	24,004	13,300	53,300	17,757
Ignatius Kim	Member, since 4 Apr 2023	11,999	18,001	7,800	37,800	1,318
Kurki Tiina	Member, since 4 Apr 2023	11,999	18,001	7,200	37,200	1,318
Manninen Mika	Member (until 3 Arp 2022)	0	0	5,500	5,500	0
		107,983	**192,017**	**96,900**	**396,900**	**11,861**

III REMUNERATION OF THE CEO

Joni Aaltonen served as Pihlajalinna's CEO until 8 March 2023. Mikko Wirén served as the interim CEO from 9 March to 31 August 2023. Tuomas Hyyryläinen started as the CEO of Pihlajalinna on 1 September 2023.

CEO Joni Aaltonen's salary and other taxable benefits for the financial year that ended on 31 December 2023 amounted to a total of EUR 352,722 (EUR 338,930 in 2022). The remuneration of the CEO consisted of a fixed annual salary, a free car benefit and mobile phone benefit totalling EUR 147,532 (EUR 296,293 in 2022) and meeting fees paid by Pihlajalinna Group companies owned jointly with municipalities based on Board membership totalling EUR 2,050 (EUR 10,850 in 2022). In 2023, in accordance with the CEO's termination agreement, Joni Aaltonen was paid share rewards linked to performance- and quality-based earnings criteria amounting to EUR 73,030 and cash compensation for termination amounting to EUR 130,111, corresponding to six months' total salary in accordance with the CEO's contract.

The salary and other taxable benefits of interim CEO Mikko Wirén for the financial year that ended on 31 December 2023 amounted to a total of EUR 160,165. The remuneration of the CEO consisted of a fixed annual salary, a car benefit and a mobile phone benefit.

The salary and other taxable benefits of CEO Tuomas Hyyryläinen, who took up his post on 1 September 2023, amounted to EUR 120,000 for the financial year that ended on 31 December 2023. The remuneration of the CEO consisted of a fixed annual salary and a mobile phone benefit.

In 2023, the CEOs were not paid performance-based remuneration under the long-term incentive scheme. In 2022, CEO Joni Aaltonen was paid EUR 31,787 in performance-based remuneration for the year 2021 under the long-term incentive scheme.

According to CEO Tuomas Hyyryläinen's contract, the notice period for dismissal is 6 months. The Company is liable to pay the CEO one-time compensation for termination amounting to eight months' total salary.

The Company did not have a Deputy CEO indicated in the Trade Register during the financial year 2023.

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

On 23 March 2022, Pihlajalinna's Board of Directors approved the establishment of a new share-based incentive programme (LTIP 2022) for selected key employees. The key employees selected for the programme are required to make an investment in Pihlajalinna shares as a precondition for participation in the programme. In its entirety, the incentive scheme forms a six-year programme and the share rewards based on the programme cannot be disposed of prior to the year 2026.

The performance- and quality-based share programme comprises four separate performance periods of one year each (the calendar years 2022–2025). The potential share rewards will be paid out after the performance periods in the years 2023, 2024, 2025 and 2026. The Board of Directors annually decides on the participants, performance indicators, targets and earning opportunities. Two earnings periods have been launched under the programme: 2022 and 2023.

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. The applicable withholding tax will be deducted from the transferred shares, and the remaining net amount will be paid to the participants in shares. Shares paid out as share rewards are subject to a two-year transfer restriction. The earnings criteria for the performance and quality-based share programme are Pihlajalinna Group's adjusted EBITA, as well as key operational, quality-related and sustainability-related indicators.

For the earnings period 2023, a total of 48 key persons are entitled to participate to the share-based incentive programme. If all of the eligible key employees participate in the programme by fulfilling the investment precondition in full and if the performance targets set for the performance periods are fully achieved in the future, the maximum aggregate amount of share rewards that may be paid out based on the programme is approximately 618,000 shares (gross amount before the deduction of the applicable withholding tax) and the total value of the share rewards payable is approximately EUR 5.7 million. In case the program materialises in full, the above number of shares equals approximately 2.7 per cent of the total amount of the shares of the Company.

No performance- and quality-based share rewards materialised for the 2022 performance periods under the matching share plan, as the minimum targets set for the programme were not achieved. No performance- and quality-based share rewards materialised for the performance period 2023 under the share plan due to impairments recognised during the financial year.

CEO Tuomas Hyyryläinen is entitled to participate in the share-based incentive programme starting from the earnings period that begins on 1 January 2024. At the beginning of the share-based incentive scheme, the CEO has the right to purchase a maximum of 30,000 shares, so that for the first 10,000 shares, the Company will give one share for each share purchased by the CEO, and for the next 20,000 shares, one share for each two shares purchased. If the CEO purchases the full quota of 30,000 shares, the Company will give the CEO a total of 20,000 matching shares. Shares purchased by and given to the CEO are subject to the transfer restrictions of the LTIP programme.

Short-term incentive scheme (STI)

The short-term incentive scheme (STI) is designed for the CEO. Starting from 2024, the CEO is entitled to a potential annual performance-based bonus (STI) that corresponds to 60% of the CEO's annual salary at a maximum. The target level is 30% of the annual salary. The Company's Board of Directors confirms the amount, targets and criteria for the short-term incentive scheme annually.

Pihlajalinna

Corporate Governance Statement 2023

I INTRODUCTION

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

Pihlajalinna did not depart from the recommendations of the Corporate Governance Code in 2023.

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

This Corporate Governance Statement was approved by Pihlajalinna Plc's Audit Committee on 12 February 2024 and by the Board of Directors on 13 February 2024.

II CORPORATE GOVERNANCE

General Meeting

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

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

According to the Articles of Association, the notice of a General Meeting shall be delivered to shareholders no earlier than three (3) months and no later than three (3) weeks prior to the date of the Meeting, but no later than nine (9) days prior to the record date of the Meeting. The notice shall be delivered to shareholders by sending the notice by post to their addresses registered in the Company's register of shareholders or by publishing a notice on the website of the Company or in at least one national daily newspaper determined by the Board of Directors. The notice of the General Meeting will be published as a separate release. The Agenda, the proposals of the Board of Directors and other General Meeting material will be available on the Company's website at least three weeks prior to the General Meeting.

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

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

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

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

Pihlajalinna Plc's Annual General Meeting 2023 was held on 4 April 2023. The General Meeting was attended by 75 shareholders in person or by proxy. Approximately 59 per cent of the Company's shares and votes were represented in the meeting.

Board of Directors

The composition and election procedure of the Board of Directors

The Board of Directors is elected on an annual basis by the Annual General Meeting. According to the Company's Articles of Association, the General Meeting shall appoint a minimum of four (4) and a maximum of ten (10) members on the Board of Directors.

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

Shareholders' Nomination Board

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

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

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

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

The four largest registered shareholders of Pihlajalinna Plc (based on the shareholders' register held by Euroclear Finland Ltd on 1 September 2023) appointed the following representatives to the Shareholders' Nomination Board:

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

The Shareholders' Nomination Board elected Juha Koponen as its Chairman. Jukko Leinonen, Chairman of Pihlajalinna Plc's Board of Directors, served on the Shareholders' Nomination Board as an expert member.

The Shareholders' Nomination Board convened 2 times. The attendance rate was 100 %. The Nomination Board submitted 16 January 2024 its proposal to Pihlajalinna's Board of Directors for presentation at the Annual General Meeting. The proposals have been published in a stock exchange release.

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

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

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

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

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

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

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

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

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

The proposal for the composition of the Board of Directors was prepared by the Company's largest shareholders in 2023. LocalTapiola Group, MWW Yhtiö Oy (Mikko Wirén), Fennia Mutual Insurance Company and Elo Mutual Pension Insurance Company participated in the preparation of the proposal for the composition of the Board of Directors. The shareholders who were involved in preparing the proposal for the composition of the Board of Directors represented approximately 48% of the shares in the Company.

The principles regarding the composition of the Board of Directors were observed in the Board of Directors elected in 2023. The Board of Directors has four female Board members and four male Board members. The members of the Board represent versatile experience from managerial and board duties. All members of the Board elected in 2023 hold a master's degree and one has a doctoral degree. The members of the Board of Directors have versatile industry-specific expertise as well as economic and business skills. Their age distribution is from 53 to 70 years.

Members of the Board of Directors in the financial year 2023

The members of the Board of Directors up to the Annual General Meeting of 4 April 2023 were Mikko Wirén (Chairman), Leena Niemistö (Vice-Chairman), Heli Iisakka, Hannu Juvonen, Mika Manninen and Seija Turunen.

The Annual General Meeting 2023 decided that the number of members of the Board of Directors shall be eight (8) at a time. The following individuals were elected as members of the Board of Directors: Kim Ignatius, Heli Iisakka, Tiina Kurki, Hannu Juvonen, Jukka Leinonen, Leena Niemistö, Seija Turunen and Mikko Wirén. The General Meeting elected Jukka Leinonen as the Chairman of Pihlajalinna Plc's Board of Directors and Leena Niemistö as the Vice-Chairman.

During the financial year 2023, the Board of Directors convened 18 times. The average attendance rate during the period was 100%.

Members of the Board of Directors

JUKKA LEINONEN
Member of the Board since 2023 (since 4 April 2023)
M.Sc. (Eng.)
Finnish citizen, b. 1962
Independent of the Company and its major shareholders
Principal occupation: Board Professional

KIM IGNATIUS
Member of the Board since 2023 (since 4 April 2023)
M.Sc. (Econ)
Finnish citizen, b. 1956
Independent of the Company and its major shareholders
Principal occupation: Board Professional

HELI IISAKKA
Member of the Board since 2022
M.Sc. (Econ.)
Finnish citizen, b. 1968
Independent of the Company and its major shareholders
Principal occupation: Colliers Finland Oy, Chief Financial Officer

HANNU JUVONEN
Member of the Board since 2019
PhD, Specialist, MBA
Finnish citizen, b. 1955
Independent of the Company and its major shareholders
principal occupation: practitioner, management consultant

TIINA KURKI
Member of the Board since 2023 (since 4 April 2023)
M.Sc. (Econ)
Finnish citizen, b. 1970
Independent of the Company and its major shareholders
Principal occupation: Alma Media Plc, Alma Media Solutions, Senior Vice President / Director

LEENA NIEMISTÖ
Member of the Board since 2014
Vice-Chairman of the Board of Directors until 2018 and again since 2019
D.Med.Sc., Specialist in Physiatrics
Finnish citizen, b. 1963
Independent of the Company and its major shareholders
principal occupation: Board Professional

SEIJA TURUNEN
Member of the Board since 2016
M.Sc. (Econ.)
Finnish citizen, b. 1953
Independent of the Company and its major shareholders
Principal occupation: Board Professional

MIKKO WIRÉN
Member of the Board since 2016
Chairman of the Board of Directors 2016-2023
Lic.Med.
Finnish citizen, b. 1972
Not independent of the Company, not independent of major shareholders
Principal occupation: MWW Yhtiö Oy, CEO and Pihlajalinna's Senior Advisor

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

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

Board Committees

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

Audit Committee

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

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

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

- to monitor the Company's financial standing and financing situation;

- to evaluate the effects of exceptional or extensive business transactions;
- to review significant changes to recognition principles and items recognized in the balance sheet;
- to monitor the quality and reliability of the Company's financial statements reporting process, the financial statements and other financial reports;
- to evaluate the use and presentation of alternative performance measures;
- to monitor the Company's financial reporting process and M&A processes;
- to engage in quarterly discussions with the financial management and the auditors on the Company's financial results and stock exchange release before the approval of the Board of Directors;
- to discuss significant financial risks and the management's measures regarding the monitoring, management and reporting of risks;
- to monitor the Company's internal control, potential internal audit and risk management systems, plans and reports as well as the efficiency of these functions;
- to familiarize itself with the principles concerning the monitoring and assessment of related party transactions;
- to review the Corporate Governance Statement, including the description of the main features of the internal control and risk management systems related to the financial reporting process;
- To support the Company's Board of Directors in the appropriate management of functions related to sustainability and ESG criteria, as well as the management of ESG risks;
- to regularly review sustainability-related reporting and processes, as well as risks and controls relating to sustainability;
- to monitor the statutory audit of the financial statements and consolidated financial statements;
- to evaluate the independence of the statutory auditor or audit firm and the provision of related services;
- to evaluate the auditor's qualifications and performance;
- to prepare a proposal for a resolution on the election of the auditor;
- to maintain communication with the auditor and review the reports prepared by the auditor for the Audit Committee and the management's responses to the reports;
- to monitor compliance with laws and regulations and the Company's policies, as well as the effectiveness of the Company's compliance system;
- to monitor and evaluate the development of sustainability (CSRD obligations and the EU Taxonomy);
- to review the Board of Directors' report in its entirety;
- to monitor and evaluate the results of the Group's ESG assessments and analyses (EcoVadis, COP, etc.).

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

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

On 4 April 2023, the Board elected Seija Turunen (Chairman), Kim Ignatius, Heli Iisakka and Tiina Kurki as the members of the Audit Committee.

The Audit Committee convened five times during the financial year 2023. The attendance rate of the Committee members was 99 %.

People and Sustainability Committee

Pihlajalinna Plc's Board of Directors has established from among its members a People and Sustainability Committee, which assists the Board by preparing matters pertaining to the remuneration and nomination of the Company's CEO and other management, as well as the Company's remuneration principles. The Committee also prepares matters concerning organisational development and sustainability for the Board. The Committee was known as the People Committee until 21 April 2023.

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

The Board of Directors has confirmed a written Charter for the People and Sustainability Committee, according to which the Committee has the following duties:

- to prepare matters related to the remuneration and other financial benefits of the CEO and other management;
- to prepare proposals related to the Company's incentive plans;
- to evaluate the remuneration of the CEO and other management and to ensure the appropriateness of the Company's remuneration systems;
- to answer any questions at the General Meeting that are related to the remuneration report and within the scope of the People and Sustainability Committee's duties;
- to prepare matters related to the nomination of the CEO and other management and to look for prospective successors for them and specify the personal profiles;
- to plan the remuneration of other personnel and organisational development;
- to review the results of personnel surveys and monitor the diversity of the personnel;
- to steer and evaluate the process of talent identification and development;
- to monitor and evaluate the development of the operating environment, regulations and stakeholder support;
- to monitor and evaluate sustainability-related target setting in the short and long term;
- to review and prepare personnel-related matters for the sustainability programme, including issues relating to occupational safety, work ability, equality and diversity;
- to review and prepare other matters of relevance to the sustainability programme, including quality, impact, data protection and the environment;
- to review and prepare matters pertaining to corporate governance;
- to monitor and evaluate the results of the Group's ESG assessments and analyses (EcoVadis, COP, etc.).

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

On 4 April 2023, the Board of Directors elected Hannu Juvonen (Chairman), Leena Niemistö and Jukka Leinonen as the members of the People and Sustainability Committee. On 13 October 2023, the Board of Directors supplemented the membership of the People and Sustainability Committee by electing Mikko Wirén as the fourth member of the Committee.

The People and Sustainability Committee convened five times during the financial year 2023. The attendance rate of the Committee members was 100%.

Attendance at Meetings by the Board of Directors and Committee Members in 2023:

Name	Board meetings [1]	Audit Committee meetings [1]	People and Sustainability Committee meetings [1]
Kim Ignatius [2] Board member	9/9	4/4	-
Heli Iisakka Board member	18/18	5/5	-
Hannu Juvonen [3] Board member	18/18	1/1	5/5
Tiina Kurki [2] Board member	9/9	3/4	-
Jukka Leinonen [2] Chairman	9/9	-	4/4
Mika Manninen [4] Board member	9/9	1/1	-
Leena Niemistö Vice-chairman	18/18	-	5/5
Seija Turunen Board member	18/18	5/5	-
Mikko Wirén Board member	18/18	-	3/3

1) Attendance rates cover meetings held during each member's term of office. All members of the Board of Directors may join both committee meetings.
2) Member of the Board of Directors from 4 April 2023.
3) Hannu Juvonen served as a member of the Audit Committee until 4 April 2023.
4) Member of the Board of Directors until 4 Aprill 2023.

Pihlajalinna holdings of the members of Pihlajalinna Plc's Board of Directors on 31 December 2023

Direct and indirect Pihlajalinna holdings of the Board of Directors	Number of shares
Mikko Wirén, total	2 314 010
MWW Yhtiö Oy	2 309 010
Mikko Wirén	5 000
Leena Niemistö	707 867
Jukka Leinonen	12 636
Seija Turunen	4 392
Hannu Juvonen	3 514
Heli Iisakka	2 267
Tiina Kurki	1 318
Kim Ignatius	1 318

CEO

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

Joni Aaltonen was the CEO of Pihlajalinna Plc during the financial year 2023 until 9 March 2023, at which time the Board of Directors appointed Mikko Wirén as interim CEO. On 28 April 2023, Pihlajalinna issued a stock exchange release to announce that Pihlajalinna's Board of Directors had appointed Tuomas Hyyryläinen as the Company's new CEO. Hyyryläinen has acted as CEO since 1 September 2023. Pihlajalinna Plc does not have a Deputy CEO.

Group Management Team

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

Group Management Team (31 December 2023):

Tuomas Hyyryläinen
b. 1977, M.Sc. (Econ.)
employed by the Company since 2023
Chief Executive Officer

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

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

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

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

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

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

In 2023, the Group Management Team also included Chief Commercial Officer Sari Nevanlinna (until 7 March 2023) and Chief People and Culture Officer Kati Raassina (until 7 March 2023).

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

The table below presents the direct and indirect Pihlajalinna shareholdings of the CEO and other members of Pihlajalinna Group's Management Team (31 December 2023).

Direct and indirect shareholdings of Pihlajalinna shares by the Management Team	Number of shares
Tuomas Hyyryläinen, CEO	30 000
Eetu Salunen	18 431
Tarja Rantala	17 142
Timo Harju	11 500
Marko Savolainen	10 694
Riihijärvi Sari	4 004
Antti-Jussi Aro	4 001

III INTERNAL CONTROL AND RISK MANAGEMENT MECHANISMS

Internal Control

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

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

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

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

The control measures consist of automated and manual reconciliation of processes, controls, analytical checks and instructions aimed at ensuring the accuracy of financial reporting. Further key control mechanisms include the administration of access rights to information systems and reporting systems as well as the controlled implementation of authorisations and changes to systems. The financial management function processes and regularly reports to the Board of Directors on exceptional items and items subject to management judgment, and analyses the underlying reasons behind changes to forecasts.

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

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

Internal audit

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

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

The internal audit function is based on internal standards (IIA). The internal audit function is independent of the rest of the organisation. The point of departure for the internal audit is primarily management-oriented, and the work is coordinated in cooperation with the external audit. The annual audit plan and audit report are presented to the Audit Committee. The internal audit function also audits other areas by request of the Board of Directors and Pihlajalinna's Management Team.

Pihlajalinna's internal audit activities continued in 2023 in accordance with the cooperation previously organised with PwC. PwC evaluated the accuracy of invoicing processes. A follow-up audit was conducted on information security and the technical threat analysis.

Risk management

In its risk management, Pihlajalinna's aim is to operate as systematically as possible and incorporate risk management in normal business processes. Furthermore, the Group invests in the management of occupational safety and health risks and in quality management systems, such as ISO 9001. Pihlajalinna's Risk Management Policy defines the goals, principles, operating methods and responsibilities of risk management.

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

In 2023, Pihlajalinna reviewed and further specified the previously developed and implemented Enterprise Risk Management process, which involves classifying risks according to the themes of the strategy confirmed in 2021. The themes are profitable growth, quality and impact, the customer experience and employee experience, and digital Pihlajalinna. Strategic, operational and financial risks are reviewed within these themes. The Enterprise Risk Management process also includes a review of sustainability risks, which are reported in the statement of non-financial information as part of the Board of Directors' report.

The risks reviewed under the theme of profitable growth include strategic and business risks involving uncertainty as regards the implementation of the Group's long-term and short-term strategy or operational capabilities. Examples of such uncertainties include structural changes in society that could have an impact on Pihlajalinna as a private provider of social and healthcare services. The theme also covers risks related to profitability, acquisitions, financing and other financial activities, such as contractual partnerships.

The risks reviewed under the theme of quality and impact include risks relating to comprehensive patient safety, operational quality and safety and the uninterrupted continuity of operations, including unforeseen and surprising information security risks.

Under the theme of customer experience and employee experience, the risks identified by Pihlajalinna particularly include risks relating to the availability and retention of personnel, as well as risks related to work ability and sickness-related absences. In addition, risks related to the Company's values, ethics and uniform operating methods are taken into account under this theme.

The use of digitalisation and the risks associated with the strong growth of multi-channel service use are reviewed under the theme of digital Pihlajalinna. Risks related to information security and data protection are also reviewed under this theme. Such risks may lead to losses, claims for compensation and loss of reputation.

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

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

IV OTHER INFORMATION REQUIRED

Insider administration and principles

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

The Company's insider information and the managers' and their related parties' transactions in Company's financial instruments are administered according to applicable legislation and the Insider Guidelines of the Company. When necessary, the Company sets up project-specific insider lists which includes every person who receives project-specific inside information.

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

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

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

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

Related parties and principles for related party transactions

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

The purpose of Pihlajalinna Plc's Guidelines on Related Party Transactions is to ensure that any business transactions involving persons belonging to the Company's related parties are made independently and based on market terms. The Company assesses and verifies that any related party transactions are in the best interests of the Company overall and that any conflicts of interest are duly taken into account when making decisions on related party transactions. The principles of the Guidelines on Related Party Transactions are observed throughout the Group and in the decision-making concerning all of the Group companies.

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

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

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

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

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

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

Auditors and auditing

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

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

Pihlajalinna Plc's Annual General Meeting on 4 April 2023 resolved, in accordance with the Board's proposal, to appoint KPMG Oy Ab as the Company's auditor for a term ending at the conclusion of the Annual General Meeting 2024. The responsible auditor appointed by KPMG Oy Ab was Assi Lintula, APA.

KPMG Oy Ab has been the auditor of Group companies during the financial year 2023. The following fees have been paid to the auditor (amounts in thousands of euros):

Auditor's fees	2023	2022
Auditing, KPMG Oy Ab	328	343
Statements, KPMG Oy Ab	10	20
Non-audit services, KPMG Oy Ab	57	51
Total	395	414

Pihlajalinna

Report by the Board of Directors and Financial Statements 2023

Report by the Board of Directors for the financial year 1 Jan–31 Dec 2023

CONTENTS

Report by the Board of Directors for the financial year 1 Jan–31 Dec 2023

Pihlajalinna's strategy 2021–2025

Pihlajalinna is one of the leading private social and healthcare service providers in Finland. The Group offers comprehensive, high-quality and impactful private clinic and hospital services, as well as occupational healthcare and insurance cooperation services. Pihlajalinna' s shares are listed on Nasdaq Helsinki Ltd.

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

Pihlajalinna' s mission is to help to live a better life. The company's values are energy, ethics and open-mindedness.

Strategic priorities

Pihlajalinna's two strategic priorities under the company's strategy for 2021–2025 are the renewal of services for private customers and cooperation in social and healthcare services.

We continuously develop the service experience for consumers, serve our customers on an increasingly multi-channel basis, and have an impactful presence where our customers are.

In 2023, the wellbeing services counties significantly changed the operating environment in social and healthcare services. Our strong experience of working as a partner to public healthcare helps us solve the future challenges of society in cooperation with the wellbeing services counties.

The strategy is executed by enhancing digitalisation and the customer, employee and practitioner experience, and by focusing on the development of operational performance, impactful and sustainable business, and data orientation.

Objectives for the strategy period

Revenue growth of EUR 250 million by the end of 2025, using 2021 as the baseline (EUR 577.8 million). One-third of the growth is expected to arise from the public sector and the remaining two-thirds from corporate and private customers.

Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA) over 9 per cent of revenue in the long term. The long-term target for net debt is less than 3x adjusted EBITDA.

In accordance with Pihlajalinna's specified dividend policy, Pihlajalinna aims to distribute dividend or capital repayment minimum of one-third of the earnings per share, taking into account the company's strategy and financial position.

Performance indicators

Operating ethically, sustainably and responsibly provides the foundation for achieving the strategic objectives. Their achievement is measured by, for example, financial indicators, the increase in the number of appointment times and procedures available to customers, and Net Promoter Scores (NPS), which measure the customer experience and employee experience.

The operating environment

The demand for healthcare services in Finland

The size of the Finnish healthcare service market is estimated to be about EUR 15 billion, of which approximately 75 per cent is funded and produced by the public sector. During 2023, the use of healthcare services was considerably higher than in the previous year (Nordea Kulutusmittari 12/2023). The demand for private medical expense insurance is also continuing to grow. Over 1.3 million people are already covered by private medical expenses insurance in Finland. Of these, approximately 466,000 are children, 556,000 adults and 285,000 insured through companies.

Queues for treatment and the care guarantee

Queues for non-urgent specialised care continue to grow in the public sector. According to the National Institute for Health and Welfare, nearly 178,000 patients were waiting for access to non-urgent specialised care at the end of August 2023. Of these, 17 per cent had been waiting for access to care for over six months.

The legislation concerning the care guarantee in primary care was amended on 1 September 2023. Following the amendment, patients must receive access to care within 14 days of the assessment of the need for care, compared to three months under the previous legislation. This led to a levelling off in the trend of growing queues for treatment, which had continued for the two preceding years. Waiting times decreased in October 2023. In outpatient care in October, 82 per cent of appointments took place within a week and 89 per cent within two weeks. From November 2024 onwards, patients must receive access to care within seven days.

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

The responsibility for organising and producing social and healthcare services was transferred to the 21 wellbeing services counties and the City of Helsinki on 1 January 2023. The need for social and healthcare services will grow further due to the ageing of the population, and to address the situation, cooperation between public and private services is required. Private sector operators produce approximately 22 per cent of all social and healthcare services. Various studies have shown that the service production model with the highest efficiency in terms of costs and resources is the multi-producer model, which involves service production and provision through cooperation between the public sector, the private sector and non-profit organisations.

The new government programme aims to control the increase of the costs of social and healthcare services, tighten the management of the wellbeing services counties, and increase the share of private companies in the provision of legally required social and healthcare services. In the government programme, a total of EUR 335 million has been allocated to reducing queues for treatment. The more active use of service vouchers and other outsourced services to shorten the queues for treatment is evident in the wellbeing services counties, for example in North Savo and Western Uusimaa. In the HUS area particularly queues for treatment in artificial joint and back surgery and neurosurgery are reduced. In September 2023, the Ministry of Social Affairs and Health announced that the Kela reimbursements for private medical appointments will increase from EUR 8 to an average of EUR 30 for in-person consultations and EUR 25 for remote consultations. The change took effect at the beginning of 2024.

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

The labour shortages in the social and healthcare sector make access to treatment slower, and the recruitment of competent personnel is challenging. 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. The Ministry of Finance estimates that as many as 200,000 new workers will be needed in social and healthcare services over the period 2020–2035.

The implementation of the 0.7 staffing ratio for 24-hour elderly care is postponed from 2023 to 2028 due to the new government programme. The government programme also notes that the staffing ratio should be met by utilising all employee groups approved by law and leveraging the opportunities presented by technology.
The two-year collective agreement for the private healthcare service sector (TPTES) will expire in the spring of 2024. In accordance with the current terms and conditions, the monthly wages and pay scales were increased by a total of 2.95 per cent in 2023. The collective bargaining negotiations are expected to be difficult in spring 2024, and industrial action is also likely. The collective agreement for the private social services sector (SOSTES) will remain in force until the end of 2025, and wages will increase by a total of 13.07 per cent during the agreement period.

Economic forecasts and inflation

Consumers' expectations regarding both their personal financial situations and the Finnish economy improved slightly in 2023 compared to the previous year. In January 2024, the consumer confidence indicator balance was -9.1 (-12.7).

The Finnish economy is in a recession, and the increase in prices, tighter monetary policy and weak export demand are weighing down economic growth. Inflation slowed down during 2023, partly due to the decrease in energy prices, which supports household purchasing power. High interest rates dampen the growth of both private consumption and investments in the coming years, and the economic growth forecast of Ministry of Finance for 2024 is only 0.7 per cent. In 2025, economic growth is projected to accelerate to 2.0 per cent.

Revenue by customer group

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

- The Group corporate customers consist of Pihlajalinna occupational healthcare customers, insurance company customers and other corporate customers. The number of people within the scope of the Group's occupational healthcare services is over 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 approximately 80,000 in the public sector customers group.

January–December 2023

Revenue from corporate customers amounted to EUR 268.1 (225.3) million, an increase of EUR 42.8 million, or 19.0 per cent. Sales to insurance company customers increased by EUR 37.4 million, or 38.0 per cent. M&A transactions increased revenue by EUR 7.1 million. Organic growth was EUR 35.7 million, or 16 per cent. In the corporate customer group, revenue from COVID-19 services decreased by EUR -7.5 million. The customer volumes of Pihlajalinna's private clinics increased by 13 per cent year-on-year. Without the effect of M&A transactions, customer volumes would have increased by 9 per cent.

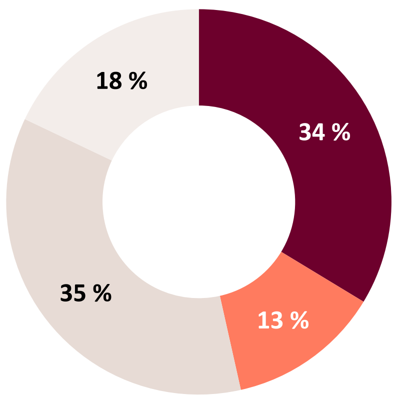
Revenue from private customers amounted to EUR 102.1 (103.2) million, a decrease of EUR -1.2 million, or -1.1 per cent. The divestment of dental care services at the end of March decreased revenue from private customers by EUR -10.5 million. Revenue from COVID-19 services decreased by EUR -1.5 million. M&A transactions increased revenue from the private customers by EUR 4.6 million. Organic growth was EUR 4.8 million, or 4.6 per cent. The customer volumes of Pihlajalinna's private clinics increased by one per cent. Without the effect of M&A transactions, customer volumes would have decreased by 4 per cent year-on-year. The streamlining of insurance companies' payment authorisations and direct payment practices reduces reported sales to private customer segment.

Revenue from the public sector amounted to EUR 426.0 (435.5) million, a decrease of EUR -9.5 million, or -2.2 per cent. M&A transactions increased revenue from the public sector by EUR 4.5 million. Revenue from COVID-19 services decreased by EUR -6.9 million. The removal of the cost liability for demanding specialised care in the wellbeing services county of Pirkanmaa and Central Finland decreased revenue by EUR -32.1 million. The decrease is compensated by annual price increases in complete and partial out-sourcing arrangements, as well as the growth of revenue of reception center operations, occupational healthcare services and staffing services. The customer volumes of Pihlajalinna's private clinics decreased by one per cent year-on-year. Without the effect of M&A transactions, customer volumes would have increased by 4 per cent.

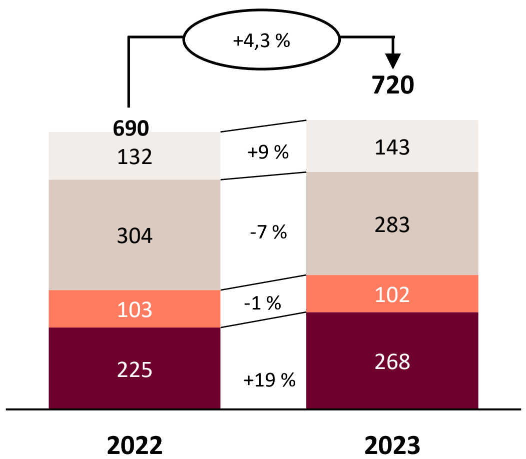
January-December 2023

EUR million	2023	2022	change	change %
Corporate customers	268.1	225.3	42.8	19.0%
of which insurance company customers	135.8	98.4	37.4	38.0%
Private customers	102.1	103.2	-1.2	-1.1%
Public sector	426.0	435.5	-9.5	-2.2%
of which complete and partial outsourcing agreements	283.2	303.9	-20.7	-6.8%
of which staffing	29.3	24.8	4.5	18.0%
of which occupational healthcare and other services	113.5	106.8	6.7	6.3%
Intra-Group sales	-76.1	-73.5	-2.6	3.5%
Total consolidated revenue	**720.0**	**690.5**	**29.5**	**4.3%**

REVENUE BY CUSTOMER GROUP 2023, %



REVENUE BY CUSTOMER GROUP 2023, EUR MILLION



Seasonal variation

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

Consolidated revenue and result

January–December 2022

Pihlajalinna's revenue totalled EUR 720.0 (690.5) million, an increase of EUR 29.5 million, or 4.3 per cent. The divestment of dental care services and reduction in COVID-19 services and in the cost liability of demanding specialised care decreased consolidated revenue by EUR -59.9 million, or -8.7 per cent. Without COVID-19 services and the removal of the cost liability for demanding specialised care, organic growth was EUR 72.9 million, or 10.6 per cent. M&A transactions amounted for EUR 16.2 million, or 2.3 per cent, of the growth in revenue.

EBITDA was EUR 72.5 (54.4) million, an increase of EUR 18.1 million, or 33.2 per cent. Adjusted EBITDA was EUR 80.6 (64.2) million, an increase of EUR 16.4 million, or 25.5 per cent. EBITDA adjustments totalled EUR 8.1 (9.8) million.

Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA) was EUR 37.8 (26.7) million, an increase of EUR 11.1 million, or 41.5 per cent. The adjusted EBITA margin was 5.2 (3.9) per cent.

Profitability was negatively affected by the decreased COVID-19 services and the significantly increased and retrospective costs of demanding specialised care. In the wellbeing services county of Pirkanmaa, the cost liability for demanding specialised care ended on 1 January 2023, and in Central Finland, it ended on 1 July 2023.

Complete and partial outsourcing agreements

Company	Pihlajalinna's holding 31 Dec 2022	Pihlajalinna's holding 31 Dec 2023	First year of service production under the current contract	Duration of the origi-nal 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

* On 30 October 2023, the county council of the wellbeing services county of South Ostrobothnia decided to terminate the outsourcing agreement with effect at the end of 2025, in accordance with the Act on the Implementation of the Reform of Health, Social and Rescue Services and on the Entry into Force of Related Legislation. The council's decision is not yet legally binding, and an appeal has been lodged with the Supreme Administrative Court.

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

Complete and partial outsourcing agreements	2023	2022
INCOME STATEMENT		
Revenue, EUR million	259.4	281.4
EBITDA, EUR million	6.5	6.0
EBITDA, %	2.5	2.1
Adjusted EBITDA, EUR million	14.0	11.5
Adjusted EBITDA, %	5.4	4.1
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA), EUR million	11.5	8.8
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA), %	4.4	3.1

We still have cost liability for demanding specialised care in the wellbeing services county of South Ostrobothnia.

The efficiency improvement measures that started in 2022 in the public sector have improved the profitability of primary care and social services in complete outsourcing arrangements. The profitability of private clinics improved due to price increases and the growth of supply. The profitability of occupational health services improved due to price increases and the growth of the customer base. The profitability of surgical operations improved due to higher net sales. A record-high number of over 800 joint replacement surgeries were performed at the Jokilaakso freedom-of-choice hospital during the financial year. The divestment of dental care services has also had positive impact on profitability.

EBITA adjustments totalled EUR 8.5 (9.7) million. As a result of the establishment of the wellbeing services counties, Pihlajalinna aimed in 2023 to finalise the negotiations related to open receivables with previous contract counterparties, namely the municipalities of Jämsä, Parkano and Mänttä-Vilppula. The negotiations did not lead to the desired outcome. The company has commenced legal actions for debt recovery with regard to some of the receivables and is considering legal actions to recover the other receivables. Consequently, the items in question no longer met the definition of contract assets at the end of the financial year, and Pihlajalinna has booked these items as expenses in the income statement. The items are classified as contingent off-balance sheet assets in accordance with IAS 37. Contingent assets are not recognised in the financial statements. The change in classification had the following effects on EBITDA: a decrease of EUR 1.4 million for Jämsän Terveys Oy, a decrease of EUR 4.8 million for Mäntänvuoren Terveys Oy, a decrease of EUR 1.3 million for Kolmostien Terveys Oy, and a decrease of EUR 0.4 million for Pihlajalinna Terveys Oy. The items, which may have a delayed effect on the profitability of complete outsourcing agreements according to the management's estimate, reduced EBITDA by a total of EUR 7.8 million and are presented as EBITDA adjustments. The entries also had a negative effect of EUR 0.4 million on financial items. The financial year profit before taxes the entries reduced total of EUR 8.2 million and earnings per share by EUR 0.26.

Pihlajalinna has carried out impairment testing concerning its non-current investments and its interests in associates and loan receivables. Based on this, impairments of EUR 2.4 million were recognised. During the period under review, the impairments reduced EBITDA by a total of EUR 0.5 million and EBITA by EUR 1.1 million. The entries have been treated as adjustments to EBITDA and EBITA. The entries had a negative effect of EUR 1.2 million on financial items. Earnings per share in the financial year was reduced by EUR 0.11 due to the impairments.

In the comparison period, a write-down of EUR -4.7 million recognised due to the outcome of the District Court hearing concerning the dispute between Jämsän Terveys Oy and the City of Jämsä, and costs of EUR 1.8 million arising from the integration of acquired businesses, were treated as an adjustment items.

Pihlajalinna's EBIT was EUR 20.6 (8.9) million, an increase of EUR 11.7 million.

The Group's net financial expenses amounted to EUR -12.4 (-7.4) 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 8.2 (1.5) million.

Taxes in the income statement amounted to EUR -3.6 (6.1) million. The impairments recognised during the quarter are not fully tax-deductible. In the previous financial year, 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 amounted to EUR 4.6 (7.7) million. Earnings per share (EPS) was EUR 0.19 (0.42). Impairments recognised during the financial year reduced the company's earnings per share by a total of EUR 0.37.

Consolidated statement of financial position and cash flow

Pihlajalinna Group's total statement of financial position amounted to EUR 657.5 (661.6) million. Consolidated cash and cash equivalents amounted to EUR 24.5 (13.1) million.

Net cash flow from operating activities during the financial year was EUR 79.0 (64.9) million. The change in net working capital was EUR 0.0 (16.8) million.

Net cash flow from investing activities was EUR -18.5 (-83.4) million for the financial year. The M&A transactions had an impact of EUR -1.5 (-52.3) million on net cash flow from investing activities. Investments in tangible and intangible assets was EUR -22.9 (-29.0) million. The divestment of the Group's dental care services improved net cash flow from investing activities in the financial year by EUR 5.7 million. The Group's cash flow after investments (free cash flow) was EUR 60.5 (-18.6) million in the financial year.

Net cash flow from financing activities during the financial year was EUR -49.2 (27.4) million. The change in financial liabilities, including changes in credit limits, amounted to EUR -29.0 (75.2) million. Pihlajalinna issued EUR 20 million hybrid bond during the financial year. The net proceeds from the hybrid bond were used for the repayment of drawings under Pihlajalinna's existing revolving credit facility. Interests paid and other financial expenses was EUR -6.2 (-8.3) 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 interests paid and other financial expenses.

Hybrid Bond

Pihlajalinna issued EUR 20 million hybrid bond on 27 March 2023. The hybrid bond bears 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's financing arrangement 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.

Under the original agreement, Pihlajalinna's financing arrangement was set to have a term of three years and a maturity date in March 2025. In December 2023, Pihlajalinna and the creditor banks agreed on re-structuring the financing arrangement. According to the new agreement, the financing arrangement will mature in March 2026, and the loan margin will change effective from 1 July 2024.

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 considered 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. Sustainability objectives have a minor effect on the loan margin, depending on how many of the agreed-upon sustainability targets are achieved.

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 financial year, gearing in accordance with the financing arrangement was 93.6 per cent and leverage stood at 3.09.

The Group has credit limit agreements valid until further notice, totalling EUR 10 million. The notice period of the credit limit agreements is one month. At the end of the financial year, Pihlajalinna had EUR 70 million in unused committed credit limits. Unused credit limits consist of EUR 10 million credit limit agreement and EUR 60 million unused revolving credit facility. 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 effect in March 2023 and remain in effect until 25 March 2027.

Acquisitions and capital expenditure

Gross investments, including acquisitions, amounted to EUR 66.5 (234.5) million. Gross investments in M&A transactions including right-of-use assets (e.g. lease commitments) amounted to EUR 0.7 (176.6) million. The Group has not done any business acquisitions during the financial year. Acquisition items during the financial year were related to adjustments to the contingent considerations of the acquisitions made during the financial year 2022. The Group's gross investments in property, plant and equipment and intangible assets, which consisted of development, additional and replacement investments required for growth, amounted to EUR 26.0 (28.3) million.

Gross investments in connection with the opening of new units amounted to EUR 0.0 (3.1) million. Gross investments in right-of-use assets amounted to EUR 40.5 (26.5) million. Gross investments in right-of-use assets were increased in the financial year due to extensions to business premises agreements and rent increases.

Investment commitments for the Group's development, additional and replacement investments amounted to approximately EUR 2.7 (3.5) million. The investment commitments are related to business premises investments, additional and replacement investments in clinical equipment and information system projects.

Research and development

Increases to intangible assets totalled EUR 7.4 (7.5) million during the financial year. During the financial year 2023, the digital appointment booking system was developed for both occupational healthcare customers and private customers. In services for private customers whose identity has been authenticated, new self-service opportunities were introduced for customers both on the website and the Pihlajalinna health application, and chat appointment opportunities were developed. In chat appointments in occupational healthcare, a digital assessment of the need for care was deployed.

In occupational health services, tools to support work ability and manage work ability risks were developed. Digital workplace surveys, automatic job lists and reporting were developed to support the work of occupational healthcare teams. In hospital operations, the use of the guidance system for surgical operations was expanded to new hospitals and the system was developed further in tandem with Pihlajalinna's surgical processes. The use of the PihlajalinnaPRO mobile application for healthcare professionals was also extended to new professional groups, and the range of mobile services available to professionals was expanded. In addition, the Group invested in a new data centre environment and deployed a new HRM system as well as a new identity and access management solution.

The development of Pihlajalinna's services for customers and professionals will continue in the financial year 2024.

The website will be comprehensively updated from the perspectives of recruitment and private customers. In occupational health services, the development of tools to support work ability and manage work ability risks will continue, and the takeover of new occupational healthcare customer accounts and occupational healthcare communications will also be developed. Chat appointments and remote service use will be developed in accordance with the needs of private customers, organisational customers and healthcare professionals. PihlajalinnaPRO will continue to be developed to facilitate smoother day-to-day work for professionals. In addition to the development of service channels and the harmonisation of services, Pihlajalinna's digital and data platforms will be significantly renewed to even better respond to the requirements of customers and business development.

Personnel

At the end of the financial year, the number of personnel amounted to 6,880 (7,016), a decrease of -136 persons or -2 per cent. The Group's personnel averaged 4,923 (4,851) persons as full-time equivalents, an increase of 72 persons or 1 per cent. The Group employee benefit expenses totalled EUR 322.8 (296.6) million, an increase of EUR 26.2 million or 9 per cent.

In the financial year, sickness-related absences rate amongst the Group's own personnel was 5.7 (6.7) per cent.

At the end of the financial year, the number of practitioners was 2 208 (1 812), an increase of 396 or 22 per cent.

Management Team

The Management Team includes CEO Tuomas Hyyryläinen, 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 of 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 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). The Chair of the Board of Directors of Pihlajalinna Plc Jukka Leinonen has been part of the Board as an expert member.

Committees nominated by the Board

Pihlajalinna Plc Board of Directors appointed the following members to its committees:

- Audit Committee: Seija Turunen (chairman), Kim Ignatius, Heli Iisakka and Tiina Kurki
- People and Sustainability Committee: Hannu Juvonen (chairman), Leena Niemistö, Jukka Leinonen and Mikko Wirén

At its October meeting, the Board elected Mikko Wirén, who served as Pihlajalinna's temporary CEO until 31 August 2023, as a member of the People & Responsibility Committee. 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 following annual remuneration will be paid to the members of the Board of Directors elected for the term of office ending at the 2024 Annual General Meeting: EUR 60,000 per year to the Chairman of the Board of Directors, EUR 40,000 per year to the Vice-Chairman and to the Chairman of the Audit Committee and to the Chairman of the People and Sustainability Committee, and EUR 30,000 per year to the other members.

The AGM resolved that annual remuneration shall be paid in company shares and in cash, with approximately 40 per cent of the remuneration used to acquire shares in the name and on behalf of the members of the Board of Directors, and the remainder paid in cash. The remuneration could be paid either entirely or partially in cash if the member of the Board of Directors was, on the day of the AGM, 4 April 2023, in possession of over EUR 1,000,000 worth of company shares. The company was responsible for the expenses and transfer tax arising from the acquisition of the shares. The share-based remuneration can be paid by distributing company's own shares to the members of the Board of Directors or by acquiring shares directly on behalf of the board members after three weeks of the release of the interim report for 1 January–31 March 2023. If this is not possible for legal or other statutory reasons, such as taking insider regulations into account, at the earliest possible time after this. Alternatively, the remuneration is then paid in cash. If the term of a Board member ends before the Annual General Meeting of 2024, the Board is entitled to decide on the possible recovery of the remuneration in a manner it deems appropriate.

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

Board authorisations

The Annual General Meeting of 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 Group's current number of shares. Own shares may be repurchased on the basis of the authorisation only by using unrestricted equity. Targeted share acquisition is possible. The authorisation is effective until the next Annual General Meeting, or until 30 June 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 to be issued cannot exceed 2,260,000 shares, which corresponds to approximately 10 per cent of all the shares in the Group. The authorisation concerns both the issuance of new shares and the sale or transfer of the Group's own shares. The authorisation permits a targeted share issue. The authorisation is effective until the next Annual General Meeting, or until 30 June 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

At the end of the financial period, Pihlajalinna Plc's total number of shares was 22,620,135, of which 22,566,155 were outstanding and 53,980 were held by the company which corresponds to approximately 0.26 per cent of all shares and votes. At the end of the financial year, the company had 15,150 (15,811) 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	10–12/2023	10–12/2022	2023	2022
No. of shares outstanding at end of period	22,566,155	22,549,644	22,566,155	22,549,644
Average no. of shares outstanding during period	22,563,931	22,549,741	22,557,957	22,560,271
Highest price, EUR	8.11	9.70	9.90	13.18
Lowest price, EUR	6.90	8.48	6.82	8.48
Average price, EUR [1)]	7.19	8.88	8.20	11.06
Closing price, EUR	7.06	8.52	7.06	8.52
Share revenue, 1,000 shares	803	773	2 801	3 770
Share revenue, %	3.6	3.4	12.4	0.2
Market capitalisation at end of period, EUR million	159.3	192.1	159.3	192.1

[1)] average rate weighted by trading level

Risk management

In its risk management, Pihlajalinna's aim is to operate as systematically as possible and incorporate risk management in normal business processes. Furthermore, the group invests in management of occupational safety and health risks and in quality management systems like ISO 9001 and ISO 14001. Pihlajalinna's Risk Management Policy defines goals of risk management, risk management principles, operating methods and responsibilities.

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

In 2023, Pihlajalinna reviewed and further specified the previously developed and implemented comprehensive Enterprise Risk Management process, which involves classifying risks according to the 2021 strategy which are profitable growth, quality and impactfulness, customer and personnel experience and digitalisation of Pihlajalinna. Inside these themes risks are reviewed as strategic, operational and financial risks. In addition, the comprehensive risk management process includes a review of sustainability risks, which are reported as part of the section Statement of non-financial information.

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

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

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

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

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

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

Risks and uncertainties in business operations

Pihlajalinna's operations are affected by strategic risks, operational, financial 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. Uncertainties in world politics, such as the Russia's invasion of Ukraine and conflicts in the Middle East 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 its operations, Pihlajalinna considers 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.

High sickness-related absences among the personnel may reduce the company's profitability and complicates service provision. The company has also identified uncertainties related to the availability of personnel in the social and healthcare sector and development of wages. 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.

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 the covenants of 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 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. In addition, inflation and high interest rates affect consumers' disposable income and employment trends, which in turn have an impact on the demand for private healthcare services.

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

A company belonging to the Pihlajalinna Group is currently a subject of a tax audit pertaining to a remuneration scheme used by the company.

Complete and partial outsourcings

Negotiations stipulated by the legislation concerning the reform of healthcare and social services have been carried out in cooperation with the wellbeing services counties. The negotiations were conducted in order to ensure the application of the service agreements as part of the organisation and production of services in the wellbeing services counties. Pursuant to the legislation concerning the reform of social and healthcare services, the wellbeing services counties were required to indicate by the end of October 2023 whether their subcontracting agreements will end. This affects the term of validity of Pihlajalinna's service agreements and the scope of the services provided.

The service agreements between the wellbeing services county of Pirkanmaa and Mäntänvuoren Terveys and Kolmostien Terveys will continue until the original termination date of the agreements. The cost liability for demanding specialised care specified in the agreements ended on 1 January 2023.

Jämsän Terveys's agreement with the wellbeing services county of Central Finland will expire in August 2025. The cost liability for demanding specialised care specified in the agreement ended on 1 July 2023. In August 2023, it was agreed with the wellbeing services county of Central Finland that the services will gradually be transferred to the wellbeing services county in the first half of 2024. These changes will decrease Jämsän Terveys's revenue approximately by 31 million euros from 2023 levels.

The primary and specialised care services provided by Jokilaakson Terveys will continue at Jokilaakso Hospital in accordance with the subcontracting agreement until 2025. Jokilaakson Terveys has an exception permit issued by the Ministry of Social Affairs and Health for round-the-clock emergency and on-call services in primary healthcare, as required for its operations. The permit is currently valid until the end of 2024, but the wellbeing services county of Central Finland has applied in January 2024 an extension of the permit until the end of 2025.

On October 30, 2023, the regional council of the South Ostrobothnia wellbeing services county decided to terminate the outsourcing agreement with Kuusiolinna Terveys, which was originally valid until 2030, with the termination set for the end of 2025. The regional council's decision is not yet legally binding, and an appeal has been lodged with the Supreme Administrative Court.

Pending legal processes

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.

The company's subsidiary Jämsän Terveys Oy has taken legal action in the district court against the City of Jämsä, a former client, mainly concerning COVID-19-related costs which the City of Jämsä 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 2022 financial year on the impact of the transfer of personnel on the annual fee under the service agreement.

On 22 November 2023, the Vaasa Court of Appeal handed down its ruling on the dispute concerning the service agreement between Jämsän Terveys Oy and the City of Jämsä. The Court of Appeal decided to uphold the decision of the District Court. Pihlajalinna has submitted an application for leave to appeal to the Supreme Court and an appeal concerning part of the judgment of the Vaasa Court of Appeal.

Impairment testing of goodwill

At the end of the financial year, goodwill on Pihlajalinna's statement of financial position amounted to EUR 251.8 (251.0) million. Pihlajalinna checks annually, and whenever necessary, that the carrying amount of goodwill does not exceed the fair value. The annual impairment testing was conducted on the situation on 30 November 2023. Pihlajalinna observed no indications of the carrying amount of goodwill being greater than its estimated recoverable amount. The cash-generating unit's recoverable amount exceeded the carrying amount by approximately EUR 186 million. If permanent negative changes were to occur in the development of Pihlajalinna's profit and growth, this could lead to an impairment of goodwill.

Flagging notifications

On 11 May 2023, Pihlajalinna Plc received a notification under Chapter 9, Section 5 of the Securities Market Act, according to which the holding of Fennia Mutual Insurance Company in Pihlajalinna Plc's shares and votes had risen above 10 per cent on 11 May 2023. The holding of Fennia Mutual Insurance Company increased to 2,262,965 shares, or 10.004 per cent of the total of Pihlajalinna's shares and votes.

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, to participate the program, a key person must invest in Pihlajalinna shares.

The performance and quality-based share programme comprises four separate performance periods of one year each (the calendar years 2022, 2023, 2024 and 2025). The potential share rewards will be paid out after the performance periods in the years 2023, 2024, 2025 and 2026. The Board of Directors annually decides on the participants, performance indicators, targets and earning opportunities. Two earnings periods have been launched under the programme: 2022 and 2023. For the earnings period 2023, a total of 48 key persons are entitled to participate to the share-based incentive programme. The programmes are treated in their entirety as equity-settled share-based payments.

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. The applicable withholding tax will be deducted from the transferred shares, and the remaining net amount will be paid to the participants in shares. Shares paid out as share rewards are subject to a two-year transfer restriction. The earnings criteria for the performance and quality-based share programme are Pihlajalinna Group's adjusted EBITA, as well as key operational, quality-related and sustainability-related indicators.

No performance and quality-based share rewards materialised for the performance period 2022 pursuant to the matching share plan, as the minimum targets set for the programme were not achieved. For the performance period 2023, the performance and quality-based share award did not materialize due to impairments recorded during the financial year.

In case all the persons entitled to participate do participate to the program by meeting the condition of investment in full and if the performance targets set for the performance periods are fully achieved in the future, the maximum aggregate amount of share rewards that may be paid out based on the programme is approximately 618,000 shares (gross amount before the deduction of the applicable withholding tax) and the total value of the share rewards payable is approximately EUR 5.7 million. The above number of shares corresponds to approximately 2.7 per cent of the company's total number of shares.

Repurchase and transfer of own shares

Pihlajalinna conveyed, in May, a total of 11,861 own shares as part of the remuneration of the Board of Directors.

Pihlajalinna conveyed, in November, a total of 4 650 own shares in accordance with the termination agreement to Joni Aaltonen who acted as CEO until 8 March 2023.

The number of own shares held by Pihlajalinna was 53,980 at the end of the financial year, corresponding to approximately 0,26 per cent of the total number of shares and votes.

The Board of Directors' proposal for profit distribution and the Annual General Meeting 2024

The parent company's total distributable funds amount to EUR 203,428,565.55, of which the result for the financial year 2023 is EUR -7,709,328.56. The Board of Directors proposes that a dividend of EUR 0.07 per share be paid for the financial year that ended on 31 December 2023. On the financial statements date, 31 January 2023, the total number of out-standing shares was 22,566,155. The corresponding total dividend according to the Board of Directors' proposal would be at most EUR 1,579,630.85.

No material changes have taken place in the company's financial position after the end of the financial year. The company's liquidity position is good and, in the view of the Board of Directors, the proposed distribution does not jeopardise the company's ability to fulfil its obligations.

Earnings per share for the financial year was EUR 0.19. The proposed dividend of EUR 0.07 is 37 per cent of earnings per share. According to the Pihlajalinna's specified dividend policy, Pihlajalinna aims to distribute dividend or capital repayment minimum of one-third of the earnings per share, taking into account the company's financial position and strategy.

Pihlajalinna Plc's Annual General Meeting is planned to be held on 10 April 2024 in Tampere. The Board of Directors will decide on the notice of the General Meeting and the included proposals at a later date.

The annual report for 2023, including the Board of Directors' report and the financial statements, will be published on the company's investor website at investors.pihlajalinna.fi in week 12.

Calculation of the parent company's distributable funds:

EUR	31 Dec 2023
Reserve for invested unrestricted equity	183,190,483.50
Retained earnings	28,043,605.15
Result for the period	-7,709,328.56
Capitalised development costs	-96,194.54
Total	**203,428,565.55**

Pihlajalinna's outlook for 2024

In 2024, Pihlajalinna will focus on organic growth and improving its profitability and financial position.

- The Group expects the consolidated revenue to increase from the previous year's level (EUR 720.0 million in 2023).
- 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 37.8 million in 2023).
- The Group continues measures to strengthen its financial position. Efficiency measures are expected to improve Pihlajalinna's profitability.

Slowed economic growth, weakened consumer confidence and changes in market interest rates may affect Pihlajalinna's service demand and financial result more than expected. Price increases are expected to compensate the effects of cost inflation.

Corporate Governance Statement

Pihlajalinna publishes its Corporate Governance Statement separately on the company's investor website at investors.pihlajalinna.fi at the same time as the Board of Directors' report during week 12. Up-to-date information about compliance with and deviations from the Corporate Governance Code is maintained on the investor site at investors.pihlajalinna.fi.

Statement of non-financial information

Pihlajalinna reports non-financial information in accordance with the Finnish Accounting Act and the EU Taxonomy Regulation. The reporting standards established by the Global Reporting Initiative (GRI) have been used as the framework for sustainability information in the annual report.

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

Values, business and value creation

Pihlajalinna is one of the leading private social and healthcare service providers in Finland. The Group offers comprehensive, high-quality and impactful private clinic and hospital services, as well as occupational healthcare and insurance cooperation services. Pihlajalinna's shares are listed on Nasdaq Helsinki Ltd.

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

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

Pihlajalinna has an impact on, and generates value for, its various stakeholders ranging from societal operators to customers, the personnel, shareholders and the environment. The more detailed value creation framework, including the basis of impact and the company's impacts, is described in Pihlajalinna's Annual Report. Pihlajalinna's Annual Report will be published on the company's investor website at investors.pihlajalinna.fi at the same time as the Board of Directors' report in week 12.

Material themes, key indicators and management of sustainability

Pihlajalinna is committed to the UN Sustainable Development Goals and the Global Compact principles of responsible business, which guide the company's business planning and sustainability efforts.

Pihlajalinna's sustainability efforts are based on the identification of materiality. In 2023, Pihlajalinna began to integrate the requirements of the EU's Corporate Sustainability Reporting Directive (CSRD) in to the company's reporting so that Pihlajalinna can report in compliance with the CSRD from 2024 onwards. A double materiality assessment (DMA) was carried out in 2023, which involved extensive stakeholder engagement and a comprehensive expert assessment and workshop analysis of impacts, risks and opportunities (IRO).

Pihlajalinna continued to focus on three sustainability themes in 2023: responsibility for health and wellbeing, responsibility for personnel, and sustainable business. The key indicators specified for the themes are access to surgical treatment within the target time, the share of preventive work in occupational healthcare, customer satisfaction, and employee satisfaction. The themes and results are described in more detail in the section Sustainability themes and key results. Some of the indicators are also incorporated into the company's long-term loan agreement signed in 2022. Pihlajalinna monitors the GRI reporting framework indicators in its Annual Report, which is published in week 12, simultaneously with the Board of Directors' report on the company's investor pages at investors.pihlajalinna.fi. A more comprehensive overview of sustainability indicators is provided in the Annual Report.

Pihlajalinna reports in accordance with the GRI standards. Each year, the company also completes Global Compact reporting and the EcoVadis sustainability assessment.

Pihlajalinna's sustainability actions have a clear administrative structure, and they are carried out in accordance with guidelines and policies drawn up on the basis of international principles. Pihlajalinna's sustainability efforts are led by the Vice President for Communications and Sustainability. She heads the corporate responsibility working group, which consists of representatives of the Group's businesses as well as medical experts and specialists in Group functions such as finance, HR administration, properties and law. The working group prepares and ensures measures in line with the company's sustainability targets and reports to the Management Team on the progress of sustainability efforts four times per year. The Management Team approves and monitors the sustainability programme and related actions, and ensures that the necessary resources are available. The highest decision-making body concerning the company's sustainability is the Board of Directors, which monitors progress on the chosen themes at the annual level. The Board of Directors has appointed a committee to promote sustainability: the People and Sustainability Committee. The Audit Committee of the Board of Directors also has a significant role in promoting the renewal of sustainability reporting. The Board of Directors also decides on the company's guidelines and policies.

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

The new Code of Conduct training introduced in October was completed by the end of the year by 1,935 people, representing approximately 30 per cent of Pihlajalinna professionals.

Pihlajalinna has a confidential whistleblowing channel that can be used for reporting misconduct and problems in the organisation. Pihlajalinna's legal affairs unit is responsible for processing whistleblower notifications, and the company's Board of Directors monitors messages submitted via the whistleblowing channel and the actions taken in response to them. A total of 10 notifications were submitted via the whistleblowing channel in 2023 (4 in 2022). The investigation has been completed for nine of these cases. The whistleblower notifications concerned incidents related to the equal treatment of employees, bullying and the Code of Conduct. Two of the investigated incidents led to further action.

Sustainability risks and opportunities

Pihlajalinna completed a double materiality analysis in autumn 2023 to identify the company's impacts on the environment and society, and the resulting financial business risks and opportunities. The assessment took into account the special characteristics of Pihlajalinna's business model and value chain.

Pihlajalinna's operations and business relationships give rise to a variety of positive and negative impacts on the environment and society. A high-level assessment of the impacts and financial risks and opportunities to Pihlajalinna's operations arising from the impacts and the operating environment is provided in the table below.

Theme	Example of impacts	Examples of risks and opportunities
Responsibility for environment	Greenhouse gas emissions	Damages caused by extreme weather events, for example, to properties
Responsibility for personnel	Job satisfaction, continuous development opportunities Job creation	Attraction and retention as an employer, enhancing productivity
Responsibility for health and wellbeing	Population health and prevention Availability of services	Patient safety, for example, cyber attacks on infrastructure or equipment, leading to significant reputation damage and potential liability
Sustainable business	Shareholder value Creating economic value for society	Availability of workforce Loss of company value Business opportunities

Sustainability themes and key results

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

Responsibility for health and wellbeing

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

Pihlajalinna's quality management is based on comprehensive self-monitoring, external quality assurance and comprehensive monitoring by the authorities. Pihlajalinna has an ISO 9001 quality management certificate. Self-monitoring makes it possible to quickly identify risks related to quality or safety. The business locations have a reporting system for the personnel to report any deviations. Customers report any problems they observe either directly to the personnel or through Pihlajalinna's feedback systems.

Pihlajalinna is a significant operator in specialised care. The objective of surgical operations is to implement a quick and high-quality chain of care, enabling quick recovery and rehabilitation for patients. Access to surgical treatment within the target time has been highlighted as one of the company's key sustainability indicators. With regard to access to surgical procedures for customers who are unable to work, Pihlajalinna aims to offer the first available surgical appointment within five weekdays. In 2023, the target for this was set at 67.5 per cent. The target was achieved, with the outcome being 81.1 per cent.

In occupational health services, the prevention of illness is in everyone's interest and helps reduce costs. The emphasis on preventive activities in occupational healthcare is monitored on a professional group-specific basis. In 2023, Pihlajalinna's minimum target for the share of preventive work was 60 per cent for occupational health physicians and 75 per cent for occupational health nurses. In 2023, preventive work accounted for 65.8 (61.1) per cent of invoicing for occupational healthcare physicians and 81.4 (79.7) per cent of invoicing for occupational healthcare nurses.

Pihlajalinna aims for an excellent customer experience in all of its services. The systematic collection and processing of feedback enables the company to develop services, processes and operating models according to the customers' wishes. Pihlajalinna uses the Net Promoter Score (NPS) to measure the customer experience. The NPS for Pihlajalinna's appointments in 2023 was 79.1 (77.1) and the NPS for complete and partial outsourcing arrangements was 74.7 (72.3). The 2025 target for the Group's combined NPS is 80. NPS can range from +100 to -100.

Customer equality can be increased by improving the availability of services through the provision of remote services, even in areas where in-person services or the necessary expert may not be available. In 2023, a total of 40 (38) per cent of Pihlajalinna's appointments were conducted remotely.

Responsibility for personnel

Pihlajalinna systematically promotes the wellbeing of personnel, and the company has a comprehensive equality and non-discrimination policy. Pihlajalinna wants to be the first choice among professionals in its industry.

Pihlajalinna's number of personnel remained stable in 2023, but the number of practitioners continued to grow as supply increased. At the end of the year, the company had 6,880 (7,016) employees and 2,208 (1,812) practitioners. Key personnel indicators are reported in more detail as part of the Annual Report.

Employees are a key asset for the company: their expertise and competence are the basic conditions for an excellent customer experience, the fulfilment of the strict quality requirements in the social and healthcare sector, and sustainability and impactfulness in business. Investments in the development and wellbeing of the personnel also help to ensure Pihlajalinna's competitiveness in a rapidly changing market. The development of work ability was one of the most important themes in 2023. We continued the unique cooperation project to develop work ability management with pension insurance companies, which was launched in 2022. One of the main objectives of the project is to reduce sickness-related absences by means of an early intervention model, among other measures. Pihlajalinna's sickness-related absence rate in 2023 was 5.7 (6.7) per cent.

The company actively listens to the personnel to obtain information on the state of the work community. Employee satisfaction is measured by the eNPS indicator, which is also one of Pihlajalinna's key sustainability indicators. Pihlajalinna's eNPS for 2023 improved from the previous year and was +4 (-1). The target set for 2023 was +8. The Group's eNPS excluding complete and partial outsourcing arrangements in 2023 was +10 (+11) and the eNPS of the Group's complete and partial outsourcing arrangements in 2023 was -4 (-17). The eNPS can range from +100 to -100.

All Pihlajalinna employees are within the scope of annual development discussions. Pihlajalinna Academy is an online learning environment for the company's personnel that offers new content to support competence development. The total amount of training for the personnel came to 77,104 hours in 2023, which corresponds to 11.2 hours per employee.

At Pihlajalinna, the management of occupational safety is aimed at maintaining a healthy and safe working environment and the effective prevention of accidents through training and the improvement of operating practices, for example. The most common causes of accidents were falling, slipping and unexpected behaviour by a customer. The number of serious accidents that resulted in an absence of more than 30 days remained fairly low in 2023: only 2 (6) serious accidents were reported in the Group as a whole during the year. The accident frequency decreased significantly from the previous year and was 26 (34), as measured by the number of accidents leading to an absence of at least one day per million hours worked. This was lower than the industry average of 35 by a clear margin.

Sustainable business

Pihlajalinna was founded more than 20 years ago to solve regional labour availability challenges in healthcare. Pihlajalinna's has its roots, and strong expertise, in local cooperation to promote people's wellbeing. The company still has extensive outsourcing operations in three wellbeing services counties: South Ostrobothnia, Central Finland and Pirkanmaa. Pihlajalinna also provides wellbeing services counties with a wide range of services under the service voucher system and other service cooperation to help reduce queues for treatment, which have escalated into a significant problem in society.

Pihlajalinna's operations generate economic added value in Finland, especially in the regions of Pirkanmaa, South Ostrobothnia and Central Finland. The most significant direct economic impacts arise from procurement, the remuneration of personnel and practitioners, and the payment of taxes and tax-like charges. As a rule, the services and goods procured by Pihlajalinna are purchased from domestic enterprises or the EU.

Pihlajalinna's parent company and all of its subsidiaries are registered in Finland. Pihlajalinna is a public limited company and 98.6 (98.6) per cent of the company's shares are owned by Finnish shareholders. Pihlajalinna complies with Finnish legislation in the collection, remittance and payment of taxes and tax-like charges. The Group pays all of its taxes to Finland. In 2023, Pihlajalinna's operations generated a total of EUR 164.8 (155.7) million in payments to society. In addition, Pihlajalinna paid a total of EUR 129.8 (112.5) million in fees to practitioners, for which the practitioners themselves pay the taxes.

Pihlajalinna's procurement principles are documented in a Supplier Code of Conduct, which service providers, suppliers and partners are required to comply with. The document was incorporated into all new cooperation agreements and significant existing agreements in late 2022. Among Pihlajalinna's large framework agreement partners, 30 out of 45 have signed the Supplier Code of Conduct. Pihlajalinna will further specify its principles of sustainable procurement in 2024, and the sustainability criteria for agreements will be more comprehensively incorporated into the procurement process.

Tax footprint

EUR million	2023	2022
Direct tax payable for the period		
Income tax (business income tax)	0.5	2.0
Employer's pension contributions	45.5	42.0
Social security contributions	4.0	3.3
Employer's unemployment insurance contributions	4.6	4.3
Contribution to accident insurance and group life insurance	1.2	1.6
Employer contributions, total	55.3	51.2
Property taxes	0.1	0.2
Transfer taxes	0.0	0.9
Direct tax payable for the period, total	**56.0**	**54.2**
Value added tax of acquisitions payable by the company		
Value added taxes, estimate	**20.5**	**20.1**
Tax for the period		
Withholding taxes	62.4	57.8
Employee pension contributions	20.0	18.4
Employee unemployment insurance contributions	3.9	3.6
Payroll tax, total	86.3	79.8
Net value-added tax	2.1	1.5
Total tax for the period	**88.3**	**81.3**
Tax footprint	**164.8**	**155.7**

For Pihlajalinna, the management of data protection and information security is of vital importance, and its purpose is to ensure the secure processing of all of Pihlajalinna's data – especially patient and personal data – and the protection of the privacy of patients, customers and the company's personnel. The management of information security aims to ensure the integrity, confidentiality and availability of information. Pihlajalinna's target for data protection is zero successful attempts to gain unauthorised access. This target was achieved in 2023. In 2023, Pihlajalinna not only increased its own level of information security but also conducted information security audits of partners and enhanced the operations of the external Security Operations Centre (SOC). More information on information security is provided in the Annual Report.

In 2022, Pihlajalinna began developing measures to increase the well-being of the environment. The company's environmental policy sets out the approach to environmental issues. The environmental impacts of Pihlajalinna's operations arise mainly from energy consumption, carbon dioxide emissions and waste. Due to the nature of its operations, the company's carbon intensity is low. The company has an ISO14001 environmental management system that was certified in 2023.

The greenhouse gas emissions of Pihlajalinna's operations and value chain are calculated in accordance with the internationally recognised GHG Protocol (Scope 1 and 2). The emission accounting model can be used to report the significant direct and indirect greenhouse gas emissions of the value chain. More details on the emission calculation are included in the Annual Report. The company will continue to develop emission calculation as part of its preparations for sustainability reporting obligations. The company will also set objectives concerning climate change mitigation and adaptation.

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

EU taxonomy reporting

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

The Taxonomy Regulation sets six environmental objectives: climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems. An economic activity that promotes any of these objectives while doing no significant harm to the other objectives can be considered environmentally sustainable. Environmentally sustainable projects should also respect human rights and labour rights.

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

Pihlajalinna has assessed the taxonomy eligibility of its economic activities and concluded that the taxonomy-eligible share of turnover (totalling EUR 720.0 million), capital expenditure (totalling EUR 66.5 million) and operating expenditure (totalling EUR 20.0 million) is 0% for all three. Accordingly, the non-eligible share of turnover, capital expenditure and operating expenditure is 100%. Pihlajalinna does not engage in economic activities relating to nuclear power or fossil gases. Information on taxonomy-aligned activities is presented in the tables below.

Proportion of turnover from products or services associated with Taxonomy-aligned economic activities

Financial year 2023	2023			Substantial contribution criteria						DNSH criteria									
Economic Activities	**Code**	**Turnover**	**Proportion of Turnover, 2023**	**Climate Change Mitigation**	**Climate Change Adaptation**	**Water**	**Pollution**	**Circular Economy**	**Biodiversity**	**Climate Change Mitigation**	**Climate Change Adaptation**	**Water**	**Pollution**	**Circular Economy**	**Biodiversity**	**Minimum Safeguards**	**Proportion of Taxonomy-aligned (A.1) or -eligible (A.2) turnover**	**Category enabling activity**	**Category transitional activity**
		MEUR	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1. Environmentally sustainable activities (Taxonomy-aligned)																			
Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0.0	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	N	N	N	N	N	N	N	0.0 %		
Of which enabling		0.0	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	N	N	N	N	N	N	N	0.0 %	E	
Of which transitional		0.0	0.0 %	0.0 %						N	N	N	N	N	N	N	0.0 %		T
A.2. Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																			
				EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL										
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		0.0	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %								0.0 %		
A. Turnover of Taxonomy-eligible activities (A.1+A.2)		0.0	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %								0.0 %		
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
Turnover of Taxonomy-non-eligible activities		719,984	100%																
TOTAL (A+B)		**719,984**	100%																

EL = Eligible; N/EL – Not eligible

Proportion of CapEx from products or services associated with Taxonomy-aligned economic activities

Financial year 2023	2023			Substantial contribution criteria						DNSH criteria									
Economic Activities	**Code**	**CapEx**	**Proportion of CapEx, 2023**	**Climate Change Mitigation**	**Climate Change Adaptation**	**Water**	**Pollution**	**Circular Economy**	**Biodiversity**	**Climate Change Mitigation**	**Climate Change Adaptation**	**Water**	**Pollution**	**Circular Economy**	**Biodiversity**	**Minimum Safeguards**	**Proportion of Taxonomy-aligned (A.1) or -eligible (A.2) CapEx**	**Category enabling activity**	**Category transitional activity**
		MEUR	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1. Environmentally sustainable activities (Taxonomy-aligned)																			
CapEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0.0	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	E	E	E	E	E	E	E	0.0 %		
Of which enabling		0.0	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	E	E	E	E	E	E	E	0.0 %	E	
Of which transitional		0.0	0.0 %	0.0 %						E	E	E	E	E	E	E	0.0 %		T
A.2. Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																			
				EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL										
CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		0.0	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %								0.0 %		
A. CapEx of Taxonomy-eligible activities (A.1+A.2)		0.0	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %								0.0 %		
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
CapEx of Taxonomy-non-eligible activities		66.5	100%																
TOTAL (A+B)		**66.5**	**100%**																

EL = Eligible; N/EL – Not eligible

Proportion of OpEx from products or services associated with Taxonomy-aligned economic activities

Financial year 2023	2023			Substantial contribution criteria						DNSH criteria									
Economic Activities	**Code**	**OpEx**	**Proportion of OpEx, 2023**	**Climate Change Mitigation**	**Climate Change Adaptation**	**Water**	**Pollution**	**Circular Economy**	**Biodiversity**	**Climate Change Mitigation**	**Climate Change Adaptation**	**Water**	**Pollution**	**Circular Economy**	**Biodiversity**	**Minimum Safeguards**	**Proportion of Taxonomy-aligned (A.1) or -eligible (A.2) OpEx**	**Category enabling activity**	**Category transitional activity**
		MEUR	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1. Environmentally sustainable activities (Taxonomy-aligned)																			
Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0.0	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	E	E	E	E	E	E	E	0.0 %		
Of which enabling		0.0	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	E	E	E	E	E	E	E	0.0 %	E	
Of which transitional		0.0	0.0 %	0.0 %						E	E	E	E	E	E	E	0.0 %		T
A.2. Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																			
				EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL										
OpEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		0.0	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %								0.0 %		
A. OpEx of Taxonomy-eligible activities (A.1+A.2)		0.0	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %								0.0 %		
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
OpEx of Taxonomy-non-eligible activities		20.0	100%																
TOTAL (A+B)		**20.0**	**100%**																

EL = Eligible; N/EL – Not eligible

Template 1: Nuclear and fossil gas related activities

	Nuclear energy related activities	
1.	The undertaking carries out, funds or has exposures to research, development, demonstration and deployment of innovative electricity generation facilities that produce energy from nuclear processes with minimal waste from the fuel cycle.	No
2.	The undertaking carries out, funds or has exposures to construction and safe operation of new nuclear installations to produce electricity or process heat, including for the purposes of district heating or industrial processes such as hydrogen production, as well as their safety upgrades, using best available technologies.	No
3.	The undertaking carries out, funds or has exposures to safe operation of existing nuclear installations that produce electricity or process heat, including for the purposes of district heating or industrial processes such as hydrogen production from nuclear energy, as well as their safety upgrades.	No
	Fossil gas related activities	
4.	The undertaking carries out, funds or has exposures to construction or operation of electricity generation facilities that produce electricity using fossil gaseous fuels.	No
5.	The undertaking carries out, funds or has exposures to construction, refurbishment, and operation of combined heat/cool and power generation facilities using fossil gaseous fuels.	No
6.	The undertaking carries out, funds or has exposures to construction, refurbishment and operation of heat generation facilities that produce heat/cool using fossil gaseous fuels.	No

Events after the financial period

Kuusiolinna Terveys Oy, company part or Pihlajalinna Group, announced 31 January 2024 it would commence change negotiations. The premature termination of the service agreement, as decided by the wellbeing services county, significantly impacts the company's operating conditions, necessitating the initiation of change negotiations. The change negotiations are still ongoing and involve the entire staff, excluding administrative support services. According to preliminary estimates, the outcome of the negotiations may result in a reduction of approximately 190 full-time equivalent positions within the company. The negotiations are expected to last approximately six weeks in total.

Pihlajalinna conveyed, in January 2024, a gross amount total of 20 000 own shares to CEO Tuomas Hyyryläinen. Compensation was provided in the form of shares and cash. The applicable withholding tax was deducted from the transferred shares, and the remaining net amount was paid in shares. The compensation was related to the CEO's agreed right to acquire shares at the beginning of the share-based incentive program, during which the company releases shares in exchange for purchases. After conveying, the number of own shares held by Pihlajalinna was 43,980 at the end of the financial year, corresponding to approximately 0,19 per cent of the total number of shares and votes.

Key financial figures

Scope of operations	2023	2022	2021	2020	2019
Revenue, EUR million	720.0	690.5	577.8	508.7	518.6
Change, %	4.3	19.5	13.6	-1.9	6.3
Organic revenue growth, EUR million*	25.3	34.9	58.1	-11.3	13.4
Change, %	3.7	6.0	11.4	-2.2	2.8
Gross investments, EUR million*	66.5	234.5	44.8	25.4	44.1
% of revenue	9.2	34.0	7.8	5.0	8.5
Capitalised development costs, EUR million*	0.0	0.0	0.0	0.4	0.5
% of revenue	0.0	0.0	0.0	0.1	0.1
Employee benefit expenses, EUR million	322.8	296.6	255.2	214.2	222.0
Personnel at the end of the period (NOE)	6,880	7,016	6,297	5,550	5,815
Average number of personnel (FTE)	4,923	4,851	4,746	4,308	4,649

Profitability	2023	2022	2021	2020	2019
EBITDA, EUR million	72.5	54.4	62.6	52.2	47.8
EBITDA, %	10.1	7.9	10.8	10.3	9.2
Adjusted EBITDA, EUR million*	80.6	64.2	65.3	54.8	55.7
Adjusted EBITDA, %	11.2	9.3	11.3	10.8	10.7
Operating profit (EBIT), EUR million	20.6	8.9	27.9	18.1	10.4
Operating profit, %	2.9	1.3	4.8	3.6	2.0
Adjusted operating profit (EBIT), EUR million*	29.1	18.6	30.6	21.1	21.6
Adjusted operating profit, %	4.0	2.7	5.3	4.2	4.2
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA), EUR million*	37.8	26.7	37.3	27.4	28.9
Adjusted EBITA, %	5.2	3.9	6.5	5.4	5.6
Net financial expenses, EUR million	-12.4	-7.4	-3.7	-4.4	-3.9
% of revenue	-1.7	-1.1	-0.6	-0.9	-0.8
Profit before tax, EUR million	8.2	1.5	24.2	13.7	6.4
% of revenue	1.1	0.2	4.2	2.7	1.2
Income tax, EUR million	-3.6	6.1	-5.1	-4.8	-1.8
Profit for the period	4.6	7.7	19.1	8.9	4.6
Cash flow after investments, EUR million	60.5	-18.6	24.9	43.7	18.3
Return on equity (ROE), %*	3.4	6.2	16.1	8.1	3.9
Return on capital employed (ROCE), %*	4.0	2.3	8.8	5.7	3.1

Funding and financial position					
Interest-bearing net financial debt, EUR million	352.7	385.7	194.7	194.8	192.7
% of revenue	49.0	55.9	33.7	38.3	37.2
Equity ratio, %*	22.0	18.6	27.0	25.9	24.1
Gearing, %*	243.9	313.8	158.8	170.6	181.7
Net debt/adjusted EBITDA*	4.4	6.0	3.0	3.6	3.5

Share related information

	2023	2022	2021	2020	2019
Earnings per share (EPS)	0.19	0.42	0.89	0.38	0.16
Equity per share, EUR*	6.56	5.50	5.27	4.82	4.44
Dividend per share, EUR (the Board of Directors' proposal)	0.07		0.30	0.20	
Dividend per share, % (the Board of Directors' proposal)*	37.3		33.7	52.0	
Effective dividend yield, % (the Board of Directors' proposal)*	0.99		2.37	2.13	
Number of shares at year-end	22,566,155	22 549 644	22,594,235	22,617,841	22,620,135
Average number of shares	22,557,957	22 560 271	22,589,383	22,586,212	22,620,135
Market capitalisation, EUR million	159.3	192.1	285.6	212.2	345.6
Dividends paid, EUR million (the Board of Directors' proposal)	1.6		6.8	4.5	
P/E ratio*	37.60	20.19	14.21	24.39	98.58
Highest quotation, EUR	9.90	13.18	12.98	15.66	15.88
Lowest quotation, EUR	6.82	8.48	9.26	8.72	8.70
Average quotation, EUR	8.20	11.06	11.18	12.09	12.77
Closing price at year-end, EUR	7.06	8.52	12.64	9.38	15.28
Trading volume of shares, 1,000 shares*	2 801	3 770	6,929	6,620	4,062
Trading volume of shares, %*	12.4	16.7	30.7	29.3	18.0

* Alternative performance measure

Quarterly information

EUR million	Q4/23	Q3/23	Q2/23	Q1/23	Q4/22	Q3/22	Q2/22	Q1/22
INCOME STATEMENT								
Revenue	183.0	165.6	183.6	187.8	188.4	165.2	173.7	163.1
Other operating income	-0.4	1.0	2.1	4.8	0.9	0.4	1.8	1.7
Materials and services	-65.3	-56.6	-66.4	-66.9	-74.8	-61.8	-66.5	-64.2
Employee benefit expenses	-84.4	-72.6	-82.8	-82.9	-80.4	-68.4	-74.6	-73.2
Other operating expenses	-21.2	-17.3	-18.8	-19.8	-22.7	-17.4	-18.9	-18.2
EBITDA	11.6	20.1	17.7	23.0	11.5	18.1	15.6	9.3
EBITDA, %	6.4	12.1	9.7	12.3	6.1	10.9	9.0	5.7
Adjusted* EBITDA	20.7	20.5	18.0	21.4	12.0	18.9	16.9	16.5
Adjusted* EBITDA, %	11.3	12.4	9.8	11.4	6.4	11.4	9.7	10.1
IFRS3 expenses	0.0	0.0	-0.2	-0.5	-0.2	-0.1	-0.2	-0.8
Depreciation and amortisation	-13.6	-13.0	-12.8	-12.5	-12.0	-11.5	-11.5	-10.5
Operating profit (EBIT)	-1.9	7.1	4.9	10.5	-0.6	6.6	4.1	-1.2
Operating profit, %	-1.1	4.3	2.7	5.6	-0.3	4.0	2.4	-0.7
Adjusted operating profit (EBIT)	7.6	7.3	4.8	8.2	-0.2	7.3	5.0	5.2
Adjusted operating profit (EBIT), %	4.1	4.4	2.6	4.4	-0.1	4.4	2.9	3.2
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA)	9.9	9.6	7.3	11.0	2.2	9.4	7.3	7.8
Adjusted EBITA, %	5.4	5.8	4.0	5.9	1.2	5.7	4.2	4.8
Financial income	-0.1	0.2	0.2	0.1	0.4	0.1	0.1	0.1
Financial expenses	-4.1	-2.8	-2.7	-3.1	-2.7	-2.1	-1.7	-1.6
Profit before taxes (EBT)	-6.1	4.4	2.4	7.5	-2.8	4.5	2.5	-2.7
Income tax	-0.3	-1.1	-0.6	-1.6	1.7	-0.5	-0.3	5.2
Profit for the period	-6.4	3.3	1.8	5.9	-1.1	4.0	2.1	2.6
Share of the result for the period attributable to owners of the parent company	-5.2	3.5	2.0	5.5	-0.7	3.3	1.7	5.3
Share of the result for the period attributable to non-controlling interests	-1.2	-0.2	-0.2	0.4	-0.4	0.8	0.4	-2.7
EPS	-0.2	0.2	0.1	0.2	0.0	0.1	0.1	0.2
Average number of personnel (FTE)	4,923	4,976	4,978	4,882	4,851	4,793	4,990	4,474
Change in personnel during the quarter	-53	-1	95	31	58	-197	516	-272

Calculation of key financial figures and alternative performance measures

Key figures	Numerator	Denominator	
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	Numerator	Denominator	
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 revenue, %	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

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

EUR million	2023	2022
Return on equity (ROE), %		
Profit for period (rolling 12 months)/	4.6	7.7
Equity at beginning of period	122.9	122.6
Equity at end of period	144.6	122.9
Equity (average) x 100	133.7	122.7
Return on equity (ROE), %	**3.4**	**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	2023	2022
Return on capital employed (ROCE), %		
Profit before taxes (rolling 12 months) +	8.2	1.5
Financial expenses (rolling 12 months)	12.7	8.1
/	20.9	9.6
Total statement of financial position at beginning of period -	661.6	457.1
non-interest-bearing liabilities at beginning of period	138.9	135.5
	522.8	321.6
Total statement of financial position at end of period -	657.5	661.6
Non-interest-bearing liabilities at end of period	135.7	138.9
	521.8	522.8
Average x 100	522.3	422.2
Return on capital employed (ROCE), %	**4.0**	**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	2023	2022
Equity ratio, %		
Equity/	144.6	122.9
Total statement of financial position -	657.5	661.6
Advances received x 100	0.3	0.0
Equity ratio, %	**22.0**	**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	2023	2022
Gearing, %		
Interest-bearing financial liabilities –	377.2	398.8
Cash and cash equivalents/	24.5	13.1
Equity x 100	144.6	122.9
Gearing, %	**243.9**	**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	2023	2022
Net debt/adjusted EBITDA, rolling 12 months		
Interest-bearing financial liabilities -	377.2	398.8
Cash and cash equivalents	24.5	13.1
Net debt/	352.7	385.7
Adjusted EBITDA (rolling 12 months)	80.6	64.2
Net debt/adjusted EBITDA, rolling 12 months	**4.4**	**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	2023	2022
EBITDA and Adjusted EBITDA		
Profit for period	4.6	7.7
Income tax	-3.6	6.1
Financial expenses	-12.7	-8.1
Financial income	0.4	0.7
Depreciation, amortisation and impairment	-51.9	-45.5
EBITDA	**72.5**	**54.4**
IFRS 3 costs –	0.7	1.3
Entries related to the IFRIC Agenda Decision concerning cloud computing arrangements	1.0	0.3
Other EBITDA adjustments	6.4	8.2
Total EBITDA adjustments	**8.1**	**9.8**
Adjusted EBITDA	**80.6**	**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	2023	2022
EBITDA, %		
EBITDA/	72.5	54.4
Revenue x 100	720.0	690.5
EBITDA, %	**10.1**	**7.9**

EUR million	2023	2022
Adjusted EBITDA, %		
Adjusted EBITDA/	80.6	64.2
Revenue x 100	720.0	690.5
Adjusted EBITDA, %	**11.2**	**9.3**

EUR million	2023	2022
Operating profit (EBIT) and Adjusted operating profit (EBIT)		
Profit for the period	4.6	7.7
Income tax	-3.6	6.1
Financial expenses	-12.7	-8.1
Financial income	0.4	0.7
Operating profit (EBIT)	**20.6**	**8.9**
Entries related to the IFRIC Agenda Decision concerning cloud computing arrangements (reversal of amortisation) -	-0.5	-0.4
Other adjustments to amortisation and impairment	0.9	0.3
Total adjustments to depreciation, amortisation and impairment	**0.5**	**0.4**
Total EBITDA adjustments	**8.1**	**9.8**
Total operating profit (EBIT) adjustments	**8.5**	**9.7**
Adjusted operating profit (EBIT)	**29.1**	**18.6**
PPA amortisation	2.1	2.7
Amortisation and impairment of other intangible assets	6.6	5.4
Entries related to the IFRIC Agenda Decision concerning cloud computing arrangements (reversal of amortisation)	0.5	0.4
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA)	**37.8**	**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 (EBIT) and adjusted operating profit before the amortisation and impairment of intangible assets (EBITA) on a monthly basis.

EUR million	2023	2022
Operating profit (EBIT), %		
Operating profit/	20.6	8.9
Revenue x 100	720.0	690.5
Operating profit (EBIT), %	**2.9**	**1.3**

EUR million	2023	2022
Adjusted operating profit (EBIT), %		
Adjusted operating profit/	18.6	18.6
Revenue x 100	720.0	690.5
Adjusted operating profit (EBIT), %	**4.0**	**2.7**

EUR million	2023	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) /	37.8	26.7
Revenue x 100	720.0	690.5
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA), %	**5.2**	**3.9**

EUR million	2023	2022
Cash flow after investments		
Net cash flow from operating activities	79.0	64.9
Net cash flow from investing activities	-18.5	-83.4
Cash flow after investments	**60.5**	**-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	2023	2022
Profit before taxes		
Profit for period	4.6	7.7
Income tax	-3.6	6.1
Profit before taxes	**8.2**	**1.5**

EUR million	2023	2022
Gross investments		
Property, plant and equipment at end of period	65.8	58.7
Right-of-use assets at end of period	203.9	197.7
Other intangible assets at end of period	21.1	22.8
Goodwill at end of period	251.8	251.0
Depreciation, amortisation and impairment for period are added	51.9	45.5
-		
Property, plant and equipment at beginning of period	58.7	45.0
Right-of-use assets at beginning of the period	197.7	95.6
Other intangible assets at beginning of period	22.8	14.9
Goodwill at beginning of period	251.0	188.9
Proceeds from the sale of property, plant and equipment during period	-2.3	-3.0
Gross investments	**66.5**	**234.5**

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

EUR million	2023	2022
Organic revenue growth, %		
Revenue for period -	720.0	690.5
Revenue from M&A transactions during period	**16.2**	**77.8**
Revenue from divestments during period	**-12.0**	
Revenue for previous period	690.5	577.8
Organic revenue growth /	**25.3**	**34.9**
Revenue for previous period x 100	690.5	577.8
Organic revenue growth, %	**3.7**	**6.0**
Revenue growth due to M&A transactions, %	**2.3**	**13.5**
Revenue growth	**29.5**	**112.7**
Revenue growth, %	**4.3**	**19.5**

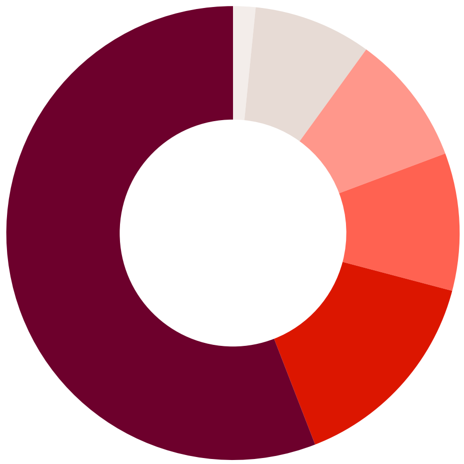
Organic revenue growth is growth in existing business operations that has not come about as a result of M&A transactions. Organic growth can be achieved through increasing the service offering, new customer acquisition, growth in custom from existing customers, price increases and digitalisation. Social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

Shares and shareholders

Major shareholders, 31 Dec 2023

1	LOCALTAPIOLA GENERAL MUTUAL INSURANCE COMPANY	3,481,641	15.4 %
2	MWW YHTIÖ LTD	2,309,010	10.2 %
3	FENNIA MUTUAL INSURANCE COMPANY	2,262,965	10.0 %
4	LOCALTAPIOLA MUTUAL LIFE INSURANCE COMPANY	1,895,156	8.4 %
5	ELO MUTUAL PENSION INSURANCE COMPANY	1,267,161	5.6 %
6	ILMARINEN MUTUAL PENSION INSURANCE COMPANY	728,431	3.2 %
7	NIEMISTÖ LEENA KATRIINA	707,867	3.1 %
8	FONDITA NORDIC MICRO CAP INVESTMENT FUND	430,000	1.9 %
9	NORDEA LIFE ASSURANCE FINLAND LTD	351,700	1.6 %
10	VIPUNEN CAPITAL OY	350,000	1.5 %
	10 largest, total	**13,783,931**	**60.9 %**
	Other shareholders	8,836,204	39.1 %
	Total	**22,620,135**	**100.0 %**

Distribution of shareholding by size range, 31 Dec 2023



1–100 Shares per shareholder
101–1 000
1 001 – 10 000
10 001 – 100 000
100 001 – 500 000
500 001 –

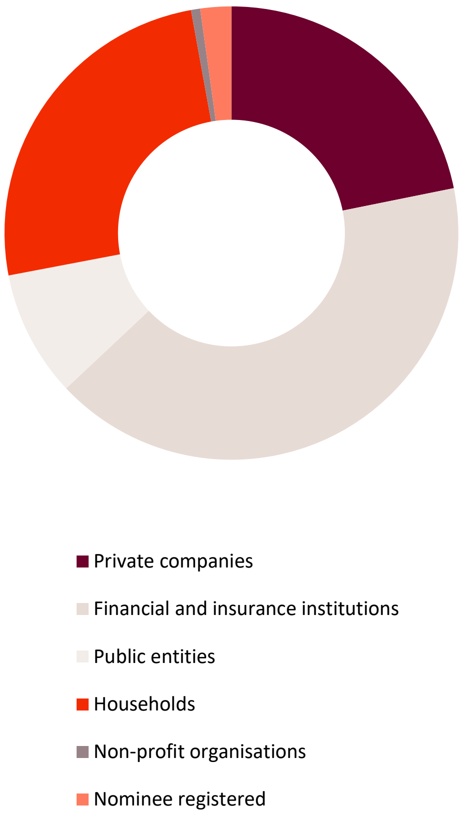
Distribution of shareholding by size range, 31 Dec 2023

Shares per shareholder	Number of shareholders	% of shareholders	Number of shares	Percentage of shares, %
1 - 100	8,612	56.8 %	364,162	1.6 %
101 - 1 000	5,645	37.3 %	1,907,467	8.4 %
1 001 - 10 000	779	5.1 %	2,104,422	9.3 %
10 001 - 100 000	91	0.6 %	2,217,556	9.8 %
100 001 - 500 000	16	0.1 %	3,374,297	14.9 %
500 001 -	7	0.0 %	12,652,231	55.9 %
Total	**15,150**	**100.0 %**	**22,620,135**	**100.0 %**
of which nominee-registered	9		498,983	2.2 %
Outstanding shares			**22,620,135**	**100.0 %**

Distribution of shareholding by sector 31 Dec 2023

	Number of shareholders	% of shareholders	Number of shares	Percentage of shares, %
Private companies	531	3.5 %	4,928,734	21.8 %
Financial and insurance institutions	37	0.2 %	9,290,587	41.1 %
Public entities	5	0.0 %	2,031,818	9.0 %
Households	14,496	95.7 %	5,680,571	25.1 %
Non-profit organisations	42	0.3 %	147,678	0.7 %
Foreign shareholders	39	0.3 %	41,764	0.2 %
Total	**15,150**	**100.0 %**	**22,121,152**	**97.8 %**
Nominee registered	8		498,983	2.2 %
Outstanding shares			**22,620,135**	**100.0 %**

Distribution of shareholding by size range, 31 Dec 2023



Shareholding of the management 31 Dec 2023

	Direct holding		Indirect holdings	
	Number of shares	Percentage of shares and votes	Number of shares	Percentage of shares and votes
Board of Directors				
Jukka Leinonen	12,636	0.1 %		
Leena Niemistö	707,867	3.1 %		
Mikko Wirén (MWW Yhtiö Oy)			2,309,010	10.2 %
Mikko Wirén	5,000	0.0 %		
Heli Iisakka	2,267	0.0 %		
Hannu Juvonen	3,514	0.0 %		
Seija Turunen	4,392	0.0 %		
Kim Ignatius	1,318	0.0 %		
Tiina Kurki	1,318	0.0 %		
Management Team				
Tuomas Hyyryläinen	30,000	0.1 %		
Eetu Salunen	18,431	0.1 %		
Tarja Rantala	17,142	0.1 %		
Marko Savolainen	10,694	0.1 %		
Timo Harju	11,500	0.1 %		
Antti-Jussi Aro	4,001	0.0 %		
Riihijärvi Sari	4,004	0.0 %		

Financial statements 1 Jan–31 Dec 2023

CONTENTS

Consolidated statement of comprehensive income, IFRS

EUR 1,000	Note	1–12/2023	1–12/2022
Revenue	**1**	**719,984**	**690,481**
Other operating income	2	7,532	4,896
Materials and services	3	-255,231	-267,224
Employee benefit expenses	4	-322,760	-296,572
Other operating expenses	6	-76,559	-77,164
Share of profit in associated companies and joint ventures	28	-478	-15
EBITDA		**72,487**	**54,401**
Depreciation, amortisation and impairment	7	-51,906	-45,498
Operating profit (EBIT)		**20,581**	**8,903**
Financial income	8	355	721
Financial expenses	9	-12,749	-8,074
Financial income and expenses		**-12,394**	**-7,353**
Profit before taxes		**8,187**	**1,550**
Income tax	10	-3,587	6,110
Profit for the period		4,600	7,659
Attributable to:			
To the owners of the parent company		5,729	9,519
To non-controlling interests		-1,129	-1,859
Earnings per share calculated on the basis of the result for the period attributable to the owners of the parent company (EUR)			
Basic	11	0.19	0.42
Diluted		0.19	0.42

Consolidated statement of comprehensive income

EUR 1,000	Note	1–12/2023	1–12/2022
Profit for the period		4,600	7,659
Other comprehensive income that will be reclassified subsequently to profit or loss			
Cash flow hedge	25	-1,768	5,113
Recorded in equity		-1,020	5,113
Transferred to income statement		-748	0
Income tax on other comprehensive income		354	-1,023
Other comprehensive income for the reporting period		-1,415	4,090
Total comprehensive income for the reporting period		3,185	11,750
Attributable to:			
To the owners of the parent company		4,314	13,609
To non-controlling interests		-1,129	-1,859

Consolidated statement of financial position, IFRS

EUR 1,000	Note	31 Dec 2023	31 Dec 2022
ASSETS			
Non-current assets			
Property, plant and equipment	12	65,807	58,738
Goodwill	13	251,773	251,032
Other intangible assets	13	21,071	22,803
Right-of-use assets	14	203,932	197,746
Interests in associates	28	1,591	2,069
Other investments		168	1,167
Other receivables	15	6,088	9,160
Deferred tax assets	19	14,595	17,324
Total non-current assets		**565,025**	**560,039**
Current assets			
Inventories	3	4,460	4,309
Trade and other receivables	16	61,498	76,806
Current tax assets		1,998	2,103
Cash and cash equivalents		24,517	13,128
Current assets held for sale	26		5,255
Total current assets		**92,473**	**101,601**
Total assets		**657,498**	**661,639**

EUR 1,000	Note	31 Dec 2023	31 Dec 2022
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital		80	80
Fair value reserve		2,676	4,090
Reserve for invested unrestricted equity		116,520	116,520
Hybrid loan		20,000	
Retained earnings		3,032	-6,229
Profit for the financial year		5,729	9,519
		148,036	**123,981**
Non-controlling interests		-3,445	-1,092
Total equity	**21**	**144,591**	**122,888**
Deferred tax liabilities	19	8,452	8,512
Provisions	17	123	89
Lease liabilities	22	199,834	201,235
Financial liabilities	20	144,546	168,031
Other non-current liabilities		666	816
Total non-current liabilities		**353,620**	**378,684**
Trade and other payables	18	125,333	127,529
Current tax liabilities		119	30
Provisions	17	84	
Lease liabilities	22	30,754	28,338
Financial liabilities	20	2,996	3,090
Current liabilities held for sale	26		1,081
Total current liabilities		**159,287**	**160,067**
Total liabilities		**512,907**	**538,750**
Total equity and liabilities		**657,498**	**661,639**

Consolidated statement of cash flows, IFRS

EUR 1,000	Note	1–12/2023	1–12/2022
Cash flow from operating activities			
Profit for the period		4,600	7,659
Taxes		3,587	-6,110
Depreciation, amortisation and impairment		51,906	45,498
Financial income and expenses		12,394	7,371
Other		6,450	-121
Net cash generated from operating activities before change in working capital		**78,937**	**54,299**
Change in working capital		25	16,761
Interest received		409	714
Taxes paid		-370	-6,892
Net cash flow from operating activities		**79,002**	**64,882**
Cash flow from investing activities			
Investments in tangible and intangible assets		-22,859	-29,033
Proceeds from disposal of property, plant and equipment and intangible assets and prepayments		311	408
Changes in other receivables and investments		-34	-1,775
Sale of subsidiaries with time-of-sale liquid assets deducted	26	7,657	0
Granted loans		-2,078	-738
Dividends received		3	7
Acquisition of subsidiaries less cash and cash equivalents at date of acquisition	26	-1,460	-52,308
Net cash flow from investing activities		**-18,460**	**-83,439**
Cash flow from financing activities			
Changes in non-controlling interests		-262	-408
Acquisition of own shares		0	-1,475
Proceeds from long-term borrowings	23	5,000	204,000
Repayment of long-term borrowings	23	-33,975	-128,779
Repayment of lease liabilities	23	-31,825	-29,014
Interest and other financial expenses		-6,178	-8,307
Dividends paid and other profit distribution		-1,480	-8,589
Proceeds from hybrid bond	21	20,000	0
Hybrid bond expenses	21	-432	0
Net cash flow from financing activities		**-49,153**	**27,429**
Changes in cash and cash equivalents		**11,389**	**8,871**
Cash at beginning of period		13,128	4,257
Cash at end of period		24,517	13,128

Consolidated statement of changes in equity, IFRS

		Equity attributable to owners of the parent company						
EUR 1,000	Note	Share capital	Reserve for invested unrestricted equity	Fair value reserve	Hybrid bond	Retained earnings	Non-controlling interests	Equity Total
Total equity, 1 Jan 2022		**80**	**116,520**			**2,501**	**3,510**	**122,611**
Profit for the period						9,519	-1,859	7,659
Comprehensive income for the period	25			4,090				4,090
Total comprehensive income for the period				**4,090**		**9,519**	**-1,859**	**11,750**
Dividends paid						-6,767	-2,987	-9,754
Acquisition of own shares						-1,475		-1,475
Share-based benefits	5					-49		-49
Investments in group subsidiaries							41	41
Total transactions with owners						**-8,290**	**-2,945**	**-11,236**
Changes in NCI without a change in control	26					-610	202	-408
Other changes						172		172
Total changes in subsidiary shareholdings						**-439**	**202**	**-236**
Total equity, 31 Dec 2022		**80**	**116,520**	**4,090**		**3,290**	**-1,092**	**122,888**

		Equity attributable to owners of the parent company						
EUR 1,000	Note	Share capital	Reserve for invested unrestricted equity	Fair value reserve	Hybrid bond	Retained earnings	Non-controlling interests	Equity Total
Total equity, 1 Jan 2023		**80**	**116,520**	**4,090**		**3,290**	**-1,092**	**122,888**
Profit for the period						5,729	-1,129	4,600
Comprehensive income for the period	25			-1,415				-1,415
Total comprehensive income for the period				**-1,415**		**5,729**	**-1,129**	**3,185**
Dividends paid							-730	-730
Share-based benefits	5					299		299
Total transactions with owners						**299**	**-730**	**-431**
Changes in NCI without a change in control	26					-202	-347	-550
Other changes						77	-146	-70
Total changes in subsidiary shareholdings						**-126**	**-494**	**-619**
Proceeds from hybrid bond	21				20,000			20,000
Hybrid bond interests and expenses	21					-432		-432
Total equity, 31 Dec 2023		**80**	**116,520**	**2,676**	**20,000**	**8,760**	**-3,445**	**144,591**

Accounting policies

Company profile

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

At the end of the financial year, the total number of Pihlajalinna's private clinics, hospitals, dental clinics, fitness centres and service housing units with 24-hour assistance was approximately 160. In addition, Pihlajalinna has four major complete social and healthcare outsourcing agreements that collectively cover some 40 locations (including health centres, maternity and child health clinics, service housing units with 24-hour assistance and daytime activity centres).

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

The Board of Directors of Pihlajalinna Plc approved these financial statements in its meeting on 13 February 2024. In accordance with the Finnish Limited Liability Companies Act, the shareholders may adopt or reject the financial statements at the Annual General Meeting held after their publication. The Annual General Meeting can also decide on modifications to be made to the financial statements.

Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), and their preparation complies with the IAS and IFRS as well as SIC and IFRIC interpretations effective on 31 December 2023. International Financial Reporting Standards, as intended in the Finnish Accounting Act and the regulations issued pursuant to the Act, refer to the standards that have been approved for application within the EU in accordance with Regulation (EC) No. 1606/2002 and interpretations thereof. The notes to the consolidated financial statements also comply with the Finnish accounting and company legislation that complements the IFRS regulations.

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

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

New and amended standards applied in the past financial year

From the beginning of 2023, the Group has applied the following standards, which are already in effect, for the first time in its IFRS reporting:

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

The amendments clarify the application of materiality to disclosure of accounting policies.

Changes to IAS 8 *Accounting Principles, Changes in Accounting Estimates and Errors*

The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates, with a primary focus on the definition of and clarifications on accounting estimates.

Amendments to IAS 12 *Income Taxes*

The amendments narrow the initial recognition exemption (IRE) and clarify that the exemption does not apply to transactions such as leases and decommissioning obligations which give rise to equal and offsetting temporary differences. From 2023 onwards, a deferred tax liability and assets from leases has been presented separately in the notes. The figures for comparison period 2022 have been adjusted correspondingly.

Other new or amended standards that entered effect on 1 January 2023 did not have effect on Pihlajalinna's consolidated financial statements.

Consolidation principles

Subsidiaries

Subsidiaries are entities in which the Group exercises control. The Group has control of an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

Non-controlling interests in the acquiree are recognised either at fair value or an amount that corresponds to their pro rata share of the acquiree's net assets. The amount by which the consideration transferred, non-controlling interests in the acquiree and previously owned holding combined exceed the fair value of the acquired net assets is recognised as goodwill in the consolidated statement of financial position. If the combined value of the consideration, non-controlling interests and previously owned holding is lower than the fair value of the acquiree's net assets, the difference is recognised in the statement of comprehensive income.

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

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

Associates and joint arrangements

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

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

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

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

Foreign currency translation

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

Segment reporting

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

The Group CEO uses the key figures from the IFRS financial statements in reporting on the Group's result. The Group CEO assesses the result and profitability on the basis of the adjusted EBIT and adjusted EBITDA, and the reporting of the result complies with the accounting principles applied in the consolidated financial statements. The adjustment items for the adjusted EBIT and adjusted EBITDA are specified in Note 24 *Capital management*. Adjustments to EBITDA amounted to EUR 8.1 (9.8) million for the financial year, while adjustments to EBIT totalled EUR 8.5 (9.7) million.

Key accounting estimates and uncertainties related to estimates

In the course of preparing the financial statements, it is necessary to make estimates and assumptions about the future. However, such estimates and assumptions may later prove inaccurate compared with actual outcomes.

The Group regularly monitors the realisation of the estimates and assumptions and changes in the underlying factors together with the business units by using several, both internal and external, sources of information. Any changes in estimates and assumptions are recognised in the financial year during which the estimate or assumption is corrected and in all subsequent financial years.

The key accounting estimates and assumptions used in the preparation of the consolidated financial statements that have the greatest effect on the figures presented in the consolidated financial statements are described in more detail in the following sections:

	Note
Assumptions used concerning revenue recognition and the profitability of the Group's fixed-term complete social and healthcare services outsourcing agreements	1
Assumptions used in impairment testing	13
Assumptions used in the recognition of deferred tax assets	19

Accounting policies requiring management judgement

The Group's management makes judgement-based decisions regarding the choice of accounting policies and their application in the financial statements. The management has exercised judgement in the application of accounting policies in the financial statements with regard to the measurement of lease assets and liabilities in the statement of financial position (note 14). The management has also exercised judgement in determining the number of reporting segments (note Accounting policies, Segment reporting).

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

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

* = The regulation in question was not approved for application in the EU by 31 December 2023.

Amendments to IFRS 16 *Leases*
(Effective for annual periods beginning on or after 1 January 2024, early application is permitted)
The amendments introduce a new accounting model for variable payments and will require seller-lessees to reassess and potentially restate sale-and-leaseback transactions entered into since the implementation of IFRS 16 in 2019.

Amendments to IAS 1 *Presentation of Financial Statements**
(Effective for annual periods beginning on or after 1 January 2024, early application is permitted)
The amendments are to promote consistency in application and clarify the requirements for determining if a liability is current or non-current. The amendments specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. The amendments require to disclose information about these covenants in the notes to the financial statements. The amendments also clarify transfer of a company's own equity instruments is regarded as settlement of a liability. Liability with any conversion options might affect classification as current or non-current unless these conversion options are recognized as equity under IAS 32.

Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures**
(Available for optional application, effective date deferred indefinitely)
The amendments address the conflict between the existing guidance on consolidation and equity accounting and require the full gain to be recognised when the assets transferred meet the definition of a business under IFRS 3 *Business Combinations*.

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

Notes to the consolidated financial statements, IFRS

1. Revenue from contracts with customers

Accounting policies

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

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

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

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

Social and healthcare outsourcing

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

Private clinics

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

Surgical operations

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

Occupational healthcare

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

Fitness centre services

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

Recruitment services

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

Responsible doctor services

- location-specific daily charges described in the customer agreement

Staffing service

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

Residential services

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

Digital services

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

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

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

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

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

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

In connection with outsourcing agreements, the client may provide Pihlajalinna, without financial consideration, with use of publicly owned infrastructure, or part there of, which Pihlajalinna operates in service production under the outsourcing agreement. Infrastructure may include for example premises, machinery and equipment. The IFRIC 12 Service Concession Arrangements interpretation is applied to the recognition of outsourcing agreements if the outsourcing party decides on the scope and pricing of the services provided by Pihlajalinna and Pihlajalinna returns the infrastructure, free of charge, at the conclusion of the outsourcing agreement. In such cases, Pihlajalinna is not considered to have control over assets received without consideration from a public-sector entity.

Timing of the satisfaction of performance obligations

EUR 1,000	2023	2022
At a point in time	315,864	318,950
Over time	404,119	371,531
Total	**719,984**	**690,481**

Key accounting estimates and decisions based on management judgement

The recognition of revenue from complete outsourcing agreements for social and healthcare services may become more accurate with a delay, and it may include variable compensation. During the financial year, the management has used particular judgement with regard to the measurement and recognition of variable compensation and legal claims related to complete outsourcing agreements for social and healthcare services.

In previous years, Pihlajalinna recognised revenue related to contractual variable compensation from its former complete outsourcing partners, namely the municipalities of Jämsä, Parkano and Mänttä-Vilppula. The client has not paid the amounts in question in breach of the service agreement.

As a result of the establishment of the wellbeing services counties, Pihlajalinna aimed in 2023 to finalise the negotiations related to open receivables from previous years. The negotiations did not lead to the desired outcome. The company has commenced legal actions for debt recovery with regard to some of the receivables, and is considering legal actions to recover the other receivables. Consequently, the items in question no longer met the definition of contract assets at the end of the financial year, and Pihlajalinna has booked these items as expenses in the income statement. The items are classified as contingent off-balance sheet assets in accordance with IAS 37. Contingent assets are not recognised in the financial statements.

The change in classification had the following effects on EBITDA: a decrease of EUR 1.4 million for Jämsän Terveys Oy, a decrease of EUR 4.8 million for Mäntänvuoren Terveys Oy, a decrease of EUR 1.3 million for Kolmostien Terveys Oy, and a decrease of EUR 0.4 million for Pihlajalinna Terveys Oy. The items, which may have a delayed effect on the profitability of complete outsourcing agreements according to the management's estimate, reduced EBITDA by a total of EUR 7.8 million and are presented as EBITDA adjustments. The entries also had a negative effect of EUR 0.4 million on financial items. The financial year profit before taxes the entries reduced total of EUR 8.2 million and earnings per share by EUR 0.26.

The exact actual costs of the Group's fixed-term complete outsourcing agreements for social and healthcare services are not always known to the Group on the reporting date, as the cost accumulation of public specialised care involves random fluctuation. In addition, individual cases falling within the scope of the wellbeing services counties' pooling system for high-cost care may influence the cost liability of specialised care considerably during the financial year, and between financial periods, in Pihlajalinna's municipal companies. Consequently, the management exercises judgement in determining the profitability of the agreements.

On the financial statements date, Pihlajalinna's only remaining cost liability for specialised care was under the complete outsourcing agreement with the wellbeing services county of South Ostrobothnia. For other complete outsourcing agreements, liability for the costs of specialised care ended during the financial year 2023. The ending of the cost liability under the agreements has improved the predictability of the profitability of the company's agreements.

Contractual assets and liabilities

There may be differences in timing between revenue recognition and invoicing. The Group recognises a contractual asset when revenue is recognised before invoicing and, correspondingly, a contractual liability when revenue is recognised after invoicing.

Summary of contractual items

EUR 1,000	2023	2022
Trade receivables	52,469	47 168*
Contract assets		
Current	3,619	13 452*
Contract liabilities		
Current	1,347	3,237

*Pihlajalinna has adjusted the figures for the comparison period and transferred EUR 7.4 million receivables from trade receivables to contract assets.

The amount of revenue recognized during the financial year that was included in contract liabilities at the beginning of the period:

EUR 1,000	2023	2022
Revenue recognized from amounts included in contract liabilities	3,237	920

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.
- Other operations include remote services, moving services and other administrative functions.

EUR 1,000	2023	%	2022	%
Southern Finland	179,008	25%	164,073	24%
Mid-Finland	368,317	51%	369,542	54%
Ostrobothnia	134,577	19%	132,465	19%
Northern Finland	48,968	7%	43,440	6%
Other operations	65,211	10%	54,466	8%
Intra-Group sales	-76,098		-73,505	
Consolidated revenue	**719,984**	**100%**	**690,481**	**100%**

Sales 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 over 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 approximately 80,000 in the public sector customers group.

EUR 1,000	2023	%	2022	%
Corporate customers	268,050	37	225,270	33
of which insurance company customers	135,780	19	98,447	14
Private customers	102,060	14	103,243	15
Public sector	425,970	59	435,476	63
of which complete outsourcing	283,240	39	303,902	44
of which staffing	29,260	4	24,797	4
of which occupational healthcare and other services	113,470	16	106,777	15
Intra-Group sales	-76,100		-73,508	
Consolidated revenue	**719,980**	**100**	**690,481**	**100**

Information on key customers

The Group's sales revenue from the four largest customers totalled approximately EUR 313.4 (281.4) million, representing approximately 44% (41%) of the consolidated revenue.

Estimate of unsatisfied performance obligations related to Group's social and healthcare outsourcing arrangements, EUR million:

	31 Dec 2023	31 Dec 2022
2023		245
2024	209	249
2025	193	226
2026	75	177
2027	76	179
2028	77	182
2029	78	184
2030	47	156
2031	47	30
2032	7	7
2033	7	7
2034	7	7
2035	6	7
	829	**1,656**

Service provider – client	First year of service production under the current contract	Duration of the original contract (years)
Jämsän Terveys Oy	2015	10
Kuusiolinna Terveys Oy*	2016	15
Mäntänvuoren Terveys Oy	2016	15
Kolmostien Terveys Oy	2015	15
Bottenhavets Hälsa Ab - Selkämeren Terveys Oy	2021	15 - 20 years

*On 30 October 2023, the county council of the wellbeing services county of South Ostrobothnia decided to terminate the outsourcing agreement with effect at the end of 2025, in accordance with the Act on the Implementation of the Reform of Health, Social and Rescue Services and on the Entry into Force of Related Legislation. The council's decision is not yet legally binding, and an appeal has been lodged with the Supreme Administrative Court.

2. Other operating income

Accounting policies

Government grants received as compensation for expenses already incurred are recognised in profit or loss for the period in which they become receivable. These grants are presented under other operating income. Government grants related to capitalised development projects are recognised as deductions from the carrying amounts of intangible assets, when there is reasonable assurance that such grants will be received and that the Group will comply with the conditions for receiving them. The grants will be recognised as income over the useful life of an asset by way of reduced depreciation.

The Group has subleased certain premises that are not used for business operations. These leases are classified as operating leases and income from these leases is presented under other operating income.

Sale and leaseback

With regard to sale and leaseback agreements completed prior to the adoption of IFRS 16, the Group will continue the allocation of capital gains as before in accordance with the transition provision of IFRS 16.

If a finance lease is created as a result of a sale and leaseback agreement, the difference between the carrying amount and the sales price will be recognised in the consolidated statement of financial position and recognised as income over the lease term under other operating income. The unrecognised portion of the difference between the carrying amount and the sales price is presented as Other liabilities in the statement of financial position.

Effects of COVID-19

In 2022, Pihlajalinna recognised a total of EUR 488 thousand in financial support intended to cover the fixed costs of the Group's fitness centres in other operating income under government grants. No corresponding financial support was received in 2023.

Compensation for the costs of pandemic-related services under the Group's complete outsourcing agreements is presented in other operating income under other income items.

Sale of dental care services

Pihlajalinna announced in late 2022 that it will sell its dental care services to Hammas Hohde Oy. The Group recognised a gain of EUR 3.6 million from the divestment in other operating income during the financial year. More detailed information on the divestment of dental care services is provided in note 26 *Acquisitions and divestments*.

EUR 1,000	2023	2022
Capital gains on property, plant and equipment	228	275
Rental income	2,265	503
Government grants	532	1,339
Other income items	907	2,779
Profit from sale of dental care services	3,600	0
Total	**7,532**	**4,896**

3. Materials and services

Accounting policies

Inventories are measured at acquisition cost or lower probable net realisable value.

EUR 1,000	2023	2022
Materials	-31,197	-30,975
Change in inventories	162	648
External services, practitioners	-129,849	-112,527
External services, other	-94,348	-124,370
Total	**-255,231**	**-267,224**

4. Employee benefit expenses

Accounting policies

Pension plans are classified as defined benefit plans and defined contribution plans. The Group only has defined contribution plans. In defined contribution plans, the Group makes fixed payments to a separate unit. The Group has no legal or constructive obligation to make additional payments if the recipient of the payments is incapable of paying out said retirement benefits. Payments made into the defined contribution plans are recognised in profit or loss for the financial year for which they are charged.

The long-term share-based incentive scheme is recognised as an expense over its accrual period. The incentive scheme and other share-based payments are described in more detail in note 5 *Share-based payments*.

Information on related party employee benefits and loans are presented in Note 31 *Related party transactions.*

EUR 1,000	2023	2022
Wages and salaries	-267,089	-245,289
Share-based incentive schemes		
- implemented as shares	-269	-97
Pension costs - defined contribution plans	-45,477	-42,010
Other social security expenses	-9,926	-9,176
Total	**-322,760**	**-296,572**

Number of personnel	2023	2022
Personnel on average (FTE)	4,923	4,851
Personnel at the end of the period (NOE)	6,880	7,016

5. Share-based payments

Share-based incentive scheme for key personnel

On 23 March 2022, Pihlajalinna's Board of Directors approved the establishment of share-based incentive programme (LTIP 2022) for selected key employees. 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 2026. 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. The Board of Directors annually decides on the participants, performance indicators, targets and earning opportunities. Two earnings periods have been launched under the programme: 2022 and 2023. The programmes are treated in their entirety as equity-settled share-based payments.

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. The applicable withholding tax will be deducted from the transferred shares, and the remaining net amount will be paid to the participants in shares. Shares paid out as share rewards are subject to a two-year transfer restriction. The earnings criteria for the performance and quality-based share programme are Pihlajalinna Group's adjusted EBITA, as well as key operational, quality-related and sustainability-related indicators.

No performance and quality-based share rewards materialised for the performance period 2022 pursuant to the share plan, as the minimum objectives set for the programme were not achieved. Share rewards also did not materialise for the performance period 2023 due to impairments recognised during the financial year.

Performance-based long-term incentive programme (LTIP 2022)	2023	2022
Grant date	21 Jun 2023	23 Mar 2022
Share price at grant date, EUR	9.19	11.90
The year in which the shares are transferred	2024	2023
Amount of share-based rewards granted, maximum amount, number of shares	227,000	188,000
Actual share-based rewards, number of shares	0	0
Number of people within the scope of the programme at the end of the period	48	42
End of the vesting period	31 Dec 2023	31 Dec 2022
Form of payment	In shares and cash	In shares and cash

CEO Tuomas Hyyryläinen is entitled to participate in the share-based incentive programme starting from the earnings period that begins on 1 January 2024. At the beginning of the share-based incentive scheme, the CEO has the right to purchase a maximum of 30,000 shares, so that for the first 10,000 shares, the company will give one share for each share purchased by the CEO, and for the next 20,000 shares, one share for each two shares purchased. If the CEO purchases the full quota of 30,000 shares, the company will give the CEO a total of 20,000 shares. Shares purchased by and given to the CEO are subject to the transfer restrictions of the LTIP programme. The effect of the remuneration on the result for the financial year was approximately EUR -0.2 million.

Short-term incentive scheme (STI)

The short-term incentive scheme (STI) is designed for the CEO. Starting from 2024, the CEO is entitled to a potential annual performance-based bonus (STI) that corresponds to 60% of the CEO's annual salary at a maximum. The target level is 30% of the annual salary. The company's Board of Directors confirms the amount, targets and criteria for the short-term incentive scheme annually.

Other share-based payments

On 13 October 2023, Pihlajalinna's Board of Directors decided on share-based remuneration for Joni Aaltonen under the terms of the termination agreement. Aaltonen served as the CEO until 8 March 2023. The remuneration was linked to performance- and quality-based earnings criteria. In connection with this, a gross amount of 10,000 shares was transferred to Joni Aaltonen on 13 November 2023. The remuneration was implemented in shares and cash. The applicable withholding tax was deducted from the transferred shares, and the remaining net amount was paid in shares. The effect of the remuneration on the result for the financial year was approximately EUR -0.1 million.

6. Other operating expenses

EUR 1,000	2023	2022
Voluntary indirect employee costs	-8,263	-7,896
Facility expenses	-13,586	-14,309
Vehicle operating costs	-904	-913
Information management expenses	-26,311	-26,170
Machinery and equipment expenses	-6,810	-7,061
Travel expenses	-3,264	-2,867
Sales and marketing expenses	-6,823	-6,441
Other expenses	-10,598	-11,508
Total	**-76,559**	**-77,164**

Facility expenses		
Auditing, KPMG Oy Ab	-328	-343
Statements, KPMG Oy Ab	-11	-20
Non-audit services, KPMG Oy Ab	-57	-51
Total	-396	-414

7. Depreciation and amortization

Accounting policies

Property, plant and equipment will be depreciated using the straight-line method over their estimated economic useful lives. The estimated economic useful lives are as follows:

Buildings	10–25 years
Renovation expenses on real estate	5–10 years
Machinery and equipment	3–10 years
Other tangible assets	3–5 years

For the magnetic imaging equipment at Turku, Oulu and Seinäjoki private clinics, the Group adopted a units-of-production based depreciation method effective from 1 January 2018. The amount of depreciation is based on the units of production derived from the equipment. The units-of-production based depreciation method is also applied to the imaging equipment in Helsinki, Tampere, Turku, Oulu and Kuopio that was transferred to Pihlajalinna as part of the acquisition of Pohjola Hospital (now Pihlajalinna Lääkärikeskukset Oy). The units-of-production method provides a more accurate reflection of the actual economic use of the magnetic imaging equipment in question. For the Group's other machinery and equipment, the Group still uses straight-line depreciation.

For intangible assets with finite economic useful lives, the amortisation periods are as follows:

Trademarks	10 years
Development costs	3–10 years
Customer agreements	4 years
Patient database	4 years
Non-competition agreements	2–5 years
Other intangible assets	3–7 years

Property, plant and equipment is depreciated on a straight-line basis over the shorter of economic useful life or lease term.

The planned depreciation periods of property, plant and equipment are as follows:

Right-of-use plots	25 years
Right-of-use buildings and business premises	1–15 years
Right-of-use equipment	3–10 years

Impairment is recognised pursuant to IAS 36 for onerous right-of-use buildings and business premises.

Impairments for the financial year 2023

Pihlajalinna has performed an impairment test review regarding its other investments. Based on the review, Pihlajalinna has recorded an impairment of approximately EUR 0.6 million in its other investments. Refer to note 13 *Impairment testing* for more details.

Depreciation, amortisation and impairment by asset type

	2023	2022
Intangible assets		
Trademarks	-564	-1,040
Capitalised development costs	-1,088	-930
Customer relationship value	-985	-1,233
Non-competition agreements	-116	-60
Patient database	-473	-378
Other intangible assets	-4,963	-4,036
	-8,189	**-7,677**
Property, plant and equipment		
Buildings	-109	-104
Renovation expenses on real estate	-2,507	-2,217
Machinery and equipment	-9,375	-8,327
Other tangible assets	-1	-1
	-11,993	**-10,649**
Right-of-use assets		
Right-of-use plots	-101	-97
Right-of-use buildings and business premises	-30,088	-26,178
Right-of-use equipment	-901	-898
	-31,090	**-27,173**
Impairments	-634	
Total depreciation, amortisation and impairment	**-51,906**	**-45,498**

8. Financial income

EUR 1,000	2023	2022
Dividend income from financial assets measured at fair value through profit or loss	3	7
Interest income from loans and receivables	275	533
Interest income from financial lease receivables	67	135
Other financial income	9	46
Total	**355**	**721**

9. Financial expenses

EUR 1,000	2023	2022
Interest expenses from financial liabilities carried at amortised cost	-7,168	-3,392
Interest expenses on lease liabilities	-3,724	-3,439
Other financial expenses	-1,857	-1,243
Total	**-12,749**	**-8,074**

The increased interest rates during 2023 have increased the interest expenses for the financial year.

The other financial expenses line contains write-downs of loan receivables granted to associated companies and other parties totalling approximately EUR 1.2 million, which were made based on the impairment testing. Refer to note 13 *Impairment testing* for more details. In the comparison period, the financing rearrangement and the waiver costs paid at the end of the year due to the increase in the temporary covenant levels caused a total of EUR 0.7 million in one-time financing costs.

Pihlajalinna's financing arrangements and interest rate risk management have been explained in more detail in connection with notes 22 *Financial liabilities* and 25 *Financial risk management*.

10. Income taxes

Accounting policies

The income taxes on the consolidated income statement consist of current tax, adjustments to taxes for previous periods, and deferred taxes. Taxes are recognised in profit or loss, except when they are directly attributable to items recognised under equity or other comprehensive income. In such cases, also the tax is recognised under the item in question. Current tax is calculated on taxable profit, based on the enacted tax rate. Tax is adjusted with any taxes associated with prior financial years. Any penal interests related to said taxes are recognised under financial expenses. The share of associates' profit is presented in the statement of comprehensive income as calculated from net profit and thus including the income tax charge.

EUR 1,000	2023	2022
Current taxes	-502	-1,931
Taxes for the previous financial years	-39	-37
Deferred taxes	-3,047	8,078
Total	**-3,587**	**6,110**

Deferred taxes are described in more detail in note 19 Deferred tax assets and liabilities.

Reconciliation of effective tax rate

EUR 1,000	2023	2022
Profit before taxes	8,187	1,550
Taxes calculated on the basis of the Finnish tax rate (20%)	-1,637	-310
Income not subject to tax	4	2
Non-deductible expenses	-1,422	-309
Unrecorded deferred tax assets from tax losses	-921	-70
Recorded deferred tax assets from tax losses	187	6,381
Utilised prior losses with unrecognised tax benefits	0	333
Share of associated company's profit	28	-3
Share-based remuneration	40	-13
Other items	173	137
Taxes for prior financial years	-39	-37
Taxes in the income statement	**-3,587**	**6,110**
Effective tax rate	**-43.8 %**	

11. Earnings per share

Accounting policies

Earnings per share is calculated by dividing the profit for the financial year attributable to owners of the parent by the weighted average number of shares outstanding during the financial year. When calculating earnings per share, the interest of the hybrid bond, net of tax, has been considered as a profit-reducing item.

Earnings per share for the financial year attributable to owners of the parent are calculated by dividing the profit for the financial year attributable to owners of the parent by the weighted average number of shares outstanding during the financial year.

When calculating diluted earnings per share, the average number of shares is adjusted by the dilution effect of the share-based incentive scheme.

EUR 1,000	2023	2022
Profit for the financial year attributable to owners of the parent, EUR	5,728,844.05	9,518,830.97
Hybrid bond interest	-1,866,666.67	
Tax effect	373,333.33	
Adjusted profit for the financial year	4,235,510.72	9,518,830.97
Number of shares outstanding, weighted average	22,557,957	22,560,271
Basic earnings per share (EPS), EUR/share	0.19	0.42
Diluted earnings per share, EUR/share	0.19	0.42

12. Property, plant and equipment

Accounting policies

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures incurred directly from the acquisition of an item of property, plant and equipment. Costs incurred subsequently are included in the carrying amount of an asset only if it is deemed probable that any future economic benefits related to the asset will flow to the Group and that the cost of the asset can be reliably determined. Other repair and maintenance costs will be expensed at the time they are incurred.

The residual value, the useful life of an asset and the depreciation method applied are reviewed at least at the end of each financial year and adjusted as necessary to reflect the changes in the expectations concerning the economic benefits attached to the asset. Capital gains generated from decommissioning and disposing of property, plant and equipment are included under other operating income, and capital losses are included under other operating expenses.

Assets are depreciated from the time when they are ready for use; i.e. when their location and condition allow them to be applied as intended by the management.

For the magnetic imaging equipment at Turku, Oulu and Seinäjoki private clinics, the Group adopted a units-of-production based depreciation method effective from 1 January 2018. The amount of depreciation is based on the units of production derived from the equipment. The units-of-production based depreciation method is also applied to the imaging equipment in Helsinki, Tampere, Turku, Oulu and Kuopio that was transferred to Pihlajalinna as part of the acquisition of Pohjola Hospital (now Pihlajalinna Lääkärikeskukset Oy). The units-of-production method provides a more accurate reflection of the actual economic use of the magnetic imaging equipment in question. For the Group's other machinery and equipment, the Group still uses straight-line depreciation.

Property, plant and equipment

EUR 1,000	Land areas	Buildings	Renovation expenses on real estate	Shares in real estate companies	Machinery and equipment	Other tangible assets	Construction in progress	Total
Cost at 1 January 2023	36	3,029	34,263	5,472	75,341	167	5,246	123,553
Additions	0	90	832	0	13,320	4	5,135	19,380
Transfers between items	0	0	7,358	0	-352	-2	-7,669	-665
Disposals	0	-3	304	-186	-430	0	-1	-315
Cost at 31 December 2023	36	3,116	42,757	5,287	87,879	168	2,711	141,952
Accumulated depreciation at 1 January 2023	0	-511	-20,552	0	-43,743	-11	0	-64,817
Depreciation and amortisation	0	-109	-2,507	0	-9,375	-1	0	-11,993
Transfers between items	0	0	191	0	1,129	0	4	1,323
Reclassifications	0	0	0	0	0	0	0	0
Disposals	0	0	-188	0	-470	1	-1	-659
Accumulated depreciation at 31 December 2023	**0**	**-620**	**-23,056**	**0**	**-52,460**	**-11**	**2**	**-76,145**
Carrying amount at 1 January 2023	**36**	**2,518**	**13,711**	**5,472**	**31,598**	**155**	**5,246**	**58,737**
Carrying amount at 31 December 2023	**36**	**2,496**	**19,700**	**5,287**	**35,419**	**157**	**2,713**	**65,807**

EUR 1,000	Land areas	Buildings	Renovation expenses on real estate	Shares in real estate companies	Machinery and equipment	Other tangible assets	Construction in progress	Total
Cost at 1 January 2022	36	3,026	30,549	5,572	63,496	172	1,344	104,194
Additions	0	3	482	0	15,972	2	8,316	24,774
Business combinations	0	0	131	0	1,272	0	0	1,403
Transfers between items	0	0	4,384	0	157	0	-4,414	127
Reclassifications to assets held for sale	0	0	-1,282	-100	-5,072	-7	0	-6,461
Disposals	0	0	0	0	-484	0	0	-484
Cost at 31 December 2022	36	3,029	34,263	5,472	75,341	167	5,246	123,553
Accumulated depreciation at 1 January 2022	0	-505	-19,131	0	-39,560	-10	0	-59,206
Depreciation and amortisation	0	-104	-2,217	0	-8,327	-1	0	-10,649
Transfers between items	0	98	-10	0	-124	0	0	-37
Reclassifications	0	0	807	0	4,070	0	0	4,877
Disposals	0	0	0	0	197	0	0	197
Accumulated depreciation at 31 December 2022	**0**	**-511**	**-20,552**	**0**	**-43,743**	**-11**	**0**	**-64,817**
Carrying amount at 1 January 2022	**36**	**2,521**	**11,417**	**5,572**	**23,936**	**162**	**1,344**	**44,987**
Carrying amount at 31 December 2022	**36**	**2,518**	**13,711**	**5,472**	**31,598**	**155**	**5,246**	**58,737**

13. Intangible assets and goodwill

Accounting policies

Goodwill

Goodwill generated through business combinations is measured at the amount by which the consideration transferred, non-controlling interests in the acquiree and previously owned holding combined exceed the fair value of the identifiable acquired net assets. Goodwill typically reflects the value of acquired market share, business expertise and synergies.

Goodwill is not amortised, but it is tested for impairment annually and whenever there is an indication that the asset may be impaired. Goodwill is allocated to cash-generating units (CGUs). Goodwill is measured at original cost less accumulated impairment.

Cloud computing arrangement

Accounting treatment of cloud service arrangements depends on whether the cloud-based software is classified as an intangible asset or a service contract. The arrangements in which the Group has no authority on the software are accounted as service agreements which entitle the Group to utilize the cloud service provider's application software during the contract period. Application software license fees and related configuration or customization costs are recognized (for example, in other operating expenses) when the services are received. Prepayments to the cloud service provider for software customization that are not separable are recognized as an expense during the contract period.

Capitalised development costs

Assets are amortised from the time when they are ready for use. Assets that are not yet available for use are tested annually for impairment. Subsequent to their initial recognition, capitalised development costs are measured at cost less accumulated amortisation and impairment. The amortisation period for development costs is 3 to 10 years, during which capitalised development costs are amortised using the straight-line method.

The Group's capitalised development costs that have not been amortised are associated with the following projects:

- New operating model for fixed-price occupational healthcare agreements and a related occupational healthcare portal
- Renewal of primary care service models, involving remote service models for municipal residents and mobile solutions (social and healthcare service centre concept)
- Pihlajalinna mobile application and website development with the aim of making AI-assisted digital services available to all customers
- The three-year SYKKI project, funded with Tekes subsidies, aimed at creating an effective and cost-efficient model for public social and healthcare services

Intangible assets and goodwill

1000 €	Goodwill	Trademarks	Development costs	Customer relationship value	Non-competition agreements	Patient database	Other intangible assets	Other long-term expenditures	Pre-pay-ments	Total
Cost at 1 January 2023	251,032	10,910	6,386	12,612	7,788	7,836	7,494	21,153	482	325,694
Additions	891	0	38	0	0	0	219	5,752	481	7,381
Transfers between items	0	0	0	0	0	0	-21	837	-823	-8
Disposals	-150	0	0	0	0	0	-2	0	-57	-208
Cost at 31 December 2023	251,773	10,910	6,424	12,612	7,788	7,837	7,690	27,742	84	332,859
Accumulated depreciation at 1 January 2023	0	-7,295	-4,949	-9,748	-7,557	-6,020	-6,637	-9,654	0	-51,860
Depreciation and amortisation	0	-564	-1,088	-985	-116	-473	-368	-4,595	0	-8,189
Transfers between items	0	0	0	0	0	0	24	14	0	38
Disposals	0	0	0	0	0	0	0	-4	0	-4
Accumulated depreciation at 31 December 2023	**0**	**-7,859**	**-6,036**	**-10,733**	**-7,673**	**-6,494**	**-6,982**	**-14,239**	**0**	**-60,015**
Carrying amount at 1 January 2023	**251,032**	**3,615**	**1,436**	**2,864**	**231**	**1,816**	**857**	**11,500**	**482**	**273,834**
Carrying amount at 31 December 2023	**251,773**	**3,051**	**388**	**1,879**	**115**	**1,343**	**708**	**13,503**	**84**	**272,845**

1000 €	Goodwill	Trademarks	Development costs	Customer relationship value	Non-competition agreements	Patient database	Other intangible assets	Other long-term expenditures	Pre-pay-ments	Total
Cost at 1 January 2022	188,909	7,762	6,368	10,572	7,507	5,677	6,894	13,543	715	247,948
Additions	0	0	18	0	0	0	547	6,224	663	7,451
Business combinations	65,127	3,148	0	2,040	281	2,159	59	496	0	73,310
Reclassifications to assets held for sale	-3,004	0	0	0	0	0	-13	-6	0	-3,023
Transfers between items	0	0	0	0	0	0	7	897	-896	8
Cost at 31 December 2022	251,032	10,910	6,386	12,612	7,788	7,836	7,494	21,153	482	325,695
Accumulated depreciation at 1 January 2022	0	-6,255	-4,019	-8,515	-7,497	-5,642	-6,096	-6,149	0	-44,173
Depreciation and amortisation	0	-1,040	-930	-1,233	-60	-378	-533	-3,503	0	-7,677
Transfers between items	0	0	0	0	0	0	-8	-1	0	-9
Accumulated depreciation at 31 December 2022	**0**	**-7,295**	**-4,949**	**-9,748**	**-7,557**	**-6,020**	**-6,637**	**-9,654**	**0**	**-51,860**
Carrying amount at 1 January 2022	**188,909**	**1,508**	**2,349**	**2,057**	**10**	**35**	**798**	**7,394**	**715**	**203,775**
Carrying amount at 31 December 2022	**251,032**	**3,615**	**1,436**	**2,864**	**231**	**1,816**	**857**	**11,500**	**482**	**273,834**

Impairment testing of goodwill

Accounting policies

The carrying amounts of goodwill, other intangible assets, property, plant and equipment, right-of-use assets and non-financial investments are reviewed regularly for potential indications of impairment.

If there are any indications of impairment, the value of the asset item must be tested. Impairment loss is recognised through profit or loss to the extent that the carrying amount of an asset exceeds its recoverable amount. In addition, goodwill and intangible assets with an unlimited economic useful life and which are not depreciated are tested annually for impairment. The impairment testing is carried out even if there are no indications of impairment.

Goodwill generated in M&A transactions is allocated to cash-generating units (CGU). Under Pihlajalinna's operating structure, the Group's CEO, with the help of the Chief Operating Officers and the other members of the Management Team, is responsible for the Group's business operations and service offering to both the private and public sectors. The Chief Operating Officers prepare budgets for the Group's businesses with the help of regional directors and the managing directors of the municipal companies. The Group CEO is responsible for the resources, investments and profitability of the Group's businesses. Pihlajalinna's cash-generating unit corresponds to the reporting segment, i.e. the Group.

The recoverable amount is determined by value-in-use calculations. Cash flow-based value-in-use is determined by calculating the discounted present value of expected cash flows. The discount rate used in the calculations is determined using the weighted average cost of capital (WACC), which describes the total cost of equity and liabilities, taking into account the time value of money and the specific risks associated with Pihlajalinna's business. The discount rate is a pre-tax rate. The risk-free interest rate, risk multiplier (beta) and the additional risk premium and market risk premium parameters used in determining the discount rate are based on information obtained from the market. Cash flow estimates have been validated by comparing them to Pihlajalinna's market capitalisation.

Potential impairment loss on goodwill is recognised immediately in the income statement. Previously recognised impairment losses on goodwill are not reversed.

The Group carried out its annual impairment testing of goodwill based on the situation on 30 November 2023 (30 November 2022) using the carrying amounts on the date in question and calculations of future amounts. The result of the testing was that no impairment losses were recognised for the Group's cash-generating unit, i.e. the Group as a whole, for the financial year that ended on 31 December 2023. The Group's recoverable amount exceeded the carrying amount by approximately EUR 186 (223) million.

Goodwill:

EUR 1,000	2023	2022
Tested goodwill in total, Group	251,773	254,264
Goodwill related to current assets held for sale		-3,004
Changes that have occurred after testing in the preliminary purchase price allocations for the acquired businesses		-228
Goodwill as per the statement of financial position at the end of the financial year	251,773	251,032

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

Impairment testing of goodwill	2023	2022
Revenue growth, first three years, approximately	-4.70%	5.30%
EBIT margin, first three years, approximately	7.00%	6.90%
Discount rate (pre tax WACC)	9.50%	8.70%
Discount rate (after tax WACC)	8.00%	7.25%
Forecast period (years)	9	10
Terminal growth rate after the forecast period (5 years)	2.00%	2.00%
The terminal period's share of the amount of expected cash flows	54%	46%

Key accounting estimates and decisions based on management judgement

In impairment testing, the recoverable amounts are determined on the basis of value-in-use. The cash flow forecasts used in the value-in-use calculations in impairment testing are based on cash flow forecasts prepared by the management and approved by the Board of Directors.

For the impairment testing carried out in 2023, the cash flow forecasts cover a 9-year period and the terminal period. The management's view is that using a 9-year forecast period is justified because the Group has significant long-term and fixed-term complete social and healthcare outsourcing agreements. These agreements will expire during the 9-year forecast period, which is why management's view is that extending the forecast period provides a more accurate picture of the company's future cash flows by making it possible to include the expiration of the agreements in the modelling of cash flows. The terminal growth rate applied after the forecast period is two per cent, which corresponds to the long-term inflation forecast for the Finnish economy.

For the period 2024–2025, the management forecasts that revenue, operating profit and cash flows will increase in line with the Group's long-term strategy. Thereafter, in the forecasts for 2026–2032, the Group has taken into account the impacts of the expiration of the complete outsourcing agreements in accordance with the agreement period of each agreement. More details on the duration of the agreements and unsatisfied performance obligations are pro-vided in note 1 *Revenue from contracts with customers*.

The assumptions of the development of prices and costs used in the cash flow estimates are based on the management's estimates of the development of demand and the markets, which are compared with external information sources. The productivity and efficiency assumptions used in the calculations are based on internal targets, with previous actual development taken into account in their estimation.

Key assumptions defined by the management and used in the calculation in 2023:

Assumption	Description
Projected revenue	Determined on the basis of a forecast prepared by the management and approved by the Board of Directors, and the agreement periods of the complete outsourcing agreements.
Projected operating profit	Determined on the basis of a forecast prepared by the management and approved by the Board of Directors, and the agreement periods of the complete outsourcing agreements.
Duration of the forecast period	For testing carried out in 2023, the forecast period is 9 years plus the terminal period.
Terminal growth rate assumption	The terminal growth rate assumption is 2%.
Discount rate	Determined using the weighted average cost of capital (WACC), which describes the total cost of equity and liabilities, taking into account the time value of money and the specific risks associated with Pihlajalinna's business. Uncertainty in forecasting has been taken into account in determining the additional risk premium.

Sensitivity analyses in impairment testing

Based on the testing calculations, there is no need to recognise impairment. The cash-generating unit's recoverable amount exceeded the carrying amount by approximately EUR 186 (223) million. The management has conducted sensitivity analyses of the key factors. The table below shows the required change in assumptions that would lead to the recoverable amount being equal to the carrying amount, provided that the assumptions change one at a time.

Sensitivity analyses	2023	2022
Decline in EBIT margin	more than 2 percentage units	more than 2 percentage units
Decline in volume	more than 14 percentage units	more than 15 percentage units
Increase in discount rate	more than 2,5 percentage units	more than 3 percentage units
Decline in the terminal growth rate	more than 2 percentage units	more than 2 percentage units

The management has conducted a sensitivity analysis for 2023 also with a five-year forecast period plus the terminal period. Also based on testing under a five-year period, the cash-generating unit's recoverable amount exceeded the carrying amount.

14. Right-of-use assets

Accounting policies

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

Right-of-use assets are measured at cost, which includes the following items:

- original amount of the lease liability
- direct expenses of the initial phase and
- expenses due to restoring to original condition

Right-of-use assets are presented under property, plant and equipment and lease liabilities are presented under financial liabilities. The right-of-use asset is initially measured at cost and depreciated over the economic life of the asset. The right-of-use asset is also subject to IAS 36 Impairment of Assets. The lease liability is initially measured at the present value of future lease payments. In later periods, the lease liability is measured using the effective interest rate method, according to which the lease liability is measured at amortised cost and the interest expense is amortised over the lease term. The standard allows the lessee to also include non-lease elements of an agreement (typically services) in the lease liability.

Key accounting estimates and decisions based on management judgement

When recognising leases on the balance sheet, estimates must be made concerning the lease term, the exercising of extension options and the discount rate applied. When assessing the lease term of a new lease, extension options are not taken into account until a commitment has been made to exercise the extension option.

Right-of-use assets

EUR 1,000	Right-of- use plots	Right-of-use buildings and business premises	Right-of-use equipment	Total
Cost at 1 January 2023	1,215	312,525	6,206	319,947
Additions	-1	38,764	871	39,634
Transfers between items	0	18,413	-15	18,398
Disposals	0	-6,391	-560	-6,951
Cost at 31 December 2023	1,214	363,311	6,503	371,028
Accumulated depreciation at 1 January 2023	-580	-116,684	-4,936	-122,201
Depreciation and amortisation	-101	-30,088	-901	-31,090
Transfers between items	0	-18,413	32	-18,381
Disposals	0	4,194	382	4,576
Accumulated depreciation at 31 December 2023	-682	-160,992	-5,423	-167,097
Carrying amount at 1 January 2023	**635**	195,841	1,270	197,747
Carrying amount at 31 Dec 2023	**533**	**202,319**	**1,080**	**203,932**

Right-of-use assets

EUR 1,000	Right-of- use plots	Right-of-use buildings and business premises	Right-of-use equipment	Total
Cost at 1 January 2022	840	185,897	5,587	192,325
Additions	375	25,090	1,025	26,490
Business combinations	0	105,458	4	105,463
Transfers between items	0	138	-41	97
Disposals	0	-4,059	-368	-4,427
Cost at 31 December 2022	1,215	312,525	6,206	319,947
Accumulated depreciation at 1 January 2022	-484	-91,941	-4,314	-96,738
Depreciation and amortisation	-97	-26,178	-898	-27,173
Transfers between items			20	20
Disposals		1,435	255	1,690
Accumulated depreciation at 31 December 2022	-580	-116,684	-4,937	-122,201
Carrying amount at 1 January 2022	357	93,956	1,273	95,586
Carrying amount at 31 Dec 2022	**635**	**195,841**	**1,270**	**197,746**

Short-term leases recognised in the income statement, totalling EUR 227 (140) thousand, and minor leases recognised in the income statement, totalling EUR 1,379 (1,172) thousand, are practical exemptions provided by IFRS 16 applied by the Group.

Lease liabilities relating to right-of-use items are specified in Note 22 *Financial liabilities*.

15. Other non-current receivables

Accounting policies

Right-of-use assets that have been transferred to a lessee under a sublease and classified as financial leases have been derecognised from fixed assets and presented on the balance sheet as net investments in a sublease.

EUR 1,000	2023	2022
Lease deposits paid	234	561
Non-current subleases	3,655	7,750
Non-current receivables	2,108	759
Other receivables	90	90
Total	**6,088**	**9,160**

Pihlajalinna subleased two care homes that it sold and leased back in May 2020 which form a significant part of sublease receivables.

The table below presents the contractual maturity analysis of subleases. The figures are undiscounted and they include both future interest payments and repayments of the net investment.

Maturity distribution of sublease receivables

		less than 1 year	1–2 years	2–3 years	3–4 years	over 4 years
Carrying amount at 31 Dec 2023	4,087	431	341	346	351	2,618

16. Trade and other receivables

Accounting policies

At the end of each reporting period, the Group assesses whether or not there is objective evidence of impairment regarding any individual financial asset. Objective evidence of impairment of loans and other receivables includes significant financial distress of the debtor and payments being delinquent or substantially delayed. Impairment of loans is recognised in financial expenses in the income statement and impairment of other receivables is recognised in other operating expenses for the period in which the impairment was identified.

The expected credit loss model is based on the amount of historical credit losses. The lifetime expected credit losses are calculated by multiplying the gross carrying amount of unpaid trade receivables by the expected loss.

EUR 1,000	2023	2022
Trade receivables	52,469	47 168*
Prepayments and accrued income	4,739	14,051
Current subleases	431	947
Other receivables	241	1,189
Contract assets	3,619	13 452*
Total	**61,498**	**76,806**

*Pihlajalinna has adjusted the figures for the comparison year and transferred EUR 7.4 million from receivables included in trade receivables in 2022 to contract assets

The carrying amount of trade receivables and other receivables corresponds to the maximum credit risk involved at the end of the reporting period. Pihlajalinna regularly reviews the credit risk of its receivables and the procedures used to estimate the credit risk. No significant changes have been observed in customers' payment behaviour during the financial year. The management of credit risks related to trade receivables, see note 25 *Financial risk management.* The Group recognised impairment losses of EUR 0.9 (0.5) million on trade receivables during the financial year.

At the end of the financial year, the Group classified receivables amounting to EUR 8.2 million as contingent off-balance sheet assets in accordance with IAS 37. The items were recognised as expenses during the financial year 2023. In the comparison figures shown in the table above, the receivables in question are presented as contract assets. The change in the classification is described in more detail in note 1 *Revenue from contracts with customers.*

Pihlajalinna has also reviewed its loan receivables and recognised an impairment of EUR 1.2 million on the loan receivables. The write-downs of loan receivables are described in more detail in note 9 *Financial expenses.*

Age distribution of trade receivables

EUR 1,000	2023	Impairment losses	Share of expected impairment losses	Net 2023
Not due	34,321	-5	0.0 %	34,316
Less than 30 days	12,924	-7	0.1 %	12,917
30–60 days	1,058	-47	4.4 %	1,012
61–90 days	617	-91	14.7 %	526
More than 90 days	4,013	-316	7.9 %	3,697
Total	**52,934**	**-465**		**52,469**

EUR 1,000	2022	Impairment losses	Share of expected impairment losses	Net 2022
Not due	33,342	-25	0.1 %	33,317
Less than 30 days	8,469	-10	0.1 %	8,459
30–60 days	1,515	-72	4.7 %	1,443
61–90 days	918	-152	16.6 %	766
More than 90 days	3,706	-522	14.1 %	3,184
Total	**47,949**	**-781**		**47,168**

The Group's expected credit loss model is based on the amount of historical credit losses. The share of expected impairment losses varies between financial years because the Group's expected credit losses based on historical information vary between different customer groups. Consequently, a particular customer group representing a higher or lower share of trade receivables can have a significant effect on the amount of expected credit losses.

The Group's trade receivables due more than 90 days mainly relate to open receivables from insurance company customers.

The expected credit losses from contractual assets amount to EUR 0.0 (0.0) million, and the assets in question have not been taken into account in the table above.

EUR 1,000	2023	2022
Credit loss provision at 1 January	781	698
Credit losses recorded	-920	-504
Change in credit loss provision	605	587
Credit loss provision at 31 December	**465**	**781**

Material items incl. in prepayments and accrued income

EUR 1,000	2023	2022
Personnel expenses	1,837	1,843
Expenses paid in advance	2,656	6,528
Hedging, interest rate swap	173	5,113
Other	73	566
Total	**4,739**	**14,051**

The carrying amounts of the receivables correspond materially to their fair values.

17. Provisions

Accounting policies

A provision is recognised when the Group has a legal or constructive obligation resulting from a past event, when it is probable that the payment obligation will materialise and when the amount of the obligation can be reliably estimated. The amount recognised as a provision equals the best estimate of the costs required to fulfil the present obligation on the date of the financial statements.

A restructuring provision is recognised when the Group has in place a detailed plan for such restructuring and its implementation has commenced or the interested parties have been informed of the main points of such a plan.

The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable expenses of meeting the obligations under the contract.

EUR 1,000	2023	2022
Current provisions	84	0
Non-current provisions	123	89
Total	**207**	**89**

EUR 1,000	Onerous contracts	Restructuring provision	Total
1.1.2022	**137**	**68**	**205**
Increases in provisions			
Provisions used	-48	-68	-116
Reversals of unused provisions			
31.12.2022	**89**	**0**	**89**
Increases in provisions	306	1,139	1,445
Provisions used	-189	-1,139	-1,327
Reversals of unused provisions			
31.12.2023	207	0	**207**

18. Trade and other payables

EUR 1,000	2023	2022
Trade payables	27,051	41,673
Accrued liabilities	90,466	78,267
Pre-payments	311	33
Other liabilities	7,503	7,556
Total	**125,333**	**127,529**
Material items included under Accrued liabilities:		
Wages and salaries and social security payments	53,823	43,846
Doctor's fee liability	17,055	15,376
Allocation of purchase invoices	11,481	10,261
Current liabilities held for sale	1,347	3,237
Unpaid interest expenses	2,147	212
Other accrued liabilities	4,614	5,334
Total	**90,466**	**78,267**

19. Deferred tax assets and liabilities

Accounting policies

Deferred taxes are calculated on temporary differences between the carrying amount and the tax base. However, a deferred tax liability shall not be recognised on the initial recognition of goodwill, or on the initial recognition of an asset or liability in a transaction which is a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit and, at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.

In the Group, the most significant temporary differences result from depreciation and amortisation of property, plant and equipment and intangible assets, fair value-based adjustments made in connection with business combinations, and unused tax losses.

Deferred taxes are calculated by applying tax rates enacted or substantively enacted by the end of the reporting period.

A deferred tax asset is only recognised to the extent that it is probable that taxable profit will be available against which the temporary difference can be utilised. However, a deferred tax asset is not recognised if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit and, at the time of the transaction, does not give rise to equal taxable and deductible temporary differences. Whether or not deferred tax assets can be recognised in this respect is always estimated at the end of each reporting period.

The Group shall offset deferred tax assets and liabilities where these relate to the same taxation authority and the same taxable entity. Deferred tax assets and tax liabilities for leases are presented separately in the notes to the financial statements.

Key accounting estimates and decisions based on management's judgement

The management uses judgement when determining the deferred assets to be recorded in respect of tax losses confirmed in the Group. The most significant deferred tax assets from confirmed unused losses have been for Pihlajalinna Lääkärikeskukset Oy (approximately EUR 4.3 million) and Pihlajalinna Plc (approximately EUR 2.5 million).

Deferred tax assets have been recorded up to the amount that, according to the management's assessment, it is probable that taxable income will be generated in the future, against which the unused tax losses can be utilized. Estimates are based on forecasts made by management and how profitability develops in different companies. Actual results may differ materially from the estimates made at the time of preparing the financial statements.

Changes in deferred taxes during 2023:

Deferred tax assets (EUR 1,000)	**1 January 2023**	**Recognised in profit and loss**	**Recognised in the statement of comprehensive income**	**Business combinations**	**Reclassification to assets held for sale**	**31 December 2023**
Tax losses carried forward confirmed by tax authorities	11,860	-3,394				8,467
Sales proceeds from sale and leaseback arrangements	193	-30				163
Provisions	227	-41				186
Share-based incentive scheme	5	48				53
Reclassification to assets held for sale	-63	63				0
Leases - lease liabilities	45,915	203				46,118
Cloud computing arrangements	228	102				330
Other items	3,583	-98				3,485
Net effect of deferred tax liabilities and assets	-44,623	417				-44,206
Deferred tax liabilities on the statement of financial position	**17,324**	**-2,729**				**14,595**
Deferred tax liabilities						
Property, plant and equipment and intangible assets	5,344	244				5,588
Recognition of property, plant and equipment and intangible assets at fair value in business combinations	1,705	-428				1,278
Fair value hedging	1,023		**-354**			669
Leases - right-of-use assets	41,289	228				41,517
Other items	99	383				481
Net effect of deferred tax liabilities and assets	-40,948	-133				-41,081
Deferred tax liabilities on the statement of financial position	**8,512**	**294**	**-354**			**8,452**

Changes in deferred taxes during 2022:

Deferred tax assets (EUR 1,000)	1 January 2022	Recognised in profit and loss	Recognised in the statement of comprehensive income	Business combinations	Reclassification to assets held for sale	31 December 2022
Tax losses carried forward confirmed by tax authorities	2,547	9,314				11,860
Sales proceeds from sale and leaseback arrangements	223	-30				193
Provisions	293	-65				227
Share-based incentive scheme	60	-55				5
Reclassification to assets held for sale					-63	-63
IAS 37, contingent assets	749	-749				0
Leases - lease liabilities	21,250	24,665				45,915
Cloud computing arrangements	255	-27				228
Other items	584	-767		3,766		3,583
Net effect of deferred tax liabilities and assets	-20,476	-24,147				-44,623
Deferred tax liabilities on the statement of financial position	**5,484**	**8,138**		**3,766**	**-63**	**17,324**
Deferred tax liabilities						
Property, plant and equipment and intangible assets	4,803	520		22		5,344
Recognition of property, plant and equipment and intangible assets at fair value in business combinations	722	-542		1,526		1,705
Fair value hedging			1,023			1,023
Leases - right-of-use assets	20,155	21,134				41,289
Other items	22	77				99
Net effect of deferred tax liabilities and assets	-19,818	-21,130				-40,948
Deferred tax liabilities on the statement of financial position	**5,884**	**58**	**1,023**	**1,547**		**8,512**

	Available tax losses		Deferred tax assets recorded		Deferred tax assets not recorded	
Maturing within five years	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Maturing within five years	1,757	9,178	324	1,843	32	16
Maturing later than within five years	55,702	59,071	8,143	10,017	2,993	1,773
Total	**57,460**	**68,249**	**8,467**	**11,860**	**3,025**	**1,790**
Taxes calculated on the basis of the Finnish tax rate (20%)	11,492	13,650				0

20. Financial assets and liabilities by measurement category

Accounting policies

When a financial asset or liability is recognised on the transaction date, the Group measures it at its acquisition cost, which is equal to the fair value of the consideration give or received. Derivative contracts are recognised in the balance sheet at fair value on the trade day and subsequently remeasured at their fair value on the balance sheet date.

Financial assets

For the purpose of measurement after initial recognition, the Group's financial assets are classified as financial assets measured at amortised cost and financial assets measured at fair value through profit or loss. Financial assets are derecognised when the Group has lost its contractual right for the financial assets in question or has transferred substantially all risks and rewards outside the Group.

The Group's trade receivables, lease deposits and cash and cash equivalents have been classified as financial assets measured at amortised cost using the effective interest method, taking any impairment into account.

Financial assets measured at fair value through profit or loss consist of quoted and unquoted shares and loan receivables. The Group has no holdings of shares quoted in public markets.

Derivative contracts are recognised in the balance sheet at fair value on the trade date and subsequently remeasured at their fair value on the balance sheet date. Derivatives that do not meet the conditions of hedge accounting are recorded in the income statement. The change in fair value is recorded in equity in fair value reserve if the derivative contract meets the conditions of cash flow hedging. If hedge accounting is not applied derivatives are revalued to fair value at the end of the reporting period and the profit or loss difference arising from the valuation is recorded in the income statement.

Cash and cash equivalents

Cash and cash equivalents consist of cash at hand and demand deposits. The account with credit limit in use is included in current financial liabilities.

Financial liabilities

The Group classifies loans from financial institutions, accounts with credit limits, lease liabilities, trade payables and other liabilities as financial liabilities measured at amortised cost using the effective interest method. Transaction costs are included in the initial carrying amount. Arrangement fees for loan commitments are treated as transaction costs. The Group classifies contingent considerations arising from M&A transactions as financial liabilities measured at fair value through profit or loss. No interest is paid on liabilities arising from contingent considerations. Any contingent consideration is measured at fair value at the date of acquisition and classified as a liability. A contingent consideration classified as a liability is measured at fair value at the end of each reporting period, and any resulting gain or loss is recognised in profit or loss after the end of the measurement period. The valuation principles of derivatives are discussed above in the section *Financial assets*.

Financial liabilities are classified as current liabilities, unless the Group has an unconditional right to postpone their repayment to a date that is at least 12 months subsequent to the end of the reporting period.

EUR 1,000 31 Dec 2023	Note	Fair value hierarchy	Fair value through profit or loss	Fair value - hedging instrument	Amortised cost	Total carrying amounts	Fair values total
Carrying amounts of financial assets							
Non-current financial assets							
Other shares and participations		level 3	168			168	168
Lease deposits	15	level 2			234	234	234
Other receivables	15	level 2			90	90	90
Loan receivables		level 3	2,108			2,108	2,108
Current financial assets							
Trade receivables	16				52,469	52,469	52,469
Other receivables	16	level 2			241	241	241
Interest derivatives	25	level 2		173		173	173
Cash and cash equivalents					24,517	24,517	24,517
Total			**2,276**	**173**	**77,550**	**79,999**	**79,999**
Carrying amounts of financial liabilities							
Non-current financial liabilities							
Loans from financial institutions	22	level 2			143,800	143,800	143,800
Lease liabilities	22	level 2			199,834	199,834	199,834
Other liabilities	22	level 2			536	536	536
Contingent considerations		level 3	210			210	210
Current financial liabilities							
Loans from financial institutions	22	level 2			2,296	2,296	2,296
Cheque account with credit limit	22						
Contingent considerations		level 3	700			700	700
Lease liabilities	22	level 2			30,754	30,754	30,754
Trade and other payables	18				27,051	27,051	27,051
Total			**910**		**404,271**	**405,181**	**405,181**

EUR 1,000 31 Dec 2022	Note	Fair value hierarchy	Fair value through profit or loss	Fair value - hedging instrument	Amortised cost	Total carrying amounts	Fair values total
Carrying amounts of financial assets							
Non-current financial assets							
Other shares and participations		level 3	1,167			1,167	1,167
Lease deposits	15	level 2			561	561	561
Other receivables	15	level 2			90	90	90
Current financial assets							
Trade receivables	16				47,168	47,168	47,168
Other receivables	16	level 2			1,189	1,189	1,189
Interest derivatives	25	level 2		5,113		5,113	5,113
Cash and cash equivalents					13,128	13,128	13,128
Total			**1,167**	**5,113**	**62,136**	**68,416**	**68,416**
Carrying amounts of financial liabilities							
Non-current fin. liabilities							
Loans from financial institutions	22	level 2			167,255	167,255	167,255
Lease liabilities	22	level 2			201,235	201,235	201,235
Other liabilities	22	level 2			573	573	573
Contingent considerations		level 3	203			203	203
Current financial liabilities							
Loans from financial institutions	22	level 2			1,386	1,386	1,386
Cheque account with credit limit	22						
Contingent considerations		level 3	1,704			1,704	1,704
Lease liabilities	22	level 2			28,338	28,338	28,338
Trade and other payables	18				41,673	41,673	41,673
Total			1,907		**440,459**	**442,367**	**442,367**

Fair value assessment

Financial assets and liabilities recognised at fair value on the consolidated statement of financial position are classified according to their valuation-based hierarchy levels and measurement methods as follows:

Fair value hierarchy levels

Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities. The Group has no financial assets or liabilities measured according to level 1 of the hierarchy.

Level 2: The fair value is determined using valuation methods. The financial assets and liabilities are not subject to trading in active and liquid markets. The fair values can be determined based on quoted market prices and deduced valuation. The carrying amount of the trade receivables and financial assets essentially corresponds to their fair value, as the effect of discounting is not significant taking the maturity of the receivables into consideration. The fair values of lease liabilities are based on discounted cash flows. The fair values of loans essentially correspond to their carrying amount since they have a floating interest rate and the Group's risk premium has not materially changed. The carrying amount of other financial liabilities essentially corresponds to their fair value, as the effect of discounting is not significant taking the maturity of the receivables into consideration. Derivative financial instruments are initially recognized at fair value on the trade date and are subsequently remeasured at their fair value on the balance sheet date.

Level 3: The fair value is not based on verifiable market information, and information on other circumstances affecting the value of the financial asset or liability is not available or verifiable.
The Group's other shares and participations consist solely of shares in unlisted companies.

21. Notes on equity

Accounting policies

The Group classifies all instruments it issues either as an equity instrument or a financial liability, depending on their nature. Equity instruments are any contracts evidencing a residual interest in the assets of the company after deducting all of its liabilities. Costs relating to the issue or purchase of equity instruments are presented as a deduction from equity.

Pihlajalinna's equity consists of the share capital, fair value reserve, reserve for invested unrestricted equity, hybrid bond, retained earnings and treasury shares held by the parent company.

Reconciliation of the number of shares

EUR 1,000	Number of outstanding shares, 1,000 pcs	Number of treasury shares, 1,000 pcs	Number of shares	Share capital	Reserve for invested unrestricted equity	Treasury shares	Total
Shares, total, 1 January 2022	22,594	25.9	22,620	80	116,520	256	116,856
Acquisition of treasure shares	-120	120				1475	1,475
Treasury shares held by the parent company on 31 December 2022	75	-75				-909	-909
Outstanding shares on 31 December	22,550	70	22,620	80	116,520	822	117,422
Shares, total, 1 January 2023	22,550	70	22,620	80	116,520	822	117,422
Treasury shares held by the parent company on 31 December 2023	17	-17				-192	-192
Outstanding shares	22,566	54	22,620	80	116,520	629	117,229

Treasury shares

The total number of Pihlajalinna shares is 22,620,135. On the financial statements date, there were 22,566,155 outstanding shares and the company held 53,980 treasury shares. In May, Pihlajalinna conveyed a total of 11,861 shares held by the company as part of the remuneration of the Board of Directors. In November, Pihlajalinna transferred 4,650 treasury shares to Joni Aaltonen under the terms of the CEO's termination agreement. Aaltonen served as the CEO until 8 March 2023.

Share capital

Pihlajalinna has one share series, with each share entitling its holder to one vote at a General Meeting of shareholders. The company's shares have no nominal value. All shares bestow their holders with equal rights to dividends and other distribution of the company's assets. The shares belong to the book-entry system.

Fair value reserve

The fair value reserve includes the effective portion of the change in the fair value of derivatives for which cash flow hedge accounting is applied. The fair value reserve also includes the remaining value on the reporting date of the derivative contract sold on 2 February 2023. The gain on the sale is presented in the fair value reserve less taxes and transferred to be recognised through profit and loss in the same periods as the hedged expected future cash flows will affect the result, meaning the years 2023–2027. On the reporting date, the sold derivative contract's share of the fair value reserve was approximately EUR 2.5 (4.1) million.

Reserve for invested unrestricted equity

The reserve for invested unrestricted equity contains other equity-like investments and the share subscription price to the extent that this is not entered in share capital under a specific decision.

Hybrid Bond

Pihlajalinna issued EUR 20 million hybrid bond on 27 March 2023. The hybrid bond bears 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. Starting from the reset date, the interest rate is variable at 14.00 percent plus 3-month Euribor according to the terms of the hybrid bond. 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 is instrument that is subordinated to the company's other debt obligations. The hybrid bond is treated as equity according to its nature and its accumulated interest and the transaction costs relating to the issuance of a hybrid bond, net of possible tax, are presented in equity as well. The hybrid bond does not confer to the holders the rights of a shareholder and do not dilute the holdings of the current shareholders.

Expenses from the issuance of the hybrid bond EUR 0.4 million has been recognised as reduction of retained earnings. At the end of the financial year, the unpaid interest from the hybrid bond was EUR 1.9 million.

Distributable funds

The parent company's total distributable funds amount to EUR 203,428,565.55, of which the result for the financial year accounts for EUR -7,709,328.56.

Dividends

The Board of Directors proposes that, in accordance with the dividend policy, a dividend of EUR 0.07 per share be paid for the financial year that ended on 31 December 2023. On the financial statements date, 31 December 2023, the total number of outstanding shares was 22,566,155. The corresponding total dividend according to the Board of Directors' proposal would be EUR 1,579,630.85.

No material changes have taken place in the company's financial position after the end of the financial year. The company's liquidity position is good and, in the view of the Board of Directors, the proposed distribution does not jeopardise the company's ability to fulfil its obligations.

Earnings per share for the financial year was EUR 0.19. The proposed dividend of EUR 0.07 is 37 per cent of earnings per share.

In accordance with Pihlajalinna's specified dividend policy, Pihlajalinna aims to distribute dividend or capital repayment minimum of one-third of the earnings per share, taking into account the company's strategy and financial position.

22. Financial liabilities

EUR 1,000	2023	2022
Non-current interest-bearing liabilities		
Loans from financial institutions	143,800	167,255
Other liabilities	536	573
Lease liabilities	199,834	201,235
	344,169	**369,063**
Current interest-bearing liabilities		
Loans from financial institutions	2,296	1,386
Lease liabilities	30,754	28,338
	33,051	**29,723**
Interest-bearing financial liabilities total	**377,220**	**398,786**

Pihlajalinna's financing arrangement is described in more detail in note 22 Financial liabilities and note 25 Financial risk management.

The loan instalments drawn under the Group's revolving credit facility are de facto long-term items in spite of their maturity being 1, 3 or 6 months, because Pihlajalinna has an unequivocal right to postpone repayment by a minimum of 12 months from the reporting date.

Lease liabilities

EUR 1,000	2023	2022
Non-current lease liabilities		
Right-of-use plots	443	546
Right-of-use buildings and business premises	198,890	200,092
Right-of-use equipment	500	597
	199,834	**201,235**

Current lease liabilities		
Right-of-use plots	100	99
Right-of-use buildings and business premises	30,076	27,569
Right-of-use equipment	578	670
	30,754	**28,338**

23. Changes in interest-bearing liabilities with no impact on cash flow

EUR 1,000	2022	Cash flow	New instalments and lease liabilities	Effective interest rate	2023
Non-current interest-bearing liabilities	167,327	-28,975	5,968	16	144,336
Current interest-bearing liabilities	1,887	0	410	0	2,296
Lease liabilities	229,573	-31,825	32,840	0	230,588
Total	**398,786**	**-60,800**	**39,218**	**16**	**377,220**

24. Capital management

The goal of the Group's capital management is to ensure that the normal requirements of business operations are met, enable investments in line with the Group's strategy and increase long-term shareholder value. The Group influences its capital structure mainly through the distribution of dividend and share issues.

The key indicators concerning capital management are the equity ratio, the ratio of net debt to adjusted EBITDA and gearing. Loan covenants related to financing arrangement are described in more detail in the note 25 *Financial risk management.*

EUR 1,000	Note	2023	2022
Equity		144,591	122,888
Total statement of fin. position – deferred revenue		657,187	661,606
Equity ratio 1)		**22.0 %**	**18.6 %**
Interest-bearing financial liabilities	22	377,220	398,786
Cash and cash equivalents		-24,517	-13,128
Interest-bearing net debt		**352,703**	**385,659**
Gearing 2)		**243.9 %**	**313.8 %**
EBITDA		72,487	54,401
Adjustment items**		8,133	9,828
Adjusted EBITDA		**80,621**	**64,229**
Net debt/adjusted EBITDA		**4.4**	**6.0**

* Significant transactions that are not part of the normal course of business, are related to business acquisition costs (IFRS 3), are infrequently occurring events or valuation items that do not affect cash flow are treated as adjustment items affecting comparability between review periods. According to Pihlajalinna's definition, such items include, for example, restructuring measures, impairment of assets and the remeasurement of previous assets held by subsidiaries, the costs of closing down businesses and business locations, gains and losses on the sale of businesses, costs arising from operational restructuring and the integration of acquired businesses, costs related to the termination of employment relationships, as well as fines and corresponding compensation payments. Pihlajalinna also presents costs according to the IFRS Interpretations Committee's new Agenda Decision concerning cloud computing arrangements as adjustment items. EBITDA adjustments amounted to EUR 8.1 (9.8) million for the financial year that ended on 31 December 2023.

[1)] The formula for calculating the equity ratio is 100 x Equity / (Total statement of financial position – deferred revenue)

[2)] The formula for calculating gearing is 100 x Interest-bearing net debt / Equity.

25. Financial risk management

The Group's main financial risks consist of credit and counterparty risk as well as interest rate and liquidity risks. The Group operates in Finland and is therefore not exposed to material foreign exchange risks in its operations. The Group's general risk management policies are approved by the Board of Directors. The Group's Chief Financial Officer, together with the operative management, is responsible for identifying financial risks and for practical risk management. The goal of the Group's risk management is to ensure sufficient liquidity, minimise financing costs and regularly inform the management about the Group's financial position and risks.

Group's financial administration actively monitors compliance with the financial covenants and assesses financial leeway in relation to the covenant maximums as part of the Group's business planning.

Liquidity risk

The Group monitors the amount of financing required by business operations by analysing cash flow forecasts in order to make sure the Group has a sufficient amount of liquid assets for financing operations and repaying maturing loans. The Group aims to ensure the availability and flexibility of financing with adequate credit limits, a balanced maturity profile and sufficiently long maturities for borrowings, as well as by obtaining financing through several financial instruments. Monitoring and forecasting financial covenants included in the Company's financing agreements is continuous.

Pihlajalinna's financing arrangement 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.

Under the original agreement, Pihlajalinna's financing arrangement was set to have a term of three years and a maturity date in March 2025. In December 2023, Pihlajalinna and the creditor banks agreed on restructuring the financing arrangement. According to the new agreement, the financing arrangement will mature in March 2026, and the loan margin will change effective from 1 July 2024.

Pihlajalinna 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 will remain in effect until 25 March 2027. Its fair value was EUR 0.2 (5.1) million at the end of the financial year.

On 27 March 2023, Pihlajalinna issued a hybrid bond with an annual coupon of 12%. The hybrid bond does not have a specified maturity date. Pihlajalinna is entitled to redeem the hybrid bond on the Reset Date, 27 March 2026, and thereafter on each interest payment date. The hybrid bond is treated as an equity item in Pihlajalinna's IFRS consolidated financial statements and it is described in more detail in note 21 *Notes on equity*.

On the financial statements date, the Group's cash and cash equivalents amounted to EUR 24.5 (13.1) million, in addition to which the Group had EUR 70.0 (43,0) million in unused committed credit limits available. Unused credit limits consist of EUR 10 million credit limit agreement and EUR 60 million unwithdrawn revolving credit facility. In addition, EUR 100.0 (100.0) million of an additional credit limit, which is subject to a separate credit decision, was unused on the financial statements date. The Group's equity ratio at the end of the financial year was 22.0 (18.6) per cent.

Financial liabilities repayment schedule

The table below presents the contractual maturity of financial liabilities. The figures are undiscounted, and they include both future interest payments and repayments of principal. In the table below, the loan instalments drawn under the Group's revolving credit facility are presented as long-term items in spite of their maturity being 1, 3 or 6 months, because Pihlajalinna has an unequivocal right to postpone the repayment of the loan instalments by a minimum of 12 months from the reporting date. Interest payments related to the loan instalments drawn are presented in the table below according to the actual timing of their payment.

EUR 1,000	Carrying amount at 31 Dec 2022	less than 1 year	1–2 years	2–3 years	3–4 years	over 4 years
Loans from financial institutions	136,096	-9,355	-8,607	-132,628	-1,239	-424
Revolving credit facility	10,000	-543	-541	-10,223		
Lease liabilities	230,588	-34,452	-31,357	-26,340	-23,702	-134,500
Other interest-bearing liabilities	536	-57	-57	-57	-57	-589
Contingent considerations	910	-706	-216			
Trade payables	27,051	-27,051				
Total	**405,181**	**-72,165**	**-40,779**	**-169,249**	**-24,998**	**-135,513**

EUR 1,000	Carrying amount at 31 Dec 2021	less than 1 year	1–2 years	2–3 years	3–4 years	over 4 years
Loans from financial institutions	131,641	-6,128	-4,404	-130,110	-4	
Revolving credit facility	37,000	-1,402	-1,406	-37,343		
Lease liabilities	229,573	-31,699	-29,751	-26,129	-21,944	-132,924
Other interest-bearing liabilities	573	-59	-57	-57	-57	-644
Contingent considerations	1,907	-1,710	-6	-6	-206	
Trade payables	41,673	-41,673				
Total	**442,367**	**-82,671**	**-35,624**	**-193,645**	**-22,210**	**-133,568**

Loan covenants

The Group's key loan covenants are reported to the financiers on a quarterly basis. If the Group breaches the loan covenant terms, the creditors may accelerate the repayment of the loans. The management monitors the fulfilment of loan covenant terms and reports on them to the Board of Directors on a regular basis.

The financing arrangement includes the customary financial covenants concerning leverage (ratio of net debt to pro forma EBITDA) and gearing. IFRS 16 lease liabilities are not taken into account in the calculation of the covenants (Frozen GAAP). The loan margin of the financing is additionally linked to Pihlajalinna's annual sustainability objectives related to patient satisfaction (NPS), employee engagement (eNPS) and access to surgical treatment within the target time. Sustainability targets have a minor effect on the loan margin, depending on how many of the agreed-upon sustainability targets are achieved. At the end of the financial year, the sustainability targets linked to the financing arrangement caused no 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 2023 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 was 3.75 at the end of the financial year 2023. At the end of the financial year 2022, the covenants agreed on a temporary basis were gearing of 140 per cent and leverage of 5.5. At the end of the financial year, gearing in accordance with the financing arrangement was 93.6 (139.95) per cent and leverage was 3.09 (5.23).

At the end of the reporting period, 31 December 2023, the withdrawn loan amount to which the covenants apply was EUR 140.0 million (EUR 167.0 million).

Interest rate risk

The Group is exposed to interest rate risk through its external financing arrangement. In accordance with the Group's risk management principles, the Board of Directors decides on the need for, and extent of, interest rate hedging for the Group's loan portfolio.

During the financial year 2022, the Group entered into an interest rate swap agreement with a nominal value of EUR 65 million to hedge its floating rate financing arrangement. The Group sold the interest rate swap agreement in question on 2 February 2023. The fair value of the interest rate swap agreement at the time of concluding the agreement was approximately EUR 3.9 million. The gain on the sale is presented in the fair value reserve less taxes and transferred to be recognised through profit or loss in the same periods as the hedged expected future cash flows will affect the result, meaning the years 2023–2027. On 2 February 2023, the Group signed a new interest rate swap agreement with a nominal value of EUR 65 million. The interest rate swap is subject to cash flow hedge accounting. The interest rate swap entered into effect in March 2023 and will remain in effect until 25 March 2027.

On the financial statements date, 63% (58%) of the interest-bearing liabilities were subject to fixed interest rates. During the financial year, the average annual interest rate on the Group's interest-bearing liabilities and derivatives was approximately 3.20 per cent (2.5). The duration, i.e. the fixed interest rate period, of the financing portfolio was 3.6 (3.7) years.

The table below presents the Group's interest rate position at the end of the reporting period.

EUR 1,000	2023	2022
Fixed rate financial liabilities	236,786	230,143
Variable rate financial liabilities	141,822	169,136
Financial liabilities subject to hedge accounting	-65,000	-65,000
Total variable rate position	**76,822**	**104,136**

The table below presents the effects on consolidated profit before tax should market interest rates rise or fall, all other things being equal. The sensitivity analysis is based on the interest rate position at the closing date of the reporting period, including the hedging effect of derivatives. Since the Group has no material interest-bearing assets, its income and operating cash flows are not materially exposed to changes in market interest rates.

EUR 1,000	2023	2023	2022	2022
Change	1.0 percentage units higher	1.0 percentage units lower	1.0 percentage units higher	1.0 percentage units lower
Effect on profit before tax	-768	1,418	-1,700	1,700

Derivative financial instruments and hedge accounting

Accounting policy

The Group applies hedge accounting to reduce the future cash flow variation in profit due to the variation in interest rates. Derivative financial instruments are initially recognized at fair value on the trade date and are subsequently remeasured at their fair value on the balance sheet date. Derivative contracts are included in current assets or liabilities, except derivatives maturities greater than 12 months after the balance sheet date, which are classified as non-current assets or liabilities. The effective portion of the changes in the fair value of derivative financial instruments that are designated and qualified as cash flow hedges are recognized in the fair value reserve of equity.

In cash flow hedges the critical terms in hedged item and hedging instruments are the same and hedge ratio is 1:1. When a hedging arrangement is entered into, the relationship between the hedged item and the hedging instrument, as well as the objectives of the Group's risk management are documented. The effectiveness of the hedge relationship is tested regularly and the effective portion is recognised, according to the nature of the hedged item, against the change in the fair value of the hedged item in the fair value reserve of equity. The ineffective portion is recognized in the income statement either in operating profit or financial income and expenses. Hedge accounting is discontinued when the hedging instrument expires or is sold, or when the contract is terminated or exercised. Any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction has occurred.

Deriatives used for hedging

During the financial year 2022, the Group entered into an interest rate swap agreement with a nominal value of EUR 65 million to hedge its floating rate financing arrangement. The Group sold the interest rate swap agreement in question on 2 February 2023. The fair value of the interest rate swap agreement at the time of concluding the agreement was approximately EUR 3.9 million. The gain on the sale is presented in the fair value reserve less taxes and transferred to be recognised through profit or loss in the same periods as the hedged expected future cash flows will affect the result, meaning the years 2023–2027.

On 2 February 2023, the Group signed a new interest rate swap agreement with a nominal value of EUR 65 million. The interest rate swap is subject to cash flow hedge accounting. The interest rate swap entered into effect in March 2023 and will remain in effect until 25 March 2027. Its fair value was EUR 0.2 (5.1) million at the end of the financial year. Under the contract, the Group pays a fixed interest of 2.8 per cent and receives the floating six-month Euribor interest beginning from the start date.

The table below shows the annual cash flows of the derivative calculated at market interest rates. In addition, a sensitivity analysis of the derivative is presented below, illustrating the change in the market value of the derivative when the yield curve rises or falls and other factors remain unchanged.

Interest rate swap agreement cash flows

EUR 1,000	2024	2025	2026	2027	Total
Interest rate swap agreement cash flow 31 Dec 2023					
Interest rate swap agreement	632	-314	-536	-235	-453

EUR 1,000	2024	2025	2026	2027	Total
Interest rate swap agreement cash flow 31 Dec 2022					
Interest rate swap agreement	1,584	1,312	1,229	621	4,746

Interest rate swap agreement sensitivity analysis

EUR 1,000	2023	2023
Change in the yield curve	1.0 percentage units lower	1.0 percentage units higher
Change in market value of the interest rate swap agreement	-1,928	1,868

EUR 1,000	2022	2022
Change in the yield curve	1.0 percentage units lower	1.0 percentage units higher
Change in market value of the interest rate swap agreement	-2,383	2,261

Credit risk

The Group's credit risk mostly consists of credit risks involved in customer receivables related to business operations. The Group's largest customers are municipalities, joint municipal authorities or large and solvent listed companies. The Group's key credit risks are presented in Note 16 *Trade and other receivables.*

The payment information of corporate and private customers is checked at every appointment. For the collection of payments, the Group uses an external collections agency. The Group offers private customers financing via Svea Rahoitus. This arrangement includes a check of the customer's creditworthiness.

The age distribution of trade receivables is presented in Note 16 *Trade and other receivables.* The amount of credit losses recorded in profit or loss during the financial year was not significant. The maximum amount of the Group's credit risk equals to the carrying amount of financial assets at the end of the financial year (see Note 20 *Financial assets and liabilities by measurement category*).

Currency risk

The Group operates mainly in Finland and is not therefore exposed to material foreign exchange risks in its operations. The Group's annual procurements in foreign currencies are insignificant.

26. Acquired business operations and divestments

Accounting policies

When the Group acquires assets either through business arrangements or through other arrangements, the management evaluates the actual nature of the asset and the business when determining whether it is a business combination.

When an asset or a group of assets does not form a business operation, the acquisition is not treated as a business combination and in that case the Group records the acquisition of individual assets and liabilities. The acquisition cost is allocated to individual assets and liabilities in proportion to their current values at the time of acquisition, and no goodwill is generated.

Acquisitions defined as business operations are treated as business combinations. The Group records business combinations using the acquisition method. The transferred consideration, including the contingent consideration and the identifiable assets and liabilities of the acquired company, are valued at fair value at the time of acquisition. Acquisition related expenses are recorded as expenses in the period in which they have incurred. The acquired business operations are consolidated to the financial statements from the moment the Group obtains control over the acquired business. The share of non-controlling interests is recorded for each acquisition either at fair value or at an amount that corresponds to the relative share of the non-controlling interests in the net assets of the target of acquisition.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group presents these acquisitions as preliminary in its financial statements. Preliminary items are adjusted, and new assets and liabilities are recorded retrospectively, if new information is received that concerns the facts and circumstances that existed at the time of acquisition and which, if it had been known, would have affected the amounts recorded at that time. The measurement period may not exceed one year from the acquisition date.

26.1. Acquired business operations

Acquired business operations 2023

Pihlajalinna had no business acquisitions in the financial year 2023.

Acquired business operations 2022

Pohjola Hospital Ltd

Pihlajalinna acquired the entire share capital of Pohjola Hospital Ltd from Pohjola Insurance Ltd. The acquisition was completed on 1 February 2022. The purchase price allocation fair value adjustments were mainly made to right-of-use assets EUR -9.8 million, other provisions EUR -4.3 million, financial lease liabilities EUR -6.0 million and goodwill EUR 0.5 million.

EUR 1,000	2022
Consideration transferred	
Cash	35,193
Total acquisition cost	**35,193**

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

EUR 1,000	Note	2022
Property, plant and equipment	12	430
Intangible assets	13	5,989
Right-of-use assets	14	103,048
Deferred tax assets	19	3,705
Trade and other receivables		13,196
Cash and cash equivalents		1,809
Total assets		**128,176**
Deferred tax liabilities		1,100
Restructuring provision		413
Lease liabilities	22	125,771
Other liabilities		8,458
Total liabilities		**135,742**
Acquired net assets		**-7,566**

Goodwill generated in the acquisition:

EUR 1,000	Note	2,022
Consideration transferred		35,193
Net identifiable assets of acquirees		7,566
Goodwill	13	**42,759**
Transaction price paid in cash		35,193
Cash and cash equivalents of acquirees		-1,809
Effect on cash flow		**33,384**

In the determination of fair values, intangible assets based on customer relationships, trademarks and patient databases were identified. The fair value of these was defined as EUR 5.5 million. The fair value was determined using an income-based approach, which requires a forecast of cash flows. In connection with the above, EUR 1.1 million were identified as a deferred tax liability.

The merger of the businesses resulted in goodwill of EUR 42.8 million, which is based on the expected synergy benefits and skilled labour. Synergy benefits are based, for example, on an increase in the utilization rate of surgery, reception visits and diagnostic services and premises and administrative synergies. The generated goodwill is not tax deductible.

The combined fair value of trade receivables and other receivables was EUR 13.2 million, which essentially corresponds to their book value, and there is no significant impairment risk associated with the receivables.

As a result of the merger of business operations described above, the revenue recorded in the financial year 2022 was EUR 76 million, and the impact on the result of the financial year has been EUR 12.5 million. Costs related to acquisitions EUR 0.6 million have been recorded in other business expenses (IFRS 3 expenses).

Acquired business operations 2022

Others

Pihlajalinna completed the acquisitions of Etelä-Savon Työterveys Oy, Lääkärikeskus Ikioma Oy and Punkkibussi® unit on 1 April 2022. Pihlajalinna completed the acquisition of MediEllen Oy on 1 September 2022 and the acquisitions of Seppälääkärit Oy and Seppämagneetti Oy on 1 October 2022. Information on the acquisitions is presented combined below because the acquisitions are not individually material:

EUR 1,000	2022
Consideration transferred	
Cash	22,352
Contingent consideration	1,101
Total acquisition cost	**23,454**

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

EUR 1,000	Note	2022
Property, plant and equipment	**12**	961
Intangible assets	**13**	2,194
Right-of-use assets	**14**	3,591
Available-for-sale financial assets		1
Deferred tax assets	**19**	61
Inventories		223
Trade and other receivables		2,291
Cash and cash equivalents		1,969
Total assets		**11,290**
Deferred tax liabilities	**19**	447
Provisions		153
Financial liabilities	**22**	466
Lease liabilities		3,778
Other liabilities		6,014
Total liabilities		**10,858**
Acquired net assets		**432**

Goodwill generated in the acquisition:

EUR 1,000	Note	2022
Consideration transferred		23,454
Share of the acquisition allocated to non-controlling interest		41
Net identifiable assets of acquirees		-432
Goodwill	**13**	**23,063**
Transaction price paid in cash		22,352
Cash and cash equivalents of acquirees		-1,969
Effect on cash flow		**20,384**

In the determination of fair values, intangible assets based on customer relationships, trademarks, patient databases and non-compete agreements were identified. The fair value of these was defined as EUR 2.2 million. Fair value has been determined using an income-based approach, which requires a forecast of expected cash flows. In connection with the above, a calculated deferred tax liability of EUR 0.4 million was identified.

The merger of the businesses resulted in a goodwill of EUR 23.1 million, which is based on the expected synergy benefits and skilled labour. About EUR 8 million of the generated goodwill is tax deductible.

The combined fair value of trade receivables and other receivables was EUR 2.3 million, which essentially corresponds to their book value, and there is no significant impairment risk associated with the receivables.

As a result of the merger of business operations described above, the revenue recorded in the financial year 2022 was EUR 16.5 million, and the impact on the result of the financial year has been EUR 1.5 million.

Expenses related to the acquisition presented above, amounting to EUR 0.5 million, have been recognised in other operating expenses (IFRS 3 costs).

Acquisitions and capital expenditure

Acquired entity	Month of acquisition	Industry	Domicile
Pohjola Hospital Oy	2/2022	Private clinic operations	Helsinki
Etelä-Savon Työterveys Oy	4/2022	Occupational healthcare services	Mikkeli
Lääkärikeskus Ikioma Oy	4/2022	Private clinic operations, Dental care	Mikkeli
Punkkibussi®-business	4/2022	Private clinic operations	Several
MediEllen Oy	9/2022	Private clinic operations	Sotkamo
Seppälääkärit Oy	10/2022	Private clinic operations	Jyväskylä
Seppämagneetti Oy	10/2022	Private clinic operations	Jyväskylä

26.2. Acquistions of non-controlling interest

Acquisitions 2023

Company	Acquisition date	Acquired share, %	New ownership interest, %
Suomen Yksityiset Hammaslääkärit Oy	7 Jul 2023 and 16 Oct 2023	32%	95%
Pihlajalinna Ikioma Oy	1 Jan 2023	6%	100%

Eur 1,000	Acquisition price	Change in minority share	Impact in Group earnings
Suomen Yksityiset Hammaslääkärit Oy	Tampere	-278	15
Pihlajalinna Ikioma Oy	287	-70	-218

Acquisitions 2022

Company	Acquisition date	Acquired share, %	New ownership interest, %
Suomen Yksityiset Hammaslääkärit Oy	Tampere	8%	100%
Laihian Hyvinvointi Oy	2022-12-20	19%	100%

Eur 1,000	Acquisition price	Change in minority share	Impact in Group earnings
Suomen Yksityiset Hammaslääkärit Oy	Tampere	246	-618
Laihian Hyvinvointi Oy	36	-43	7

Accounting principles

Transactions with non-controlling interests that do not lead to a loss of control are treated as transactions with owners. Changes in the share of ownership lead to adjustments of the carrying amounts of the Group's share and the share of non-controlling interests. The difference between the adjustment made to non-controlling interests' share and the paid or received consideration is recognised in earnings.

26.3. Divestments

Sale of dental care services

Pihlajalinna announced in late 2022 that it will sell its dental care services to Hammas Hohde Oy. Pihlajalinna classified its dental health services as assets held for sale effective from 31 December 2022. The divestment was completed on 31 March 2023. As a result of the divestment, net assets totalling approximately EUR 5.1 million were removed from the consolidated statement of financial position. The Group recognised a gain of EUR 3.6 million on the sale in other operating income for the financial year. As part of the transaction, the Group sold the entire share capital of Wiisuri Oy and Pihlajalinna Hammasklinikat Oy, along with the dental care business operations of certain Group companies.

27. Subsidiaries and material non-controlling interests

The Group's structure

The Group had 28 (34) subsidiaries in 2023. Of these subsidiaries, 17 (20) are wholly-owned and 11 (14) are partially owned. A list of all of the Group's subsidiaries is presented in Note 30 *Related party transactions*. In 2023, the Group had 3 (3) associated companies and 1 (1) joint operation.

Breakdown of material non-controlling interests in the Group

	Main business location	Non-controlling interests' share of the votes		Non-controlling interests' share of profit or loss		Non-controlling interests' share of equity	
EUR 1,000		**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Jämsän Terveys Oy	Jämsä	49%	49%	-1288	-2462	-5173	-3885
Pihlajalinna Erityisasumispalvelut Oy	Hämeenlinna	30%	30%	129	79	-1	-130
Dextra Lapsettomuusklinikka Oy	Helsinki	49%	49%	166	227	584	418
Pihlajalinna Liikuntakeskukset Group	several	30%	30%	-417	-401	1036	1453
Total				**-1,410**	**-2,558**	**-3,554**	**-2,144**

Summary of financial information on subsidiaries with a material non-controlling interest

	Jämsän Terveys Oy		Pihlajalinna Erityisasumispalvelut Oy		Dextra Lapsettomuusklinikka Oy		Pihlajalinna Liikuntakeskukset Group	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Current assets	3,725	5,381	1,136	767	1,439	1,026	1,430	1,742
Non-current assets	876	1,233	4,126	4,306	3,651	3,720	37,916	37,168
Current liabilities	15,059	14,144	1,254	1,464	936	860	18,136	17,278
Non-current liabilities	80	324	3,996	4,016	2,321	2,342	18,632	17,603
Revenue	69,204	75,231	6,848	6,370	5,100	5,201	14,489	12,653
Operating profit	-2,663	-4,522	595	407	364	584	-127	-922
Profit/loss	-2,628	-5,025	430	262	338	463	-1,401	-1,348
Share of profit/loss attributable to owners of the parent	-1,340	-2,563	301	183	172	236	-984	-947
Non-controlling interests' share of profit/loss	-1,288	-2,462	129	79	166	227	-417	-401
Net cash flow from operating activities	1,925	-1,783	826	852	1,085	1,157	4,808	4,070
Net cash flow from investing activities	-85	-83	-184	-18	-669	546	-599	-453
Net cash flow from financing activities	-2,403	2,221	-642	-834	-418	-1,699	-4,496	-3,419
of which dividends paid to non-controlling interests						-660		

28. Interests in associates and joint arrangements

Accounting policies

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

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

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

Changes in interests during the financial year

The share of profit in associated companies and joint ventures for 2023 includes approximately EUR 0.5 million in impairment recognised during the financial year on Pihlajalinna's holdings in Digital Health Solutions Oy and a share of approximately EUR -0.1 million of the company's result. The impairment was recognised on the basis of impairment testing. More information is provided in note 13 *Impairment testing*.

EUR 1,000		2023	2022
Interests in associates	Ullanlinnan Silmälääkärit Oy	34	31
	Digital Health Solutions Oy	0	609
	Kuura Digilääkärit Oy	1,557	1,428
Interests in joint operations	Koy Levin Pihlaja Oy	40	40
Total carrying amount		**1,631**	**2,109**

Interests in associates

			Holding, %	
Name	**Name**		**2023**	**2022**
Ullanlinnan Silmälääkärit Oy	Helsinki	Healthcare services	37%	37%
Digital Health Solutions Oy	Sotkamo	All legal business	41%	41%
Kuura Digilääkärit Oy	Helsinki	Healthcare services	45%	45%

Interests in joint operations

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

29. Contingent assets and liabilities and commitments

Collateral given on own behalf	2023	2022
Sureties	5,300	4,158
Mortgage on company assets	0	200
Properties' VAT refund liability	7	33
Lease commitments for off-balance sheet leases	1,606	1,312
Lease deposits	234	561

Hybrid bond interests

Pihlajalinna issued EUR 20 million hybrid bond on 27 March 2023. At the end of the financial year, the unpaid interest was EUR 1.9 million.

Lawsuits and official proceedings

The City of Jämsä has taken legal action against Jämsän Terveys Oy regarding a matter concerning the price adjustment provision in the service agreement. The difference in views regarding whether the fixed annual price for social and healthcare services can decrease due to price. Jämsän Terveys filed an additional counterclaim against the City of Jämsä. The additional counterclaim concerns the effect of changes in the services under the service agreement on price and the service provider's liability for financing investments by the Pirkanmaa Hospital District insofar as such investments serve operations after the term of the service agreement. The service provider is entitled to price adjustments corresponding to increases in costs and the contractual parties are under an obligation to negotiate and try to reach an agreement.

On 4 April 2022, the District Court of Central Finland handed down its ruling on the dispute concerning the service agreement between Jämsän Terveys Oy and the City of Jämsä. The District Court did not deny the validity of the grounds for the variable charges in Jämsän Terveys' service agreement, but the District Court found that the evidence presented regarding the realisation of the costs was insufficient. Pihlajalinna has submitted an application for leave to appeal to the Supreme Court and an appeal concerning part of the judgement of the Vaasa Court of Appeal.

On 22 November 2023, the Vaasa Court of Appeal handed down its ruling on the dispute. The Court of Appeal decided to uphold the decision of the District Court. Pihlajalinna has submitted an application for leave to appeal to the Supreme Court and an appeal concerning part of the judgement of the Vaasa Court of Appeal.

Jämsän Terveys Oy has taken legal action in the District Court against the The City of Jämsä, a former client, mainly concerning COVID-19-related costs which the City of Jämsä 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 2022 financial year on the impact of the transfer of personnel on the annual fee under the service agreement.

On 30 October 2023, the county council of the wellbeing services county of South Ostrobothnia decided to terminate the outsourcing agreement with Kuusiolinna Terveys Oy with effect at the end of 2025, in accordance with the transition period stipulated by the Act on the Implementation of the Reform of Health, Social and Rescue Services and on the Entry into Force of Related Legislation. The decision of the county council is not yet legally valid, and an appeal has been lodged with the Supreme Administrative Court.

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.

Contingent assets

At the end of the financial year 2023, Pihlajalinna had EUR 8.2 million in contingent receivables in accordance with IAS 37. The items in question have not been recognised in the financial statements as receivables because the realisation of the income involves uncertainty due to the potential collection of the receivables through legal action. Nevertheless, the inflow of economic benefits to the company is still considered probable. The matter is described in more detail in note 1 *Revenue from contracts with customers.*

30. Group Companies

The Group's parent company and subsidiary relationships 31.12.2023

The Group's parent company is Pihlajalinna Plc, which owns all of Pihlajalinna Terveys Oy's Series A shares.

Company	Domicile	Holding	% of votes
Pihlajalinna Terveys Oy	Parkano	100%	100%
Ikipihlaja Johanna Oy	Jämsä	100%	100%
Jokilaakson Terveys Oy	Jämsä	90%	90%
Mäntänvuoren Terveys Oy	Mänttä-Vilppula	91%	91%
Ikipihlaja Kuusama Oy	Kokemäki	100%	100%
Ikipihlaja Sofianhovi Oy	Mänttä-Vilppula	100%	100%
Ikipihlaja Matinkartano Oy	Lieto	100%	100%
Ikipihlaja Setälänpiha Oy	Lieto	100%	100%
Ikipihlaja Oiva Oy	Raisio	100%	100%
Kolmostien Terveys Oy	Parkano	96%	96%
Jämsän Terveys Oy	Jämsä	51%	51%
Kuusiolinna Terveys Oy	Alavus	97%	97%
Lääkäriasema DokTori Oy	Lappeenranta	100%	100%
Kompassi Lääkärikeskus Oy	Seinäjoki	100%	100%
Mediapu Oy	Oulu	100%	100%
Pihlajalinna Erityisasumispalvelut Oy	Hämeenlinna	70%	70%
Dextra Lapsettomuusklinikka Oy	Helsinki	51%	51%
Bottenhavets Hälsa Ab - Selkämeren Terveys Oy	Kristiinankaupunki	75%	75%
Linnan Klinikka Oy	Hämeenlinna	100%	100%
Pihlajalinna Liikuntakeskukset Oy	Tampere	70%	70%
Forever Helsinki Oy	Helsinki	70%	70%
Suomen Yksityiset Hammaslääkärit Oy	Tampere	95%	95%
Laihian Hyvinvointi Oy	Laihia	100%	100%
Pihlajalinna Lääkärikeskukset Oy	Helsinki	100%	100%
Pihlajalinna Ikioma Oy	Mikkeli	100%	100%
Pihlajalinna Kainuu Oy	Sotkamo	100%	100%
Pihlajalinna Seppälääkärit Oy	Jyväskylä	100%	100%

Information on the associates is presented in Note 28 Interests in associates and joint arrangements.

Changes in Group Structure

The following changes in Group Structure were implemented during the financial year:

Merged Company	Target Company	Month of Acquisition
Pihlajalinna Lääkärikeskukset Oy	Pihlajalinna Lääkärikeskukset Oy (former Pihlajalinna Omasairaala Oy 1.2. – 31.12.2022)	1.1.2023
Pihlajalinna Turku Oy	Pihlajalinna Lääkärikeskukset Oy (former Pihlajalinna Omasairaala Oy 1.2. – 31.12.2022)	1.1.2023
Etelä-Savon Työterveys Oy	Pihlajalinna Lääkärikeskukset Oy (former Pihlajalinna Omasairaala Oy 1.2. – 31.12.2022)	1.1.2023
Pihlajalinna Oulu Oy	Pihlajalinna Lääkärikeskukset Oy (former Pihlajalinna Omasairaala Oy 1.2. – 31.12.2022)	1.4.2023
Pihlajalinna Seppämagneetti Oy	Pihlajalinna Lääkärikeskukset Oy (former Pihlajalinna Omasairaala Oy 1.2. – 31.12.2022)	1.5.2023

Mergers were not implemented during the 2022 financial year.

Acquired and sold business operations are described in more detail in note 26 *Acquired business operations and divestments.*

31. Related party transactions

The Group's related parties consist of the subsidiaries, associates and joint ventures. Key management personnel considered related parties consist of the members of the Board of Directors and the Management Team, including the CEO and their family members.

Employee benefits of management

EUR 1,000	2023	2022
Monetary salaries, Management Team	1,768	1,030
Share-based rewards, Management Team	0	65
Fringe benefits, Management Team	36	10
Post-employment benefits, Management Team	277	182
Salaries and other short-term employee benefits, Management Team, total	**2,081**	**1,288**

Salaries and remuneration

Joni Aaltonen acted as CEO of Pihlajalinna until 8 March 2023. Mikko Wirén acted as interim CEO from 9 March to 31 August 2023. Tuomas Hyyryläinen started as CEO of Pihlajalinna on 1 September 2023.

EUR 1,000	2023	2022
Joni Aaltonen		
Monetary salaries	140	287
Share-based rewards	0	32
Fringe benefits	9	20
Post-employment benefits	203	
Total	**353**	**339**
Mikko Wirén		
Monetary salaries	160	0
Share-based rewards	0	0
Fringe benefits	14	0
Total	**174**	**0**
Tuomas Hyyryläinen		
Monetary salaries	120	0
Share-based rewards	0	0
Fringe benefits	0	0
Total	**120**	**0**

EUR 1,000		2023	2022
Board of Directors			
Chair of the Board	Jukka Leinonen	68	0
Vice-Chair of the Board	Leena Niemistö	54	53
Board member	Mikko Wirén	44	261
Board member	Heli Iisakka	43	34
Chair of the People and Sustainability Committee	Hannu Juvonen	54	41
Chair of the Audit Committee	Seija Turunen	53	50
Board member	Kim Ignatius	38	0
Board member	Tiina Kurki	37	0
Board member (until 3 April 2023)	Mika Manninen	6	37
Board member (until 12 June 2022)	Kati Sulin	0	17
Total		**397**	**491**

Of the annual remuneration paid in shares, a total of 2,636 (0) shares held by the company were transferred to the Chair of the Board of Directors, 1,757 (1,423) shares transferred to the Vice Chair and the Chair of the People and Sustainability Committee and Audit Committee each, and 1,318 (949) shares to each member of the Board of Directors.

According to the CEO's contract, the notice period for dismissal is 6 months. The company is liable to pay the CEO one-time compensation for termination amounting to eight months' total salary. The CEO's pension benefits are according to the statutory pension scheme. The CEO Tuomas Hyyryläinen is not a member of the Board of Directors.

Related party transactions and related party receivables and liabilities:

	2023	2022
Key management personnel		
Rents paid	1,014	919
Services procured	1,277	1,064
Prepayments	-99	-96
Trade payables	179	105

The Group has leased its business premises in Karkku, Tampere and Kangasala from Mikko Wirén's controlling company. Mikko Wirén acted as the interim CEO from 9 March to 31 August 2023 and is a member of the Board of Directors. The Group also has an agreement with Mikko Wirén's controlling company MWW Oy, under which the Group buys healthcare professionals' services and consulting.

32. Events after the balance sheet date

Pihlajalinna Group company Kuusiolinna Terveys Oy commenced change negotiations on 31 January 2024. The premature termination of the service agreement by a decision of the wellbeing services county will have a significant impact on the company's operating conditions, which is why the company had to commence change negotiations. The change negotiations were still incomplete at the time of signing the financial statements and they concern the entire personnel of Kuusiolinna Terveys Oy except administrative support services. According to a preliminary estimate, the negotiations may result in a reduction of approximately 190 person-years in the company. The duration of the negotiations is expected to be six weeks.

Pihlajalinna conveyed on 2 January 2024 a gross amount of 20,000 shares to CEO Tuomas Hyyryläinen. The remuneration was implemented in shares and cash. The applicable withholding tax deducted from the transferred shares, and the remaining net amount was paid in shares. The remuneration was related to the agreed-upon right for the CEO to acquire shares at the beginning of the share-based incentive scheme, with Pihlajalinna transferring matching shares corresponding to the purchased shares. The arrangement is described in more detail in note 5 *Share-based payments.* After the transfer of shares, Pihlajalinna held 43,980 treasury shares, corresponding to approximately 0.19 per cent of the total number of shares and votes in the company.

PARENT COMPANY FINANCIAL STATEMENTS, FAS

Parent company income statement, FAS

EUR	Note	2023	2022
Revenue	1.1.	9,077,280.9	6,756,645.1
Other operating income	1.2.	395,721.1	444,262.1
Personnel expenses	1.3.	-1,397,212.7	-1,228,082.9
Depreciation, amortisation and impairment	1.4.	-2,672,301.2	-2,215,305.4
Other operating expenses	1.5	-8,876,588.6	-6,283,335.7
Operating profit (loss)		**-3,473,100.5**	**-2,525,816.7**
Financial income and expenses	1.6	-5,353,946.6	-3,206,505.2
Profit (loss) before appropriations and taxes		**-8,827,047.1**	**-5,732,322.0**
Appropriations	1.7		
Change in depreciation difference		-783,600.4	104,453.1
Group contribution		537,000.0	0.0
Income taxes	1.8.	1,364,319.0	1,123,722.5
Profit (loss) for the financial year		**-7,709,328.6**	**-4,504,146.4**

Parent company balance sheet, FAS

EUR	Note	2023	2022
Assets			
Non-current assets			
Intangible assets	2.1	3,377,107.4	3,731,227.9
Property, plant and equipment	2.2	6,397,913.2	1,742,356.4
Investments	2.3	384,535,076.0	384,535,076.0
Total non-current assets		**394,310,096.5**	**390,008,660.2**
Current assets			
Non-current receivables	2.4	2,488,041.5	1,160,236.5
Current receivables	2.5	50,925,791.8	59,571,221.5
Cash and cash equivalents		24,278,892.0	4,222,590.0
Total current assets		**77,692,725.2**	**64,954,048.0**
Total assets		**472,002,821.7**	**454,962,708.2**
Equity and liabilities			
Equity	2.6		
Share capital		80,000.0	80,000.0
Reserve for invested unrestricted equity		183,190,483.5	183,190,483.5
Retained earnings		28,043,605.2	32,547,508.8
Profit/loss for the financial year		-7,709,328.6	-4,503,903.6
Total Equity		**203,604,760.1**	**211,314,088.7**
Accumulated appropriations	2.7	1,697,485.8	913,885.4
Liabilities	2.9		
Non-current liabilities		163,649,827.4	167,003,079.1
Current liabilities		103,050,748.4	75,731,655.0
Total liabilities		**266,700,575.8**	**242,734,734.2**
Total equity and liabilities		**472,002,821.7**	**454,962,708.2**

Parent company cash flow statement, FAS

EUR	2023	2022
Cash flow from operating activities		
Profit for the period	-7,709,328.6	-4,503,903.6
Depreciation, amortisation and impairment	2,672,301.2	2,215,305.4
Financial income and expenses	5,353,946.6	3,206,505.2
Other adjustments (appropriations and taxes)	-1,157,402.1	-1,228,175.5
Cash flow before change in working capital	-840,482.8	-310,268.6
Change in net working capital	-1,039,744.8	667,238.7
Cash flows from operating activities before financial items and taxes	-1,880,227.6	356,970.2
Interest received	3,308,330.4	4,507,029.1
Direct taxes paid	1,489,667.8	-4,258,649.6
Cash flow from operating activities	**2,917,770.5**	**605,349.7**
Cash flow from investing activities		
Investments in tangible and intangible assets	-1,502,075.3	-1,485,750.2
Proceeds from sale of intangible and tangible assets	52,000.0	0.0
Other investments	0.0	300,000.0
Investments in subsidiaries	0.0	-100,000,000.0
Cash flow from investing activities	**-1,450,075.3**	**-101,185,750.2**
Cash flow from financing activities		
Proceeds from short-term borrowings from group companies	29,052,037.8	9,543,151.0
Loans granted to group companies	5,349,810.6	9,649,797.8
Proceeds from long-term borrowings	5,000,000.0	209,000,000.0
Repayment of long-term borrowings	-33,063,486.7	-132,774,286.9
Group contributions received	0.0	20,350,000.0
Hybrid bond	20,000,000.0	0.0
Hybrid bond interests and expenses	-431,860.2	0.0
Interest paid	-7,317,895.0	-4,902,504.2
Dividends paid	0.0	-6,767,176.5
Acquisition of own shares	0.0	-1,474,755.6
Cash flow from financing activities	18,588,606.5	102,624,225.5
Change in cash and cash equivalents	**20,056,301.7**	**2,043,825.1**
Cash at the beginning of the financial year	4,222,590.0	2,178,764.9
Cash at the end of the financial year	24,278,892.0	4,222,590.0

Notes to the financial statements 31 December 2023

Accounting policies

Pihlajalinna Plc (2617455-1), domiciled in Tampere, is the parent company of Pihlajalinna Group. The company was established on 15 April 2014.

Valuation of non-current assets

Intangible assets and tangible assets have been recognised in the balance sheet at cost. Depreciation and amortisation according to plan is calculated using the straight-line method over the economic useful lives of the assets.

The planned depreciation periods are as follows:

Development costs	5–7 years
Other intellectual property rights	5–7 years
Other long-term expenditures	5–7 years
Machinery and equipment	3–10 years

Acquisition costs of assets included in non-current assets with a probable economic useful life of less than 3 years, and small-scale acquisitions (value under EUR 850) have been expensed in the financial year during which they were acquired in full. Financial assets are measured at the lower of cost or fair market, if the impairment is considered to be permanent.

Recognition of deferred taxes

Deferred tax liabilities or assets have been calculated on the temporary differences between taxation and the financial statements, using the prevailing tax base at balance sheet date. The balance sheet includes deferred tax liabilities in their entirety and deferred tax assets in the amount of the estimated probable receivables.

Revenue recognition

The sale of products and services is recognised in connection with their delivery.

Capitalised development costs (Accounting Ordinance 2:4, 3-4)

The company's capitalised product development expenditure relating to the Pihlajalinna mobile application and the company website will be amortised over their economic useful lives. Unamortised development expenditure included in intangible assets, which restricts profit distribution, amounted to EUR 96 (258) thousand at the end of the financial year.

Recognition of pension schemes

The personnel's statutory pension security is handled by an external pension insurance company. Pension costs are recognised as expenses during the year of their accrual.

Derivative financial instruments

The company has an interest swap agreement that is used to hedge floating rate financing arrangement. The company present the interest swap agreement according to prudent basis (Accounting Board 2016/1963). The negative value of the interest swap agreement is recorded based on the lowest value as an expense and a liability. The positive unrealized value is presented as an off-balance sheet item and income statement item and presented only in the Notes. Additional information on the derivative is presented in the parent company's *Other notes*.

The company has sold its valid interest rate swap agreement during the beginning of 2023. The fair value of the interest rate swap agreement at the time of closing the agreement was approximately EUR 3.9 million. Sales profit is presented as reducing the financial expenses of the financial year in the income statement of the parent company.

Hybrid Bond

On March 27, 2023, Pihlajalinna Oyj issued a hybrid bond of EUR 20 million. The hybrid bond is presented in liabilities in the balance sheet and the interest is presented in financial expenses in the income statement.

1.1. Revenue

EUR 1,000	2023	2022
Revenues by sector		
Sale of services	3	0
Sale of services, intracompany	9,074	6,757
	9,077	**6,757**

1.2. Other operating income

EUR 1,000	2023	2022
Rental income	116	116
Lease income from equipment	240	328
Capital gains on property, plant and equipment	40	0
	396	**444**

1.3. Personnel expenses

EUR 1,000	2023	2022
Wages and salaries	-1,245	-1,096
Pension costs	-133	-115
Other social security expenses	-19	-16
	-1,397	**-1,228**
Average number of employees during the financial year	3	3

The remuneration of the Board of Directors of Pihlajalinna Plc is included in the company's personnel expenses. The Annual General Meeting of 4 April 2023 decided that remuneration shall be paid to the members of the Board of Directors as follows: to the full-time Chairman of the Board of Directors EUR 60,000 per year; to the Vice-Chairman of the Board and the Chairman of the Audit Committee EUR 40,000 per year, and to members EUR 30,000 per year.

The annual remuneration shall be paid in company shares and in cash, with approximately 40 per cent of the remuneration used to acquire shares in the name and on behalf of the members of the Board of Directors, and the remainder paid in cash. The remuneration can be paid either entirely or partially in cash if the member of the Board of Directors has, on the day of the General Meeting, 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 company's own shares was completed by handing over to the members of the Board a total of 11,861 own shares in May. Rest of the annual remuneration was paid at the same time in cash. If the term of a Board member ends before the Annual General Meeting of 2023, the Board is entitled to decide on the possible recovery of the remuneration in a manner it deems appropriate.

In addition, the Annual General Meeting decided that each Board member shall be paid a meeting fee of EUR 600 for each Board and Committee meeting. Furthermore, reasonable travel expenses of the members of the Board of Directors are reimbursed in accordance with the Company's travel policy.

1.4. Depreciation and impairment

EUR 1,000	2023	2022
Depreciation according to plan		
Intangible assets	-1,849	-1,802
Property, plant and equipment	-823	-413
Total depreciation according to plan	**-2,672**	**-2,215**

1.5. Other operating expenses

EUR 1,000	2023	2022
Voluntary social security expenses	-13	32
Facility expenses	-173	-130
Vehicle expenses	-15	-17
ICT expenses	-7,359	-4,983
Machinery and equipment expenses		
Sales, marketing and travel expenses	-67	-48
Administrative expenses	-1,250	-1,136
Other operating expenses, total	**-8,877**	**-6,283**

Auditor's fees		
Audit fees	75	126
Auxiliary services	35	
Total	**110**	**126**

1.6. Financial income and expenses

EUR 1,000	2023	2022
Interest income from non-current investments		
From Group companies	3,174	1,841
From others	359	2
Interest income from non-current investments, total	**3,533**	**1,842**
Interest expenses and other financial expenses		
To Group companies	-2,553	-428
To others	-6,335	-4,621
Interest expenses and other financial expenses, total	**-8,887**	**-5,049**
Financial income and expenses, total	-5,354	-3,207

1.7. Appropriations

EUR 1,000	2023	2022
Difference between depreciation according to plan and depreciation in taxation	-784	104
Group contributions received	537	
Total	**-247**	**104**

1.8. Income taxes

EUR 1,000	2023	2022
Change in deferred tax assets	1,364	1,124
Income taxes on actual operations during the financial year		
Income taxes total	**1,364**	**1,124**

Notes to the balance sheet

2.1. Intangible assets

EUR 1,000	2023	2022
Development costs		
Acquisition cost at the start of the financial year	1,607	1,607
Acquisition cost at the end of the period	1,607	1607
Accumulated depreciation at beginning of period	-1,348	-1118
Depreciation and amortisation for the period	-162	-230
Carrying amount at the end of period	**96**	**258**
Other intellectual property rights		
Acquisition cost at the start of the financial year	1,658	1,658
Acquisition cost at the end of the period	1,658	1,658
Accumulated depreciation at beginning of period	-1,464	-1,249
Depreciation and amortisation for the period	-154	-215
Carrying amount at the end of period	**39**	**194**
Other long-term expenditures		
Acquisition cost at the start of the financial year	7,449	6,051
Additions	1,251	1,331
Transfers between items	273	67
Acquisition cost at the end of the period	8,973	7,449
Accumulated depreciation at beginning of period	-4,335	-2,979
Depreciation and amortisation for the period	-1,533	-1,356
Carrying amount at the end of period	**3,105**	**3,114**
Prepayments for intangible assets		
Acquisition cost at the start of the financial year	166	79
Additions	244	153
Transfers between items	-273	-67
Carrying amount at the end of period	**137**	**166**
Intangible assets, total		
Acquisition cost at the start of the financial year	10,879	9,394
Additions	1,495	1,485
Acquisition cost at the end of the period	12,374	10,879
Accumulated depreciation at beginning of period	-7,148	-5,346
Depreciation and amortisation for the period	-1,849	-1,802
Carrying amount at the end of period	**3,377**	**3,731**

2.2. Property, plant and equipment

EUR 1,000	2023	2022
Machinery and equipment		
Acquisition cost at the start of the financial year	3,585	3,584
Additions	5,491	1
Disposals	-111	0
Acquisition cost at the end of the period	8,965	3,585
Accumulated depreciation at beginning of period	-1,843	-1,430
Depreciation and amortisation for the period	99	0
Accumulated depreciation on disposals	-823	-413
Carrying amount at the end of the period	**6,398**	**1,742**
Other intellectual property rights		
Acquisition cost at the start of the financial year	3,585	3,584
Additions	5,491	1
Disposals	-111	0
Acquisition cost at the end of the period	8,965	3,585
Accumulated depreciation at beginning of period	-1,843	-1,430
Depreciation and amortisation for the period	99	0
Accumulated depreciation on disposals	-823	-413
Carrying amount at the end of the period	**6,398**	**1,742**

2.3. Investments

EUR 1,000	2023	2022
Other shares and participations		
Acquisition cost at the start of the financial year	50	350
Disposals	0	-300
Acquisition cost at the end of the period	50	50
Shares in subsidiaries		
Acquisition cost at the start of the financial year	384,485	284,485
Additions	0	100,000
Acquisition cost at the end of the period	384,485	384,485
Total investments	**384,535**	**384,535**

A full list of the Group's subsidiaries is presented in Note 30 Group Companies in the consolidated financial statements.

2.4. Non-current receivables

EUR 1,000	2023	2022
Receivables from others		
Lease deposits given	0	37
Deferred tax assets	2,488	1,124
Total non-current receivables	**2,488**	**1,160**

2.5. Current receivables

EUR 1,000	2023	2022
Receivables from others		
Trade receivables	12	12
Other receivables	43	865
Prepayments and accrued income	1,566	5,553
Total	**1,621**	**6,431**
Receivables from Group companies		
Trade receivables	1,808	771
Loan receivables	45,533	50,882
Prepayments and accrued income	1,964	1,487
Total	**49,305**	**53,140**
Material items included under Prepayments and accrued income		
Group contribution	537	0
Accrued direct taxes	0	1,490
Allocation of sales	0	672
Accrued social security expenses	64	112
Accrued trade payables	2,462	3,952
Other	467	815
Total	**3,530**	**7,040**
Total current receivables	**50,926**	**59,571**

2.6. Equity

EUR 1,000	2023	2022
Restricted equity		
Share capital at the beginning	80	80
Share capital at the end	80	80
Total restricted equity	**80**	**80**
Unrestricted equity		
Reserve for invested unrestricted equity at the beginning	183,190	183,190
Reserve for invested unrestricted equity at the end	183,190	183,190
Retained earnings at the beginning	28,044	40,136
Dividends paid	0	-6,767
Acquisition of own shares	0	-822
Retained earnings	**28,044**	**32,548**
Profit for the period	-7,709	-4,504
Total unrestricted equity	**203,525**	**211,234**
Total equity	**203,605**	**211,314**
Retained earnings	28,044	32,548
Result for the period	-7,709	-4,504
Reserve for invested unrestricted equity	183,190	183,190
Capitalised development costs	-96	-258
Distributable unrestricted equity	**203,429**	**210,976**
Shares in subsidiaries	22,620,135	22,620,135
of which treasury shares	53,980	70,491
Number of outstanding shares	22,566,155	22,549,644

2.7. Accumulated appropriations

EUR 1,000	2023	2022
Accumulated depreciation difference	1,697	914

2.8. Mandatory provisions

EUR 1,000	2023	2022
Onerous contracts	0	0

2.9. Liabilities

EUR 1,000	2023	2022
2.9.1 Non-current liabilities		
Liabilities to others		
Loans from financial institutions	140,000	167,000
Hybrid Bond	20,000	0
Other non-current liabilities	3,650	3
Non-current liabilities, total	**163,650**	**167,003**
2.9.2 Current liabilities		
Liabilities to others		
Trade payables	1,373	5,430
Other liabilities	1,213	365
Accrued liabilities	4,643	651
	7,229	**6,447**
Liabilities to Group companies		
Trade payables	85	4
Accrued liabilities	107	2,703
Other liabilities	95,630	66,578
	95,821	**69,285**
Material items included under Accrued liabilities		
Personnel expense allocations	173	171
Interest allocations	4,014	2,876
Other items	563	307
	4,750	**3,354**
Current liabilities, total	**103,051**	**75,732**

Other notes

EUR 1,000	2023	2022
Collaterals and contingent liabilities		
Other sureties	157	121

Pihlajalinna's financing arrangements

Pihlajalinna's financing arrangement 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.

Under the original agreement, Pihlajalinna's financing arrangement was set to have a term of three years and a maturity date in March 2025. In December 2023, Pihlajalinna and the creditor banks agreed on restructuring the financing arrangement. According to the new agreement, the financing arrangement will mature in March 2026, and the loan margin will change effective from 1 July 2024.

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. Sustainability targets have a minor effect on the loan margin, depending on how many of the agreed-upon sustainability targets are achieved. At the end of the financial year, the sustainability targets linked to the financing arrangement caused no 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 2023 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 was 3.75 at the end of the financial year 2023. At the end of the financial year 2022, the covenants agreed on a temporary basis were gearing of 140 per cent and leverage of 5.5. At the end of the financial year, gearing in accordance with the financing arrangement was 93.6 (139.95) per cent and leverage was 3.09 (5.23).

At the end of the reporting period, 31 December 2023, the withdrawn loan amount to which the covenants apply was EUR 140.0 million (EUR 167.0 million).

During the financial year 2022, the Pihlajalinna entered into an interest rate swap agreement with a nominal value of EUR 65 million to hedge its floating rate financing arrangement. The Group sold the interest rate swap agreement in question on 2 February 2023. The fair value of the interest rate swap agreement at the time of concluding the agreement was approximately EUR 3.9 million. The gain on the sale is presented reducing financial expenses in the parent company's income statement.

On 2 February 2023, the Pihlajalinna signed a new interest rate swap agreement with a nominal value of EUR 65 million. The interest rate swap is subject to cash flow hedge accounting. The interest rate swap entered into effect in March 2023 and will remain in effect until 25 March 2027. Its fair value was EUR 0.2 (5.1) million at the end of the financial year. Derivative contract is presented in the parent company's financial statements based on the principle of prudence, and the positive unrealized difference between the value at the time of execution and the value on the balance sheet date has not been recorded as income in the financial statements.

On 27 March 2023, Pihlajalinna issued a hybrid bond with an annual coupon of 12%. The hybrid bond does not have a specified maturity date. Pihlajalinna is entitled to redeem the hybrid bond on the Reset Date, 27 March 2026, and thereafter on each interest payment date. The hybrid bond is presented in the parent company's financial statements in liabilities in the balance sheet and the interest is presented in financial expenses in the income statement.

Pihlajalinna had EUR 70.0 (43,0) million in unused committed credit limits available. Unused credit limits consist of EUR 10 million credit limit agreement and EUR 60 million unwithdrawn revolving credit facility. In addition, EUR 100.0 (100.0) million of an additional credit limit, which is subject to a separate credit decision, was unused on the financial statements date.

EUR 1,000	2023	2022
Lease commitments		
Within one year	158	146
Between one and five years	396	230

Dates and signatures to the report by the Board of Directors and the financial statements

Tampere, 13 February 2024

Jukka Leinonen Chairman	**Kim Ignatius**	**Heli Iisakka**	**Hannu Juvonen**
Tiina Kurki	**Leena Niemistö**	**Seija Turunen**	**Mikko Wirén**

Tuomas Hyyryläinen
CEO

Auditor's Note

A report on the performed audit has been issued today.

On the date of the electronic signature
KPMG Oy Ab

Assi Lintula
Authorised Public Accountant

Auditor's Report

To the Annual General Meeting of Pihlajalinna Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Pihlajalinna Plc (business identity code 2617455-1) for the year ended 31 December 2023. The financial statements comprise the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, cash flow statement and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements section* of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 6 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

The key audit matter	How the matter was addressed in the audit
Items containing management's estimates related to social and healthcare outsourcing agreements (refer to notes 1 Revenue from contracts with customers, 16 Trade and other receivables and 29 Contingent assets and liabilities and commitments in the consolidated financial statements)	
• A significant proportion of the Group's revenue is based on long-term complete and partial social and healthcare outsourcing agreements. A high level of management judgement, which can have a significant impact on the consolidated result and statement of financial position, is involved in the accounting for outsourcing contracts due to the extent of the contracts, definitions of contractual obligations and amendment clauses for changed situations. • The client of the Group's social and healthcare outsourcing agreements changed from the municipalities to the wellbeing services counties as of 1.1.2023. The wellbeing services counties had the right to terminate the agreements by 31.10.2023, and one material agreement has been terminated to expire in accordance with the transition period of the enforcement law at the end of year 2025. • In some outsourcing agreements, the responsibility for the costs of demanding specialised care has during the financial year based on negotiations been transferred to the wellbeing services county. The change reduces risks related to costs and income. • Note 1, section *Key accounting estimates and decisions based on management judgement* of the consolidated financial statements, explains the challenges related to the collection of receivables related to complete social and healthcare outsourcing agreements with the previous clients. The company has commenced legal actions for debt recovery with regard to some of the receivables and is considering legal actions to recover other receivables. These items in question do no longer meet the definition of contract assets at the end of the financial year, and Pihlajalinna is presenting these items as contingent off-balance sheet assets in accordance with IAS 37. • The write-downs of these items reduced the EBITDA by a total of 7.8 million euros during the financial year, and in addition also had a negative effect of 0.4 million euros on the financial items. The write-downs have a significant impact on the Group's result for the financial year. • Due to the amount of changes related to the outsourcing agreements, the amount of items containing management's estimates at the beginning of the year, as well as the material impact on the result for the period of the write-downs of receivables, items containing management's estimates related to social and healthcare outsourcing agreements are considered a key audit matter.	• We assessed the items containing management's estimates related to social and healthcare outsourcing agreements recorded in the consolidated financial statements through discussions with management, analytically and by performing substantive testing. We obtained agreements, calculations and administrative documents related to the items. • We have discussed matters related to the change of the client with the management. In addition, we have reviewed the renewed service agreements, contract amendments and decisions related to contract terminations in the wellbeing services counties, as well as the impact of these changes on the Group's revenue and costs. • We have obtained legal representation letter about pending legal disputes. In addition, we have reviewed the legal opinions of the law firms used by the Group regarding the Court of Appeal's ruling in the dispute between Jämsän Terveys Oy and the City of Jämsä and its effects on outstanding receivables from the previous municipalities clients. • We have reviewed the write-downs of receivables and the basis for them. • We assessed the recognition principles applied to income and expense items containing management's estimates compared to IFRS principles and considered the appropriateness of the Group's disclosures in respect of items containing management's estimates. • We reported in more detail about the contents and the changes of these items containing management's estimates to the Audit Committee and the Board of Directors.
Goodwill impairment assessment (refer to note 13 Intangible assets and goodwill in the consolidated financial statements)	
• The Group has expanded its activities through acquisition of companies. As a result, the consolidated statement of financial position 31 December 2023 includes goodwill totalling 251.8 million euros. • Goodwill is not amortized but is tested at least annually for impairment. Determining the cash flow forecasts underlying the impairment tests requires management make judgments over certain key inputs, for example revenue growth rate, discount rate, long-term growth rate and inflation rates. • Due to the high level of judgement related to the forecasts used, and the significant carrying amounts involved, goodwill impairment assessment is considered a key audit matter.	• Our audit procedures included, among others, assessing key inputs in the impairment calculations such as revenue growth rate, profitability and discount rate, by reference to the parent company's Board approved budgets, data external to the Group and our own views. • We assessed the historical accuracy of forecasts prepared by management by comparing the actual results for the year with the original forecasts. • We involved KPMG valuation specialists that assessed the technical accuracy of the calculations and compared the assumptions used to market and industry information. • Furthermore, we considered the appropriateness of the Group's disclosures in respect of goodwill and impairment testing.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRS Accounting Standards as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting when Pihlajalinna Plc was established on 15 April 2014 and our appointment represents a total period of uninterrupted engagement of ten years. In Pihlajalinna Terveys Oy we were first appointed as auditors for the financial year ended 31 December 2010. Pihlajalinna Plc became a public interest entity on 8 June 2015. We have been the company's auditors since it became a public interest entity.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Tampere 16 February 2024

KPMG OY AB

Assi Lintula
Authorised Public Accountant, KHT

Information for shareholders

General meeting

Pihlajalinna Plc's Annual General Meeting will be held on Wednesday 10 April 2024 at 10:00 a.m. at Tampere Hall, Duetto 1 conference room, at Yliopistonkatu 55, 33100 Tampere, Finland. The reception of persons who have registered for the meeting and distribution of voting tickets will commence at the meeting venue at 9:00 a.m.

Shareholders can also exercise their right to vote by voting in advance. Instructions for advance voting are set out in section C of this notice to the General Meeting. Shareholders may ask questions referred to in Chapter 5, Section 25 of the Finnish Companies Act concerning the matters on the agenda of the meeting also in writing before the meeting. Instructions for posing written questions are set out in section C of the notice to the General Meeting.

Shareholders may follow the meeting through a webcast. Instructions for following the webcast are available on the company's website at https://investors.pihlajalinna.fi. It is not possible to ask questions, make counterproposals or exercise the right to speak or vote through the webcast, and following the meeting through the webcast is not considered participation or exercise of shareholder's right in the General Meeting.

Right to participate

A shareholder who is registered in the company's shareholders' register maintained by Euroclear Finland Oy on the record date of the General Meeting, 27 March 2024, has the right to participate in the General Meeting.

Registration

Registration for the General Meeting and advance voting will begin on 18 March 2024 at 12:00 p.m. A shareholder who is registered in the company's shareholders' register and wishes to participate in the General Meeting shall register for the meeting no later than on 4 April 2024 at 4:00 p.m. by which time the registration must be received by the company.

The shareholder may register for the General Meeting:

a) Through the company's website at https://investors.pihlajalinna.fi/annual-general-meeting2024

Electronic registration requires strong identification by the shareholder or his/her legal representative or proxy representative with Finnish, Swedish or Danish banking credentials or mobile ID.

b) By post or email

A shareholder registering by post or email shall send the registration form available on the company's website at https://investors.pihlajalinna.fi/annual-general-meeting2024 or corresponding information to Innovatics Ltd by post to the address Innovatics Ltd, Annual General Meeting / Pihlajalinna Plc, Ratamestarinkatu 13 A, 00520 Helsinki, Finland, or by email to agm@innovatics.fi.

c) By telephone + 358 10 2818 909

Registration by telephone is possible during the registration period on weekdays between 9:00 a.m. and 12:00 p.m. and between 1:00 p.m. and 4:00 p.m.

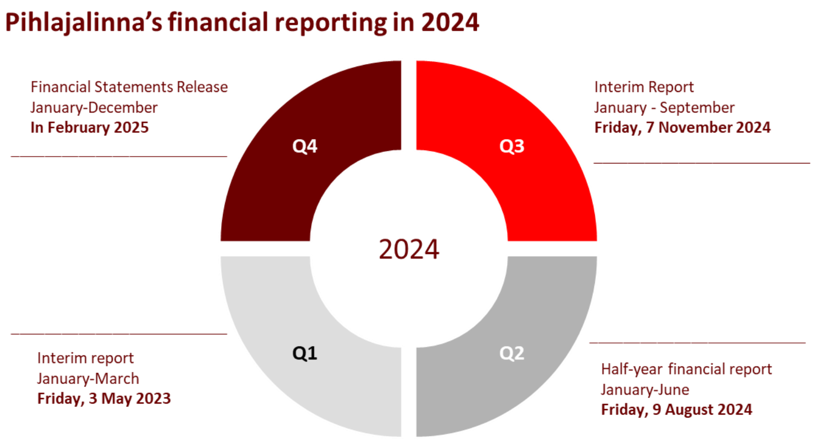
In connection with the registration, a shareholder shall notify the requested information, such as the shareholder's name, date of birth or business ID, contact information, the name of a possible assistant or proxy representative and the date of birth of the proxy representative. The personal data given to Pihlajalinna Plc by shareholders is used only in connection with the General Meeting and with the processing of thereto related necessary registrations.

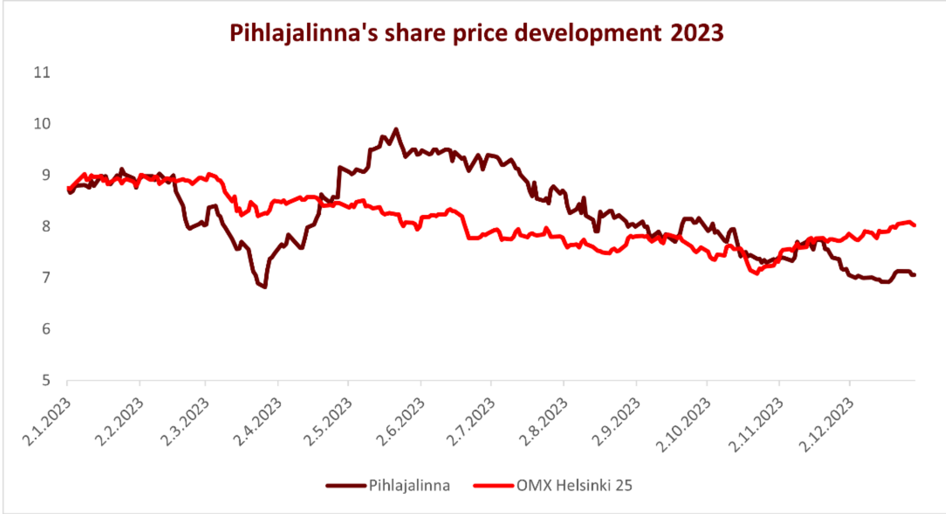
A shareholder, his/her representative or proxy representative shall, on demand, be able to prove his/her identity and/or right to representation at the meeting venue.

Further information on registration is available by telephone during the General Meeting's registration period from Innovatics Ltd's telephone number +358 10 2818 909 on weekdays between 9:00 a.m. and 12:00 p.m. and between 1:00 p.m. and 4:00 p.m.

Payment of dividend

The Board of Directors proposes to the Annual General Meeting that, based on the balance sheet confirmed for the financial period ending 31 December 2023, EUR 0.07 per share will be distributed as a dividend. The dividend will be paid to shareholders who, on the dividend payment record date of 12 April 2024, are registered in the company's shareholders' register maintained by Euroclear Finland Oy. The Board of Directors proposes that the dividend be paid on 19 April 2024.





The interim reports will be published at approximately 8:00 a.m. in Finnish and English, and they will be available on Pihlajalinna's website at investors.pihlajalinna.fi.

Pihlajalinna's management organises information events for analysts and the media on a regular basis. Pihlajalinna complies with a silent period of 30 days and a closed window before the publication of results.

Investment survey

As far as Pihlajalinna is aware, the following investment banks and stockbrokers monitor Pihlajalinna and publish reports on the company: Pihlajalinna is not liable for the estimates presented in the analyses.

- Danske Bank
- Carnegie
- Inderes
- OP
- SEB
- Nordea

Contact details

Tuula Lehto, Vice President, Communications and Sustainability
+358 40 588 5343, tuula.lehto@pihlajalinna.fi
Tarja Rantala, CFO, +358 40 774 9290, tarja.rantala@pihlajalinna.fi
Additional information is available in the investor section at investors.pihlajalinna.fi.

PIHLAJALINNA.FI