



Financial statements 2017

Annual report

Mayor's review

Minna Arve

In many ways, 2017 was a great and promising year for the City of Turku. The economy of the Turku region is growing after several difficult years. The strong growth prospects in the maritime, pharmaceutical and manufacturing industries have increased trust in the continuation and strengthening of this growth for years to come. New international companies want to relocate to Turku.

As a result of the positive structural change, as many as 30,000 new jobs are expected to be created in Turku and the surrounding region over the next few years. This development also brings with it challenges that require solving. In recent years, economic and population growth in the Turku region have been faster than anticipated, which will also affect the demand for public services provided by the city.

Good results were achieved in various sectors in 2017. In the welfare sector, the city for example replaced purchased services in oral health care with its own operations and service vouchers without lengthening the queues. The city has been able to meet the increased needs for services arising from the aging of the population well, with due consideration to stricter obligations, a tight economic frame and HR policy.

In the education sector, the implementation of the new core curriculum for basic education succeeded well. The Schools on the Move project, in which all 30 comprehensive schools implemented innovative pilots to increase physical activity, garnered praise in the recreation sector. Museum services saw a significant increase in visitor numbers, and the youth pop-up space in the Hansa shopping centre was a big success.

As a result of strong growth in construction, more building permits were granted than in the previous two years. In public transport, the number of journeys taken increased by an impressive 5%, i.e. by almost a million additional journeys. The successful water bus pilot of summer 2017 will continue in 2018.

The two major events of the summer, The Tall Ships Races and Europeade, attracted hundreds of thousands of visitors to the city, and the events' economic multiplier effects on companies in the region were significant. The events also brought plenty of positive publicity to the city and improved Turku's image both nationally and internationally.

Turku City Theatre's renovation was completed, elevating the theatre's operations to a higher level. Kupittaa Ball Game Hall, which meets international standards, was completed at the end of the year and is expected to further increase the attractiveness of Turku as a city of national and international sports competitions. Together with Raisio, Naantali and Paimio, Turku was able to participate in a national employment pilot, which seeks effectiveness in the employment and stimulation of the long-term unemployed and young people. In the pilot, the city set up its own employment office, Työpiste, at the Employment Services Centre in August, with some personnel from the TE office also transferring there.

The prospects are promising, which creates positive expectations for employment trends and the growth of the tax base.



The visions set the direction for development

The activities of the anniversary year of Finland's independence were visible across all sectors. The City Council made a decision in the spring, stating that the centenary of Finland's independence would be honoured by implementing a historical museum in Turku, founding the Turku 2029 foundation,

strengthening the year-round nature of the attractiveness of the Aura River area and founding a nature reserve in Luolavuori. The decision to celebrate and the projects related to the decision are strongly linked to the city's strategy and its implementation.

The spearhead projects launched in 2016 progressed, including the development of the city centre, the development of the Kupittaa campus area in cooperation with universities and higher education institutions, the service management reform and the digitalisation of the city's services. The ambitious vision of the multidisciplinary vision working group established by the City Council regarding the strengthening of the city centre's vitality and attractiveness, as well as a concrete view of the measures, were published in August 2017.



In September 2017, the city launched a new spearhead project called Smart and Wise Turku, which promotes carbon neutrality and the Smart City concept. The project was combined with two other spearhead projects, namely the service management reform and digitalisation of the city's services. One key objective of the spearhead project is to make progress towards a carbon neutral city region by 2040. Progress towards this objective will be made in phases, with the aim of reducing greenhouse gas emissions by at least 80% by 2029, compared to the 1990 level.

The plans for the Turku Science Park spearhead project were published in December.

In 2017, the municipalities prepared for a historic structural change, as the upcoming regional government, health and social services

reform will lead to a significant part of the services currently provided by municipalities to become the responsibility of counties from 1 January 2020 onwards. The change will also materially impact the city's revenue base. The legislation concerning the regional government, health and social services reform will reportedly be brought before Parliament in spring 2018. The unclear situation of the reform is causing uncertainty in the municipalities, in addition to a need for the municipalities to continue developing their own operations and productivity.

Economy 2017

The city's financial statements for the financial year showed a surplus of EUR 24.2 million. However, the financial statements include non-recurring items that improve the profit for the year. The sale of the business operations of the Water Utility resulted in approximately EUR 24 million in capital gain. Additionally, the 2017 corporate tax payments include an exceptionally large supplementary prepayment, which increases the profit by approximately EUR 10 million. Without non-recurring items, the financial statements would be EUR 9.5 million in deficit. The cash flow from operations and investments is positive by EUR 64.7 million as a result of the sale of the Water Utility's operations. Without the corporatisation of the

Surplus €
24.2 million

Water Utility, the cash flow from operations and investments would be negative by EUR 33.2 million.

The city's sectors have continued their great efforts from the previous years to balance the economy. All sectors have enhanced their operations and observed strict budgeting. They have also been able to respond to the increased need for services. The strategic goals derived from the city strategy for committees and management boards for the year were largely achieved, according to reports submitted by the sectors. Development projects have yielded results. The use of human resources remained at the same level as the previous year. The comparable net operating expenditure (operating margin) was EUR 995.8 million, i.e. almost at the same level as in 2016 (decreased by 0.3 per cent compared to 2016).

The positive trend in the general economic situation is visible in the city's tax payments. The reduction anticipated in municipal tax

revenue was smaller than feared. Corporate tax revenue was greater than estimated in the budget. The better trend in tax revenue partly covered the cuts in central government transfers, which were a result of the Competitiveness Pact. However, without a significant non-recurring supplementary prepayment, the city's tax revenue would have been almost at the same level as the previous year.

Despite the improvement in tax funding, the city's financial leeway remained small. The investment level will also remain high during the budgeting period. Internal financing will not be enough for financing investments, which will increase borrowing. The regional government, health and social services reform will significantly change the municipalities' operating and economic environment. Tax funding will decrease significantly. In the future, the funding of investments and loan repayment will be handled with smaller revenue. In addition to this historically extensive structural

Net operating
margin €

995.8 million

change, rapid economic and population growth also pose challenges to keeping the city's economic development balanced.

In January 2018, immediately after the end of the financial year, a specification to the Turku tramway master plan was published, based on a tramway or Superbus solution that will be implemented as an urban development project. The purpose of the project is to comprehensively and cost-effectively develop the city structure and functional transport system as well as the region's attractiveness. The master plan's specification report will be sent out for statements after a review of the cost calculations. Written statements and opinions are expected to be submitted by the end of June. After this, the City Council will be presented with a proposal on the choice of transport system for the city of Turku.

Approved in February, the outcome of the negotiations in the municipal sector will increase wages from May 2018 onwards. According to current estimates, the reservation made for the agreed wage increases in 2018 will suffice. In 2019, wage costs will increase as a result of the performance-based non-recurring item that will be paid at the start of the year as well as the general increase that will be implemented in April.

Development of the economic area

Southwest Finland is currently undergoing strong, industry-driven economic growth, which is referred to as a positive structural change. The region's employment rate underwent a rapid increase during the 2016–2017 period, and unemployment also decreased rapidly. This trend can be expected to continue in 2018. The population growth in the region focused on the sub-regions of Vakka-Suomi and Turku. In Vakka-Suomi, the increase is driven by the automotive industry, with Valmet Automotive significantly increasing its production and personnel in 2017, which has also had a positive impact on the employment trends in Turku. Meyer's Turku shipyard is in the process of carrying out a large investment programme that will enable growth, to be completed in late 2018–early 2019.

With regard to demand in the job market, securing regional economic growth requires prompt development of relevant education and transport connections as well as improvement of the meeting of supply and demand of labour. The region was disappointed in 2017 when the University of Turku was denied the right to

expand its own Master of Science (Technology) education. At least for the time being, the university has to settle for the joint university of technology.

Sector-specific data on turnover and personnel in the Turku sub-region, produced by Statistics Finland, are available up to the end of September 2017. According to this data, the total turnover of all sectors grew by 6.3% in the third quarter of 2017, whereas the corresponding number for the whole country was approximately 6%, compared to the corresponding period in 2016. With regard to different sectors in the Turku sub-region, turnover increased the most in construction, the maritime industry and 'other services'.

Population

189,794

According to Statistics Finland's preliminary data, Turku's predicted population at the end of 2017 was 189,794, increasing by 2,190 compared to the previous year. This population growth was the largest since 1995, when the population of Turku grew primarily as a result of an amendment to the Municipality of Residence Act coming into force. In contrast, the population change of 2017 was fully due to migration, as natural population growth, i.e. the number of births exceeding deaths, turns negative.

Unemployment rate

13.9 %

At the end of 2017, the unemployment rate in Turku was 13.9 per cent (-2.9 per cent compared to the corresponding period the previous year) according to an employment review by the Centre for Economic Development, Transport and the Environment for Southwest Finland. In a comparison of the ten largest cities in Finland, Turku ranked around the middle, similarly to the previous year: Turku's unemployment rate was higher than that of Espoo, Vantaa, Helsinki and Kuopio, but lower than that of Lahti, Tampere,

Oulu, Jyväskylä and Kouvola. At the end of December 2017, the unemployment rate in the Turku sub-region was 10.3 per cent (-3.7 per cent compared to the corresponding period the previous year).

Estimate of probable future trends

During negotiations held on 5 July 2017, the Finnish government decided to effect the regional government, health and social services reform as of 1 January 2020. The reform will transfer responsibility for providing social and health care services to the counties. Regional elections will be held in October 2018. The government will present Parliament with a new bill for the Freedom of Choice Act in early 2018. The Counties Act, Act on Organising Health and Social Services and Freedom of Choice Act will be processed by Parliament simultaneously in spring 2018. These acts could then come into force in summer 2018.

The reforms have been a topic of lively debate, and their implementation has also been questioned. There are no detailed estimates of the impacts of the reforms on municipalities, but preliminary estimates say that the economic impact on municipalities will be negative and increase economic responsibility.

City personnel

Measured in person-years, the amount of labour used (entire personnel) during the period 1 January–31 December 2017 was 10,350.3. Excluding employees performing wage-subsidised work, students/interns, outplaced employees and partially disabled persons in job placements, the amount of labour used in 2017 was 10,022.4, which is 339.6 person-years less than in 2016.

On 31 December 2017, the City of Turku employed a total of 11,480 people, comprising 9,834 full-time and 1,646 part-time employees.

The personnel expenditure for 2017 was EUR 492.2 million, of which wages and remunerations (reduced by personnel-related compensation and benefits, and adjustments to personnel expenditure) accounted for EUR 384.3 million and social security contributions for EUR 107.9 million. The personnel expenditure for 2016, adjusted by the organisational changes, totalled EUR 504.2 million.

Comparable wages and remunerations (reduced by personnel-related compensation and benefits, and adjustments to personnel expenditure) increased by EUR 2.6 million (0.7%). This increase is explained by a holiday pay debt of EUR 2.5 million that was paid in connection with the transfer of specialised psychiatric care, an increase in the number of untaken leave days included in the holiday pay debt as a result of factors such as consideration of the third calendar year during which holiday is taken, as well as changes to the periodisation of wages for Southwest Finland Emergency Services and the Welfare Division compared to the previous year. The trends in wage expenditure are influenced by the agreed wage increases defined in the collective agreements for the municipal sector as well as the holiday pay cuts (-1.3%) introduced by the Competitiveness Pact. The cost impact of the agreed wage increases (2016) on wage expenditure in 2017 was approximately 0.04 per cent.

| | 2016 | 2017 | Change |
|--|-----------------|-----------------|---------------|
| Central Election Committee | 1.1 | 5.4 | 4.3 |
| Audit Office | 4.2 | 4.1 | -0.1 |
| Central Administration and service centres | 825.2 | 833.4 | 8.2 |
| Southwest Finland Emergency Services | 530.8 | 530.9 | 0.1 |
| Welfare Division | 4,583.2 | 4,334.0 | -249.2 |
| Education Division | 3,672.3 | 3,650.8 | -21.5 |
| Recreation Division | 608.7 | 612.4 | 3.7 |
| Environmental Division | 168 | 166.6 | -1.4 |
| Water Utility | 72.3 | 0 | -72.3 |
| Property Management Division | 211.8 | 212.7 | 0.9 |
| Turku in total | 10,677.6 | 10,350.3 | -327.3 |
| Turku in total, with consideration to the organisational change (Turku Region Development Centre, Procurement and Logistics Centre, Water Utility, benefits processing, specialised psychiatric care, Central Administration's attendants, part of Turku Vocational Institute's catering services) | | | 21.8 |

Financial year

Financial years 2017 and 2016 are not comparable. In comparing the formation of the profit/loss for the financial year, it must be considered that the operating cost of EUR 29 million, which was intended as a private equity investment for the Turku 2029 foundation, is non-recurring in nature and exceptional in comparison to other operating expenditure for the financial year. The investment into the foundation is processed as a grant in the operating expenditure in accordance with the general instructions of the Municipal Division. The private equity investment was covered by dissolving the damages fund and an additional distribution of dividends by subsidiaries, resulting in the measure not having any impact on the surplus/deficit for the city's financial year.

The impact of the corporatisation of Turku Water Utility as of 1 January 2017 must also be taken into account in the comparison year. The corporatisation impacted the operating margin of the financial year negatively by EUR 14.1 million.

Without the non-recurring investment in the Turku 2029 foundation, the city's net operating expenditure was EUR 995.9 million. Also taking the impact of the operating revenue and expenditure of the Water Utility in 2016 into account, the net operating expenditure decreased by EUR 2.9 million from the previous year. The net operating expenditure fell below the budget by EUR 10.3 million.

Procurement of services totalled EUR 572.3 million. Without the impact of the procurement of the Water Utility's services in 2016, which amounted to EUR 10.0 million, growth totalled EUR 28.6 million, i.e. +5.3%.

Tax revenue and central government transfers decreased by a total of EUR 6.7 million (-0.7%). The operating revenue covered 20.9 per cent of the operating expenditure (24.3% in the financial statements for 2016). The proportion left to be financed by tax revenue and central government transfers was thereby 79.1 per cent (75.7% in the financial statements for 2016).

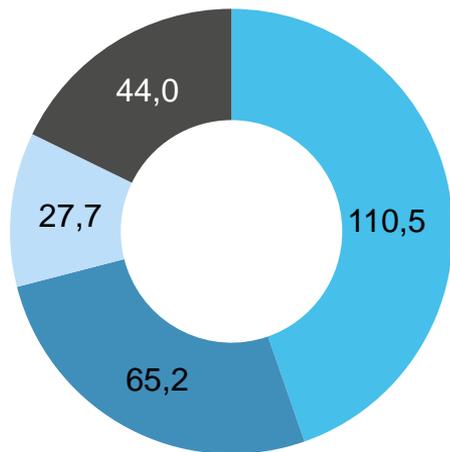
The financing revenue includes, as a non-recurring item, an additional dividend yield of EUR 14.5 million, collected for the founding of the Turku 2029 foundation.

Before non-recurring items, the profit/loss for the financial year was negative by EUR 16.6 million. The profit/loss for the financial year includes a non-recurring capital gain of EUR 23.7 million from the sale of the business operations of Turku Water Utility, listed under extraordinary items.

The profit/loss for the financial year is weakened by an operating expense of EUR 14.5 million, which was paid to the Turku 2029 foundation from the damages fund. A corresponding amount of EUR 14.5 million from the damages fund will be recognised as revenue, thus eliminating the impact on the surplus/deficit for the financial year.

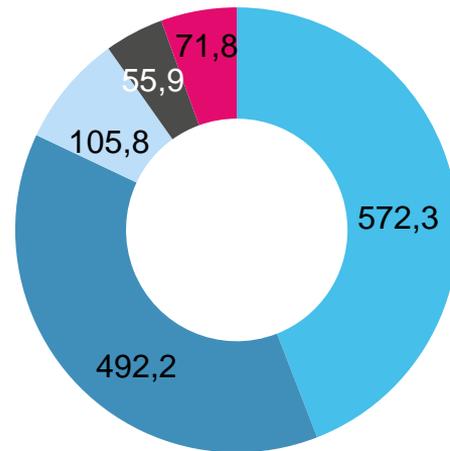
The corporate tax revenue includes a non-recurring payment item of approximately EUR 10 million, which is greater than usual. Adjusted by non-recurring items, the profit/loss for the financial year would be negative by approximately EUR 12 million. Adjusted by the city's non-recurring items, the surplus for the financial year would be negative by approximately EUR 9.5 million.

Operating revenue 2017, €270.8 million



- Sales revenue
- Payment revenue
- Subsidies and grants
- Other

Operating expenditure 2017, €1,298.1 million



- Purchase of services
- Personnel expenditure
- Grants
- Materials, supplies and goods
- Other expenditure

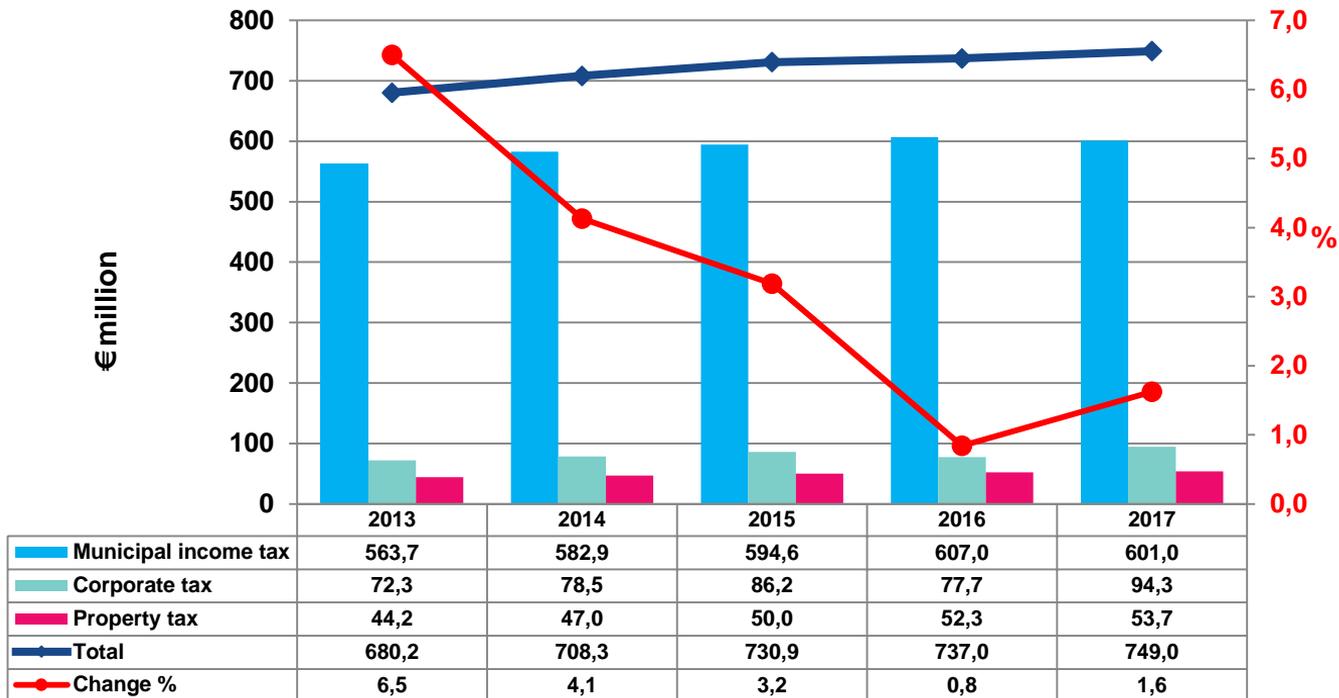
FINANCES OF THE CITY OF TURKU CONCERN

Tax revenue

The most significant item to accelerate the increase in corporate tax revenue was a considerable individual supplementary prepayment, of which Turku's share was approx. EUR 10 million.

Corporate tax revenue was also increased by an increase of the allotment of the group of municipalities, which compensated for the reduction in early childhood education fees. In 2017, the development of corporate taxes was positive, with a growth of EUR 16.6 million (21.4%) compared to the previous year.

Realisation of tax revenue 2013–2017

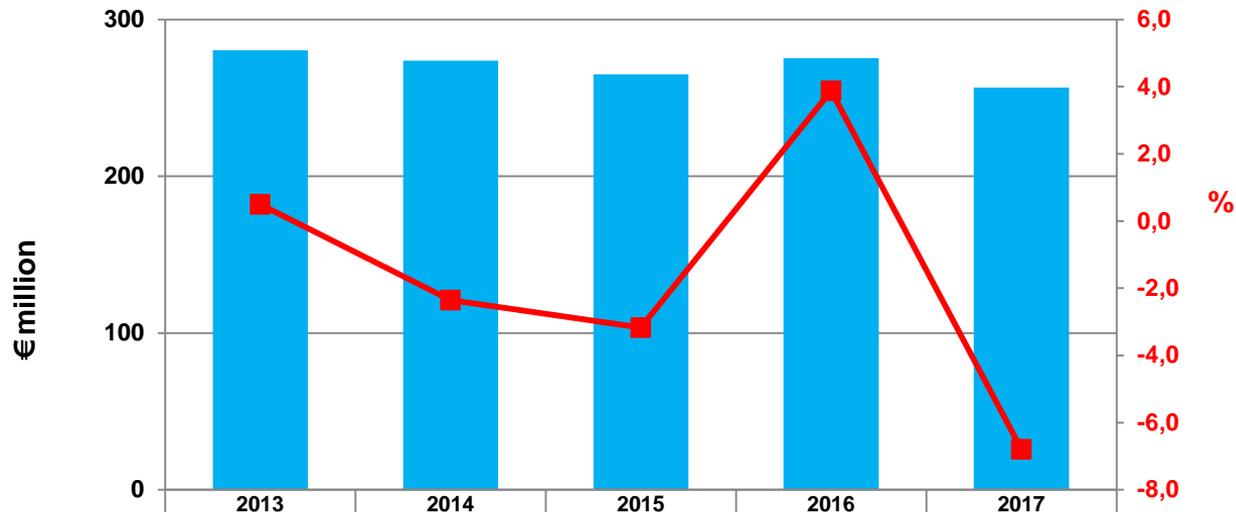


Revenue from central government transfers

Revenue from central government transfers amounted to a total of EUR 256.6 million, being EUR -18.7 million, i.e. -6.8%, less than the previous year. This decrease in central government transfers is primarily due to a cut made as a result of the Competitiveness Pact, negotiated by labour market organisations in 2016.

The central government transfer for basic services (without the equalisation of tax revenue) totalled EUR 222.9 million, which was EUR -19.5 million (-8.0%) less than the previous year. The other central government transfers for the education and cultural sectors totalled EUR 37.9 million, which was EUR -0.4 million (-1.1%) less than the previous year. The equalisation of Turku's tax income provided the other municipalities with EUR 4.3 million, which was EUR -1.2 million (-22.2%) less than the previous year.

Realisation of central government transfer revenue 2013–2017



| | | | | | |
|---|-------|-------|-------|-------|-------|
| ■ Central government transfers, total | 280,3 | 273,7 | 265,0 | 275,3 | 256,6 |
| —■ Change % | 0,5 | -2,3 | -3,2 | 3,9 | -6,8 |

Largest investments

The city's investment expenditure in 2017 was a total of EUR 106.6 million (EUR 74.5 million in 2016). The investment expenditure includes an investment of EUR 30 million into an invested non-restricted equity fund of the city's subsidiary, Turun Vesihuolto Oy.

The largest implemented infrastructure project related to the city centre's development was the Logomo pedestrian bridge. The largest infrastructure project in zoned areas was the area of Kårsämäki Manor. Approximately 65% of the investment expenditure in infrastructure services focused on projects that reduced the renovation debt for public areas, such as repairing street structures, pavements, lighting, pedestrian and bicycle routes and playgrounds. In addition to procuring unzoned land, the city procured an industrial plot for utilisation for the needs of companies in the maritime industry, and a plot to be rented to the hospital district in order to build a hospital area.

The largest renovated sites included school properties of the Education Division, of which the Luostarivuori school building

was completed in autumn 2017, with the renovation of the yard to be completed next summer. The estimated completion date of the Pallivaha school building is in spring 2018, while the Puropelto school site is estimated to be completed in autumn 2018. In addition to school properties, another significant renovation site that supports the operations of the recreation sector was Samppalinnan Outdoor Swimming Stadium, which was completed in spring 2017.

The largest projects implemented by subsidiaries in support of the city's service production included the renovation of Turku City Theatre and, of rented facilities, Kupittaa Ball Game Hall. Syvälahti Community Centre and the upper secondary school Turun Suomalainen yhteiskoulu will be completed in early 2018, with Yli-Maaria Community Centre and Raunistula Day Care Centre set to be completed by the end of 2018.

Implementation of the infrastructure investment plan

In 2017, the implementation of the projects in the infrastructure service investment programme and annual spending totalled EUR 29.6 million, including investments of EUR 2.1 million in stormwater infrastructure. The real estate assets and stormwater network of the Water Utility were transferred to the ownership of the City of Turku when the Water Utility's operations were corporatised.

The total sum of the investments in infrastructure fell EUR 8.8 million (15.9%) below the budget, as some of the projects were delayed or rescheduled fully to the next year. The implementation of the infrastructure investment programme and annual spending were, among other things, divided into strategic land use projects (EUR 6.7 million in total in 2017) and revenue-generating new investment targets (EUR 2.5 million in total), which will provide the city with plots to sell or revenue from land use agreements, among other things.

The annual spending of the infrastructure investment programme also included threshold investments (EUR 1.2 million in total) in support of operations, such as investments in infrastructure for the city's real estate operations.

Projects that reduce the renovation debt included all infrastructure renovation projects and replacement investments, including renovations of stormwater infrastructure that were carried out in 2017 (EUR 15.3 million in total). The functionality and safety of traffic included investments in public transport infrastructure and traffic safety (EUR 2.0 million in total). Investments in the improvement of resident comfort included parks, outdoor exercise facilities and playgrounds (EUR 1.9 million in total).

Implementation of the facility investment programme

The implementation of the facility services investment programme and the annual spending on renovation projects was EUR 14.4 million in total, falling EUR 2.5 million below the budget (14.8%).

A total of EUR 4.4 million was spent on renovation projects at named school properties of the Education Division and other smaller projects at schools. EUR 1.1 million was used on small renovation projects at day care centres. The actual costs of Samppalinnan Outdoor Swimming Stadium exceeded EUR 1.5 million (EUR 4.2 million in 2017). A total of EUR 1.2 million was spent on other small renovation projects of the Recreation Division, such as sports halls. EUR 0.5 million was used on small renovation projects of the Welfare Division.

Other renovation projects included lifts and roofs for a total of EUR 0.9 million. Other individual renovation projects included the fire-extinguishing system of the Ruissalo shipyard (EUR 0.4 million), an office building at Rieskalähteentie 78 (EUR 1.0 million) and renovation projects of the Migration Institute of Finland (EUR 0.6 million).

The city has sought to lighten its investment levels, for example with regard to facility projects, by utilising the Turku Group's implementation solutions. The city may give projects temporary funding for the duration of the construction process via a limit on the Group account or grant a surety for the projects' funding. Significant ongoing new investment projects within the Group in 2017 included Syvälahti Community Centre, Turku City Theatre and Yli-Maaria Community Centre. Rental projects outside the Group included Kupittaa Ball Game Hall and renovation of the upper secondary school Turun Suomalainen yhteiskoulu.

Other investments

In 2017, the city spent a total of EUR 17.1 million on procuring plots and unzoned land. The city invested approximately EUR 6.0 million in city-level IT systems, IT service development, improvement of resource planning and development of digital services.

A total of EUR 3.3 million, of which EUR 1.1 million was covered with funding contributions, was used for procuring control and fire extinguishing equipment for the Southwest Finland Emergency Services.

With regard to sports, youth and cultural investment projects, the city invested a total of EUR 1.4 million in equipping Sampalinn Outdoor Swimming Stadium and Kupittaa Ball Game Hall, recreational facilities for young people, and upgrading the technical systems of facilities. In the education sector, a total of EUR 1.1 million was invested in AV equipment for early childhood and basic education facilities, upgrading equipment, making facility arrangements, digitalising the matriculation examination as well as the vocational institute's simulators and lifting equipment. A total of EUR 0.3 million in investment expenditure was used in the welfare sector to develop patient data systems and electronic services. A total of EUR 0.3 million was spent on developing public transport travel systems.

The investment expenditure includes an investment of EUR 30 million into an invested non-restricted equity fund of the city's subsidiary, Turun Vesihuolto Oy, and an investment of EUR 2.5 million into an invested non-restricted equity fund of the city's subsidiary Turun Seudun sosiaali- ja terveystalvelukiinteistöt Oy.

Kupittaa Ball Game Hall was opened in January 2018



Capital gains

The most significant capital gains were the EUR 104.3 million gained from the sale of the business operations of the Water Utility. The capital gains of the Municipal Property Corporation were EUR 14.7 million. The capital gain of EUR 4.2 million from the sale

of user rights to the underground cave facility in Kakolanmäki is included in other operating revenue in the Municipal Property Corporation's profit and loss account for 2017. Including the underground cave facility in Kakolanmäki, the revenue gained from asset sales was EUR 18.9 million (budget change EUR 22.5 million).

Financial position and its changes

The city's liquidity remained good throughout the year. Assets, which included cash reserves as well as investments into the city's own funds, totalled EUR 216.6 million (EUR 186.3 million in 2016). The worth of the local government papers in circulation at the end of the year was EUR 20 million. The worth of the city's short-term local government paper limits or other non-binding limits at the end of the year was approx. EUR 400 million.

At the end of 2017,

Turku had EUR 601.6 million in long-term loans

(EUR 501.6 million in 2016).

During the year, the city took out EUR 100 million in loans while only shortening its debt by EUR 12,000.

The worth of the local government papers in circulation at the end of the year was EUR 20 million. In addition to these, the short-term debt includes EUR 81.2 million in deposits by subsidiaries and EUR 54.3 million in deposits by the personnel financial services, accounting for a total of EUR 135.5 million. The amount of interest-bearing debt was EUR 757 million at the end of the year. The city's interest-bearing debt increased by EUR 82 million during the year. The interest expenditure of the total interest-bearing debt was EUR 7.0 million, with an effective interest rate of 0.99%.

At the end of the year, the city hedged EUR 540 million of the interest-bearing debt from an increase in the interest rate. EUR 200 million of the hedges were implemented with loans with a fixed interest rate and EUR 340 million with interest rate swaps. The interest rate sensitivity (0.1%) of the interest rate swaps to a change in the interest rate was EUR 2.31 million to a

change in the swaps' fair values. At the end of the year, the degree of hedging was 71%, meaning that the city's interest expenditure will not increase very much if interest increases.

The city lent EUR 144.5 million to its subsidiaries. At the end of the year, the long-term lending portfolio was EUR 648 million (EUR 510.5 million in 2016), while the subsidiaries' short-term credit limit debt connected to the Group account was EUR 60.3 million (EUR 55.2 million in 2016).

In 2017, guarantee liabilities increased to EUR 227 million (EUR 191 million in 2016). This was due to the investments in Kiinteistö Oy Turun kaupunginteatteri, Turun Suomalainen yhteiskoulu and Turun Seudun Vesi Oy. Leasing liabilities remained almost the same, at EUR 26.2 million. The largest leasing liabilities comprise fixed asset purchases included in the framework agreement as well as the port's leased property. Most of the guarantee liabilities are to regional water companies.

At the end of the year, the loan portfolio was EUR 757.1 million, changing by EUR 81.8 million from the previous year. The loan portfolio per capita was EUR 3,989 (EUR 3,600 in the financial statements for 2016).

After deducting the city's loans receivable and assets,

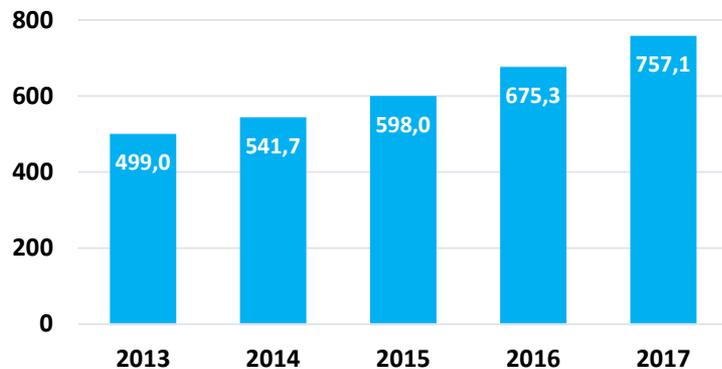
Turku has approximately EUR 168 million more in receivables and its own monetary investments than it has in debts

(EUR 77 million in 2016).

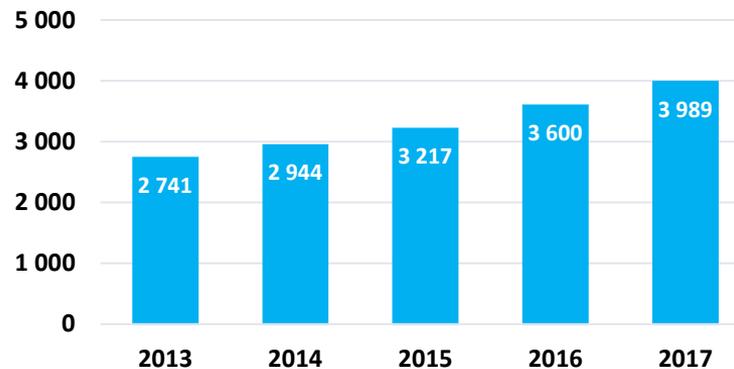
Loans and rent liabilities accounted for 106.2 per cent of the operating income, with the corresponding figure being 93.5 per cent the previous year.

Loan portfolio

Loan portfolio 2013–2017, € million



Loan portfolio per capita, €



The Group's annual margin was EUR 147.6 million (EUR 174.0 million in the financial statements for 2016), which can be used for the Group's investments and loan repayments. The annual margin was EUR 26.5 million lower than the previous year. The reduction in the annual margin was contributed to by the investment of EUR 29 million into the capital of the Turku 2029 foundation, which is listed under operating expenditure.

The Group's annual margin per capita, EUR 778, decreased by EUR 150 from the previous year (EUR 928 in the financial statements for 2016). The annual margin covered 108.9 per cent of the depreciations according to plan (130.5 per cent in the financial statements for 2016).

The profit/loss for the financial year was EUR 12.0 million in surplus (EUR 40.7 million in the financial statements for 2016). The closing entries include EUR 14.5 million, which was recognised as revenue from the damages fund for the financing arrangement for the Turku 2029 foundation. The Group's surplus for 2017 was EUR 15.5 million. Without the non-recurring recognition of revenue referred to above, the Group's surplus would be approximately EUR 1.0 million.

The Group's investment expenditure was EUR 230.5 million in total (EUR 189.6 million in the financial statements for 2016).

Profit in surplus

12.0 million

The most significant investments within the Group were

- City of Turku EUR 74.0 million
- TVT Asumnot Oy Group EUR 29.6 million
- Turku Energia Oy Group EUR 27.3 million
- Koy Turun kaupunginteatteri EUR 19.6 million
- Koy Syvälahden koulu EUR 12.4 million
- Varsinais-Suomen sairaanhoitopiirin ky EUR 10.8 million

Turku Energia's investments focused on the normal improvement and maintenance of networks' transmission capacity and operational reliability. Heating business investments focused on expanding heating networks and procuring equipment as well as the new steam production plant in Artukainen. EUR 2.4 million was invested in Voimaosakeyhtiö SF, with EUR 0.9 million invested as long-term investments in Suomen Hyötytuuli Oy.

A new site was completed for TVT Asumnot Oy at Suksikuja 1, comprising two balcony-access blocks and 19 apartments. Within the

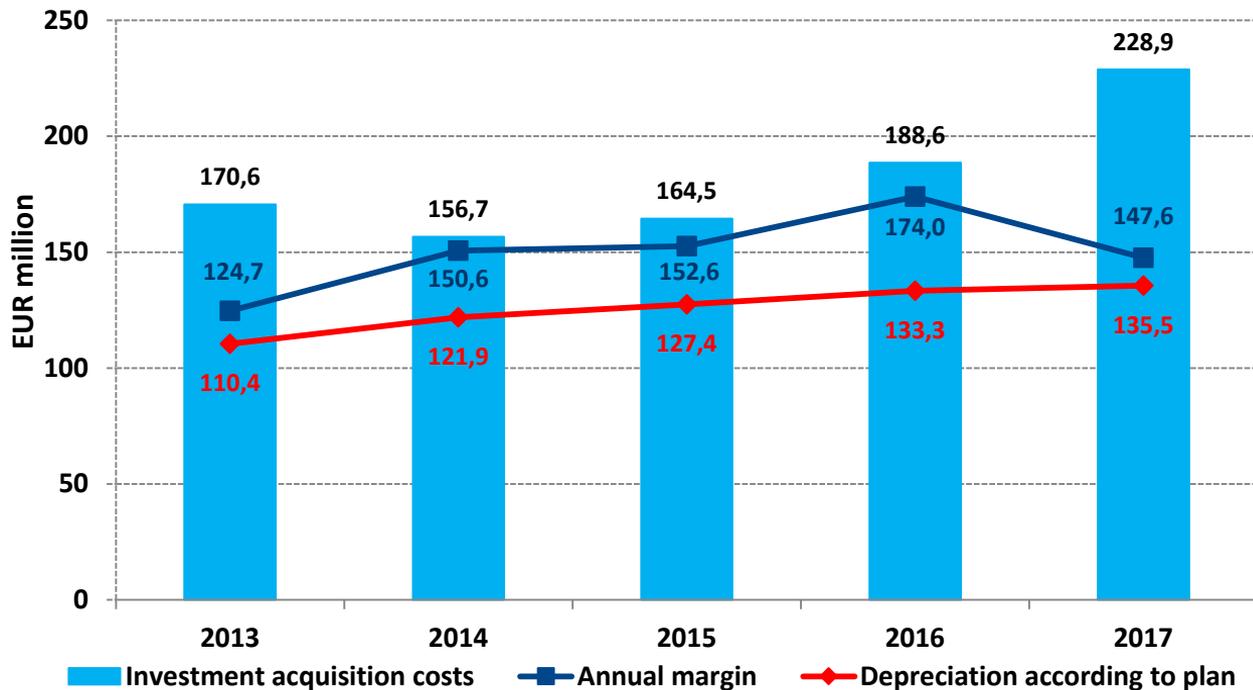
TVT Group, a new building was also completed for Turun Palvelutilat Oy at the same address, comprising 12 apartments and leased to the Joint Municipal Authority of the Special Care District of Southwest Finland for housing services for the disabled. The renovation of Lumikonkatu 2 C was completed during the year, and the renovation of Raastuvankatu 3 C continued throughout the year.

In December 2017, the construction of a new site comprising three multi-storey buildings and 115 apartments started in Iso-Heikkilä. The site is intended to be completed in 2019. The construction of a new site comprising 114 apartments continued in the Skanssi area. In 2017, Turun Palvelutilat Oy and its subsidiary Kiinteistö Oy Turun Kulkurin Valssi started building housing units intended for 24-hour care of the elderly at Kuralankatu 2 and Murkionkatu 10, comprising 118 and 119 apartments respectively. The sites are rented to the Services for the Elderly of the City of Turku Welfare Division.

Varsinais-Suomen Asumisoikeus Oy's investments primarily focused on the construction of new buildings. Katariina, a building being constructed in the centre of Kaarina, was completed during the year, while Unikko, which is being built in Mälikkälä, Turku, will be completed in early 2018. The renovation sites of Kaarina's Hovineito and Hovipoika were set up in spring 2017.

Varsinais-Suomen sairaanhoitopiirin kuntayhtymä's investments focused on construction and renovation of buildings. Koy Syvälahden koulu and Koy Turun kaupunginteatteri's investments focused on the construction of new buildings.

Turku Group's investment acquisition costs and annual margin 2013–2017



The Turku Group's loan portfolio was EUR 1,383.9 million at the end of the financial year (EUR 1,308.3 million in the financial statements for 2016). The Group's loan portfolio includes a total of EUR 54.3 million in the personnel financial services' deposits as interest-bearing short-term loans (EUR 55.3 million in the financial statements for 2016). The Group's loan portfolio increased by EUR 75.6 million (EUR 39.4 million in the financial statements for 2016). The Group's debt was increased the most by the City of Turku, Koy Turun Kaupunginteatteri, Turun Seudun Vesi Oy and TVT Asunnot Oy. The Group's loans per capita were EUR 7,292 (EUR 6,975 in the financial statements for 2016) according to the preliminary population data for 2017. The loans per capita increased by EUR 317 per capita from the previous year.

Of the Group's entire loan portfolio, 32 per cent pertains to the real estate and housing business (33 per cent in the financial statements for 2016) and 15 per cent to other business operations (15 per cent in the financial statements for 2016). Joint municipal authorities accounted for 5 per cent of the loan portfolio (5 per cent in the financial statements of 2016), while the City of Turku accounted for 49 per cent (47 per cent in the financial statements for 2016). The City of Turku's share of liabilities includes EUR 648 million in loans lent forward to the city's subsidiaries. When the City of Turku's share of Group debt

is adjusted by an amount corresponding to its loans receivable from its subsidiaries and joint municipal authorities, the City of Turku is left with EUR 27.8 million (EUR 165.7 million in the financial statements of 2016) of the Group debt, while the Group's subsidiaries and joint municipal authorities are left with EUR 1,356.1 million (1,142.6 million in the financial statements for 2016). The subsidiaries' and joint municipal authorities' share has increased

by EUR 203.5 million, while the city's share has decreased by EUR 137 million from the previous year.

The Group's leasing liabilities were EUR 63.2 million at the end of the financial year (EUR 73.4 million in the financial statements for 2016). The City of Turku's share of leasing liabilities is EUR 26.2 million, while its subsidiaries' share is EUR 37 million. Most of

the subsidiaries' leasing liabilities arise from investment projects concerning the regional wastewater treatment plant and water company as well as the Hospital District of Southwest Finland and the Port of Turku. The rent liabilities totalled EUR 372.2 million at the end of the financial year (EUR 332.5 million in the financial statements for 2016).

Turku Group's loan portfolio

