



Financial statements 2018

Annual report



Mayor's review

Minna Arve

The city of Turku and the Turku region remained attractive, and this trend is expected to continue for the next few years. The economic growth continued in 2018. Unemployment has decreased, reflecting the economic growth in the region. According to preliminary data, the city's population increased by roughly 1,870 people last year.

The growth of the population and employment is visible in the city's operations and the demand for services. According to a report by the Urban Environment Division, the demand for apartment building plots remains high as a result of the strengthening of the urbanisation trend, the positive structural change and population growth. The city contributes to the creation of the conditions for growth by zoning large areas in the immediate vicinity of the city centre to increase the stock of plots

of both the city and private landowners. The amount of floor area planned for apartment buildings in 2017 and 2018 was equal to the amount of floor area planned during the previous eight years put together. Construction remains active. The total area covered by all the buildings completed last year (roughly 318,000 m²) increased roughly 2.5-fold from the previous year.

The Education Division reported that the need for all forms of services increased, with the exception of general upper secondary education. In terms of numbers, growth was strongest in basic education. The increase in the need for early childhood education services was based on the increase in the city's population and demographic change as well as the increase in the demand for day care services as a result of the decrease in unemployment. Migration has increased the demand for basic services in the welfare sector.



”
The growth of the population and employment is visible in the city's operations and the demand for services.



The key goal of the
spearhead projects is
making the city carbon
neutral by **2029.**

Over the course of the year, several projects visible in the everyday lives of the residents were completed. Syvälahti Community Centre was completed and opened in August. The construction of the Market Square started with archaeological excavations. Public transport was relocated to temporary routes for the duration of the renovation of the Market Square and the construction of the underground car park. The youth facilities of Syvälahti School were opened in August, and Hirvensalo Club Centre was closed at the same time. The youth facilities of Yli-Maaria Community Centre were completed towards the end of the year.

The city's strategic spearhead projects Development of the City Centre, Science Park and Smart and Wise Turku are progressing according to the decisions of the City Council. The implementation of the Vision for the City Centre 2050, which was drafted in September 2017 with the aim of strengthening the vitality and attractiveness of the city centre, was launched. The content of the spearhead project Smart and Wise Turku has been specified. The key goal of the spearhead projects is making the city carbon neutral by 2029. This goal also guides the city's operations and has attracted a significant amount of international attention.

The preparation of the regional government, health and social services reform was discontinued on 8 March 2019, when the Constitutional Law Committee stopped drafting

the laws providing for the roles of counties. The preparation of the health and social services reform was likewise discontinued. The uncertainty surrounding the regional government, health and social services reform and the delay in the legislative drafting have made it more difficult for municipalities to prepare for the future. The delay has also hindered the anticipation of the future of specialised health care in the city as well as the future of the entire welfare sector. City personnel have participated in the preparation of the reform on a part-time or full-time basis, which, for its part, has posed challenges to the progress of the city's own development projects. The preparation of the regional government, health and social services reform has caused additional costs to municipalities, which are being left to foot the bill.

The positive economic trend was not visible in the municipal sector's finances. As a result of tax cuts implemented by the Government as well as exceptionally large tax returns, the amount accumulated in municipal tax was lower than expected throughout the country. According to the financial statement estimates, net operating expenditure in municipalities increased by 3.8 per cent, while the municipalities' tax revenue decreased by 0.5 per cent and central government transfers decreased by 0.6 per cent.

Finances

The City of Turku's financial statements for the financial year showed a deficit of EUR 47.8 million. This deficit falls slightly below the EUR 50.4 million approved by the City Council. The city has sought to meet the increase in the number of customers and the demand for services, which manifests as an increase in operating expenditure. The number of personnel was increased in the welfare sector and education sector. The increase in operating expenditure is also affected by the municipal wage agreement, which, together with the increase in personnel, increases the city's personnel expenditure by roughly EUR 10.0 million. The municipal sector's wage agreement accounts for roughly EUR 7 million of the increase in personnel expenditure. Purchases of services have increased. Compared to the previous year, the comparable increase in net operating expenditure is roughly EUR 40 million (+ 4.0%).

Deficit €

47.8 million

The increase in tax revenue was EUR 5.5 million. The tax base on which municipal tax is based on developed favourably, but the exceptionally high tax returns related to the 2017 tax year lowered the tax revenue for 2018. The increase in the proportion paid to the city was non-existent. The annual margin was exceptionally low. The development of the city's finances was parallel to the general development of local government finances.

Internal financing did not cover the cash flow from operations and investments, which was negative by roughly EUR 75 million in 2018. Interest-bearing debt increased by roughly EUR 64 million. At the end of the year, interest-bearing debt was roughly EUR 821 million in total. At the end of the year, the interest-bearing loans receivable and monetary investments amounted to roughly EUR 901 million.

The operating environment has seen a positive change, but the impacts on the city's finances have been less than desired. The weak finances are largely explained by the trend in tax funding last year. Without a significant increase in tax funding, internal financing is not enough to finance the services and the city's investments. The actions taken by the state do not facilitate the balancing of the city's finances. The increased demand for services and the various cuts to central government transfers will continue to weaken the finances of municipalities this year.

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 in 2018, and unemployment decreased rapidly. The employment rate increased to 74.2% (whole country 72.5%) at the end of the year.

In Vakka-Suomi, this positive trend is driven by the automotive industry, as the significant increase in Valmet Automotive's production and personnel has continued. This also has a positive impact on employment in the Turku region, as roughly 870 of the automotive factory's 4,500 employees came from the Turku sub-region by the end of 2018.

The key factor in the growth of the Turku sub-region is the maritime industry. A major investment programme of roughly EUR 200 million is underway at Meyer's Turku shipyard, which will enable production to grow strongly in the next few years. Roughly 5,000 employees of both the shipyard and its subcontractors work in the shipyard area every day. According to the company's estimate, the current overall

Employment rate

74.2 %

employment impact (roughly 10,000 people), which is mainly realised in Finland, will double in the next few years.

Sector-specific data on turnover in the Turku sub-region, produced by Statistics Finland, are available up to the end of September 2018. According to this data, the total turnover of all sectors grew by 5.0% in the third quarter of 2018, whereas the corresponding number for the whole country was approximately 5.8%, compared to the corresponding period in 2017. With regard to the different sectors in the Turku sub-region, turnover increased the most in industry (excl. Meyer Turku), the maritime industry and construction.

According to the preliminary data of Statistics Finland, the population of Turku was 191,664 at the end of 2018, increasing by 1,995 people compared to 2017. As usual, this growth was based on migration (net migration between municipalities +1,369, net immigration +797), as deaths outnumbered births by 171. According to an employment review by the

Centre for Economic Development, Transport and the Environment for Southwest Finland, the unemployment rate in Turku was 12.2% at the end of 2018 (-1.7% compared to the end of 2017). The unemployment rate in the Turku sub-region was 9.8% at the end of 2018 (-1.5% compared to the end of 2017).

reform will be continued. It will also decide upon the utilisation of the work already completed.

On 3 December 2018, the City Council decided to sell all the shares of Turun seudun sosiaali- ja terveystalvelukiinteistöt Oy (Turku Region Social and Health Care Services Properties Ltd.) to Hemsö Fastighets Ab or its subsidiary, as well as eight plots, at a total sale price of roughly EUR 129.8 million. The deal will likely go through at the beginning of April this year, when the buyer will pay the sale price to the city, primarily in the form of a loan repayment (EUR 125 million). This will improve the city's financial position with the corresponding amount and reduce the city's need to take out loans. If the regional reform described above is not realised, the deal will weaken the profit/loss of the Turku Group, with the gross rents paid for the properties becoming rent expenses outside the Group. As such, the transaction will improve the city's financial position while weakening the Turku Group's profit/loss.

The fact that the Social and Healthcare Committee significantly exceeded the original 2018 budget will likely affect the finances in 2019, and it will likely be necessary to adjust the valid financial plan. The continuous analysis and enhancement of operations must be continued actively, in addition to seeking measures to secure the provision of services in the challenging operating environment.

Assessment of probable future trends

The budget for 2019 and the financial plan for 2019–2022 are strongly in deficit. Contrary to expectations, the general economic trend has not reflected positively in the city's internal financing. The almost non-existent development of tax revenue in the financial statements for 2018 is primarily explained by the adjustments to the apportioned shares and advance accruals for the 2018 tax year, which affected municipal tax revenue. Additionally, the tax returns for the tax year 2017 proved to be larger than expected. Tax deductions have proven to be higher than expected, which is likely to affect the accruals for upcoming years.

The demand for services is anticipated to grow during the plan period. The change in the age structure and population growth are increasing

the demand for public services. In addition to the cost pressures related to the operational economy, the need for investments has grown. The renovation of old facilities and adoption of new facilities are increasing rent expenses. The city's internal financing is not enough to cover both the operational economy and investments, which is why the city's debt will continue to grow in the upcoming years.

The Finnish Government has discontinued the preparation of the regional government, health and social services reform. The pre-requisites for further preparation were not met. Efforts are being focused on ending the preparation, documenting the work performed and controlled cessation of the reform. The next Government will decide whether the work related to the

Turku Region Social and Health Care Services Properties Ltd. was bought by Hemsö.



City personnel

Measured in person-years, the amount of labour used (entire personnel) during the period 1 January–31 December 2018 was 10,418.5. Taking organisational changes into account (the comparative figures for 2017 took into account the transfer of specialised psychiatric care to the Hospital District of Southwest Finland on 1 May 2017, the transfer of the Central Administration’s attendant services and part of Turku Vocational Institute’s catering services to Arkea Oy on 1 August 2017, the merging of the Environmental Division and the Property Management Division into the Urban Environment Division and the transfer of a part of their operations to the Central Administration and service centres), the amount of labour used increased by 190.9 person-years (1.9%) for the entire staff.

Excluding employees performing wage-subsidised work, students/interns, outplaced employees and partially disabled persons in job placements, the amount of labour used in 2018 was 10,037.8. Taking the organisational changes referred to above into account and excluding employees performing wage-subsidised work, students/interns, outplaced employees and partially disabled persons in job placements, the use of labour increased by 137.7 person-years (1.4%).

Taking the organisational changes into account, this growth primarily occurred in the Welfare Division and Education Division. However, the change noted in the Education Division is only indicative, as the years 2017 and 2018 are not directly comparable due to the Education Division changing the method in which the employment agreements of part-time teachers are recorded. The wage trend illustrates the change in labour in the Education Division better than person-years do.

On 31 December 2018, the City of Turku employed a total of 11,521 people, comprising 9,943 full-time and 1,578 part-time employees.

The personnel expenditure for 2018 was EUR 495.8 million, of which wages and remunerations (reduced by personnel-related compensation and benefits and adjustments to personnel expenditure) accounted for EUR 392.1 million and social security contributions for EUR 103.8 million. The personnel expenditure increased by EUR 3.6 million (0.7%) compared to the previous year, while wages and remunerations increased by EUR 7.9 million (2.0%). Taking the organisational changes referred to above into account, wages and remunerations for all personnel (reduced by personnel-related compensation

Use of labour, all personnel.

	2017	2018	Change	Change With organi- sational changes
Central Election Committee	5.4	0.5	-4.9	-4.9
Audit Office	4.1	3.9	-0.2	-0.2
Central Administration and service centres	832.9	935.1	102.2	32.3
Southwest Finland Emergency Services	529.7	538.4	8.7	8.7
Welfare Division	4,332.4	4,321.4	-11.0	99.1
Education Division	3,651.3	3,694.8	43.5	42.8
Recreation Division	611.9	619.0	7.1	7.1
Urban Environment Division		305.4	305.4	6.1
Environmental Division	166.6		-166.6	
Property Management Division	212.7		-212.7	
Turku in total	10,347.0	10,418.5	71.5	190.9

and benefits and adjustments to personnel expenditure) increased by EUR 12.6 million (3.3%). Not including employees performing wage-subsidised work, the increase was EUR 11.4 million (3.1%).

In addition to the increase in person-years, the trend in wage expenditure is also influenced by the agreed wage increases defined in

the collective agreements for the municipal sector. The cost impact of the agreed wage increases on wages in 2018 was roughly +0.86% (the impact was roughly EUR 4 million on personnel expenditure and roughly EUR 3.3 million on wages). The impact of the non-recurring performance-based item is roughly 0.67% (roughly EUR 3.0 million on personnel expenditure and EUR 2.5 million on wages).

Financial year

Financial years 2018 and 2017 are not comparable. The comparison year is affected by both the corporatisation of Turku Water Utility and the initial capital investment in the Turku 2029 foundation, which was recorded as a grant in operating expenditure. This initial capital investment was covered by taking it out of the damages fund and with an additional distribution of dividends by subsidiaries, which resulted in the measure not having any impact on the surplus/deficit for the comparison year 2017. The measure had a negative impact of EUR 29.0 million on the operating margin and a negative impact of EUR 14.5 million on the annual margin and the profit/loss for the comparison year.

The profit/loss and surplus/deficit for the comparison year was affected positively by the corporatisation of Turku Water Utility, which provided the city with EUR 23.7 million in extraordinary capital gain. Additionally, specialised psychiatric care was transferred to the Hospital District of Southwest Finland as of 1 May 2017. This transfer was implemented in a cost-neutral manner, which is why it does not have a significant effect on the comparison of the net operating expenditure of the Welfare Division and the city.

The profit/loss for the financial year was negative by EUR 49.8 million. Without the impact of the non-recurring items referred to above, the comparable profit/loss for the financial year was EUR -2.1 million. A total of EUR 1.9 million of the accumulated depreciation difference was recognised as revenue to cover the planned depreciations of investments implemented with investment reserves. The total deficit was EUR 47.8 million. Not including the non-recurring capital gain of EUR 23.7 million, the comparable surplus for the financial year 2017 was EUR 0.5 million.

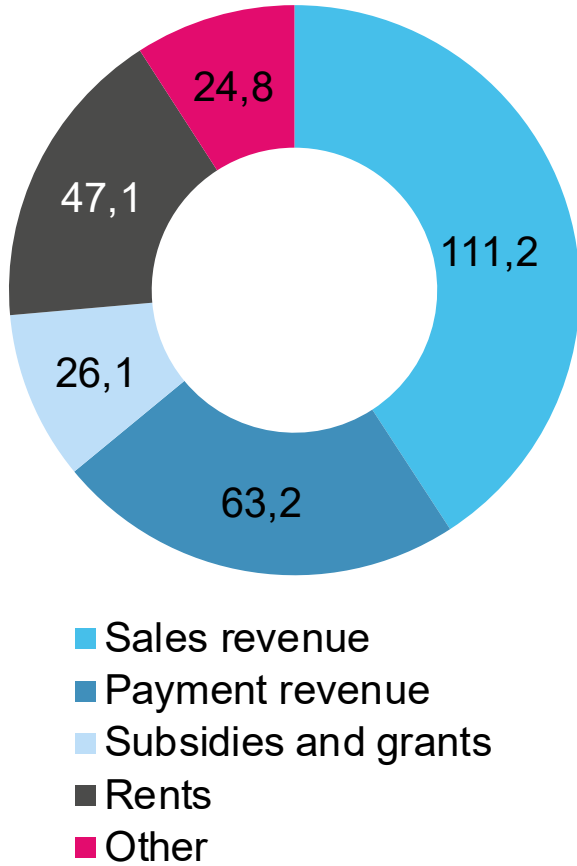
Operating revenue totalled EUR 272.4 million. According to the profit and loss account, operating revenue increased by EUR 1.5 million. The greatest growth occurred in rental revenue (roughly EUR 3.0 million) and other operating revenue (EUR 1.5 million)

Operating revenue €
272.4 million

Apartment rents decreased by EUR 1.6 million, whereas the rents for other buildings increased by EUR 4.3 million. The increase in other operating revenue was affected by the increase in capital gain under non-current assets by EUR 5.5 million and the decrease in other operating revenue by EUR 3.9 million compared to the previous year.

The payment revenue and subsidies and grants decreased from the previous year. The total amount of payment revenue accrued was roughly EUR 2.0 million less than in the previous year. The accumulation of payment revenue was affected the most by the decreasing of daily hospital fees in health care and social services by EUR 2.3 million and the decreasing of compensation for land use and development by EUR 3.2 million. Among other things, the decrease in daily hospital fees was contributed to by a discount applied to social and health care client fees as of 1 January 2018 as a result of an amendment to the Government decree. The average impact of this was 1.2%.

**Operating revenue 2018,
€ 272.4 million**



The accumulation was affected positively by an increase of EUR 3.5 million in other service fees. Subsidies and grants decreased by EUR 1.7 million, which was primarily due to a decrease of EUR 1.2 million in the subsidies provided by the Ministry of Education and Culture, a decrease of EUR 1.6 million in subsidies from other sources and an increase of EUR 1.6 million in subsidies provided by other state institutions. Manufacturing for the city's own use decreased by EUR 0.5 million from the previous year.

The operating expenditure was EUR 1,309.9 million. When the non-recurring grant of EUR 29 million that was paid to the Turku 2029 foundation is taken into account in the comparison of operating expenditure, the comparable change in operating expenditure is EUR 40.9 million compared to the previous year.

Operating expenditure €
1,310 million

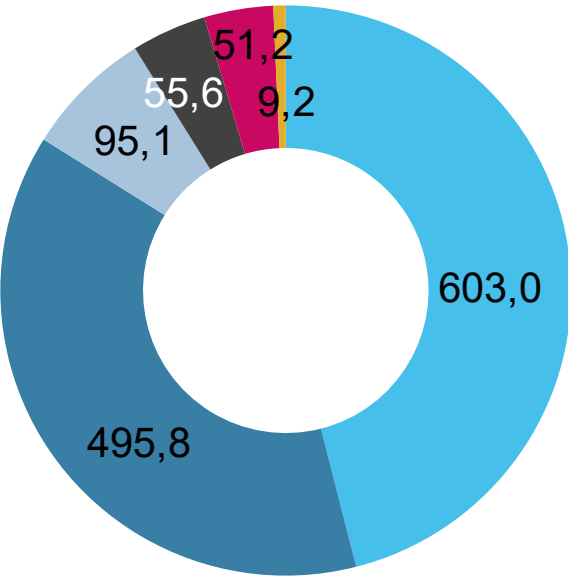
The change in comparable operating expenditure was most affected by an increase of EUR 24.8 million in the purchasing of services and an increase of EUR 9.5 million in personnel expenditure. The most significant increase in the purchase of services, EUR 24.5 million, occurred in outpatient fees in health care and social services. The increase in wages was affected in the amount of roughly EUR 3.3 million by the wage increases agreed upon in accordance with the municipal sector collective agreements as well as in the amount of EUR 2.5 million by the performance-based bonus paid to the personnel as a non-recurring item. Adjusted with the item 'manufacture for own use', the operating expenditure was EUR 1,308.1 million (EUR 1,266.7 million in the comparable financial statements for 2017).

The operating margin, i.e. net operating expenditure, was EUR 1,035.7 million. Not including the previous year's non-recurring investment in the Turku 2029 foundation, the comparable net operating expenditure was EUR 995.9 million. The comparable change in the operating margin, i.e. net operating expenditure, was EUR 30.9 million (4.0%).

Tax revenue and central government transfers increased by a total of EUR 5.3 million (0.5%). The operating revenue covered 20.8 per cent of the operating expenditure (20.9% in the financial statements for 2017). The proportion left to be financed by tax revenue and central government transfers was thereby 79.2 per cent (79.1% in the financial statements for 2017).

The other financing revenue for the comparison year includes an additional dividend yield of EUR 14.5 million, collected for the founding of the Turku 2029 foundation. Compared to the previous year, the comparable change in financing revenue and expenditure was EUR -12.7 million, not including the distribution of dividends referred to above. This change is primarily due to the EUR 3.6 million decrease in the value of the loan lent to Logomo Oy, which is included in other financing expenditure, as well as write-downs of financial securities (EUR 6.7 million) listed under current assets.

**Operating expenditure 2018,
€ 1,309.9 million**



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

FINANCES OF THE CITY OF TURKU CONCERN

Tax revenue

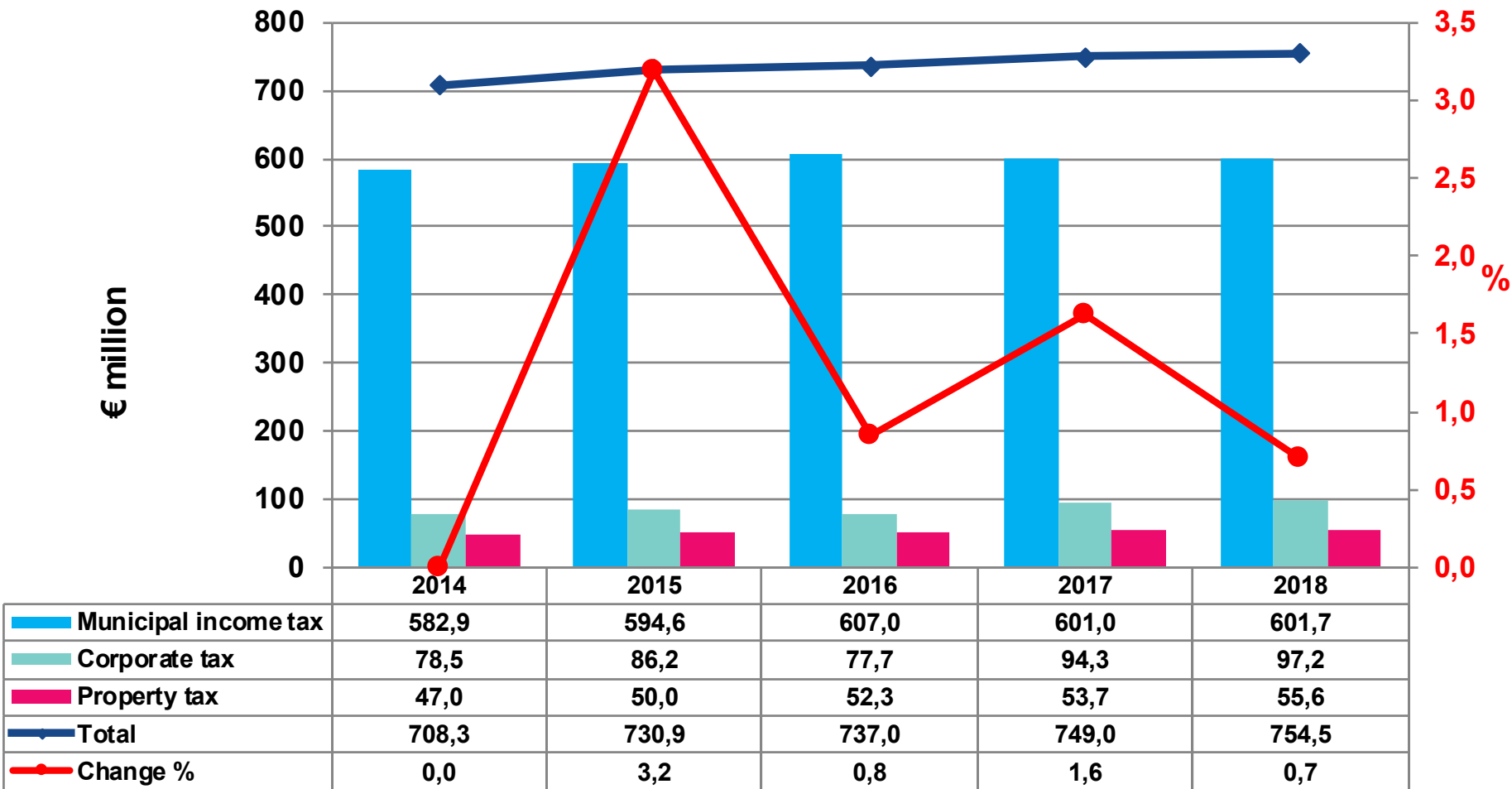
The total amount of tax revenue was EUR 754.5 million. The growth compared to the previous year was EUR 5.5 million (0.7%). The improvement in the employment situation and the positive changes in the indicators that represent the operating environment did not reflect in the tax revenue trends as strongly as expected.

The development of the municipal tax on income proved to be almost non-existent, only growing by EUR 0.7 million (0.1%) compared to the previous year. The development of taxable income was positive, but the municipal tax revenue paid to the municipality did not increase due to the combined effect of several factors.

The corporate tax revenue increased by EUR 2.9 million (3.0%) from the previous year. This growth was boosted by the positive trends in taxable income.

The positive trend in construction reflected in property tax revenue, which increased by EUR 2.0 million (3.6%) from the previous year. As a whole, tax revenue developed almost as anticipated in the budget. In terms of Euros, the amount of tax revenue accrued was EUR -3.5 million less than budgeted. The amount of municipal tax accrued was EUR 4.8 million less than budgeted. The revenue from corporate taxes exceeded the budget by EUR 1.1 million, with the revenue from property taxes exceeding the budget by EUR 0.2 million.

The tax revenue paid and their trends between 2014 and 2018, broken down by source of revenue.

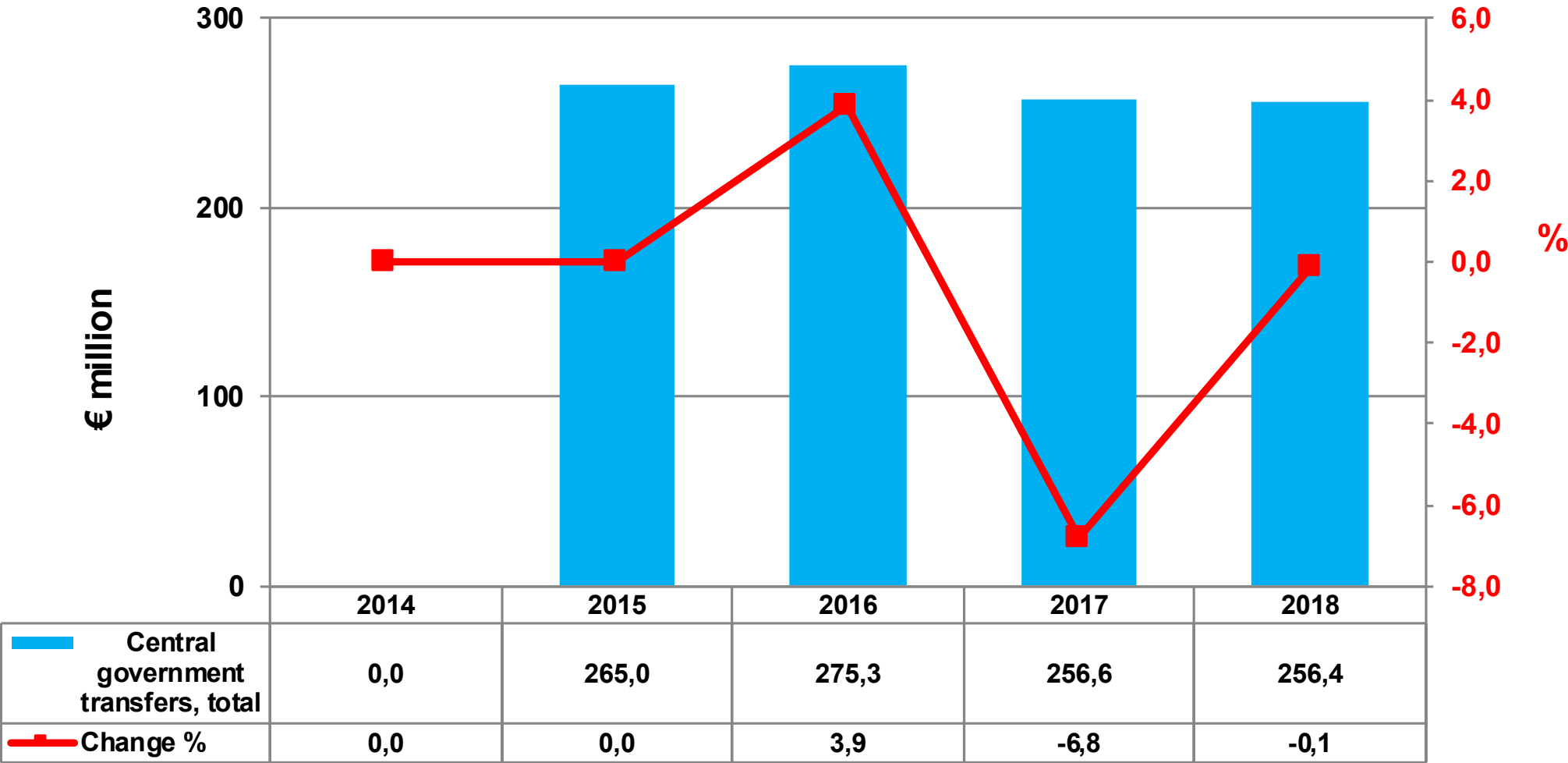


Revenue from central government transfers

Revenue from central government transfers amounted to a total of EUR 256.4 million, being EUR -0.2 million, i.e. -0.1% less than the previous year.

The central government transfer for basic services (without the equalisation of tax revenue) totalled EUR 221.5 million, which was EUR -1.5 million (-0.7%) less than the previous year. The other central government transfers for the education and cultural sectors totalled EUR 36.0 million, which was EUR -2.0 million (-5.2%) less than the previous year. The equalisation of Turku's tax income provided the other municipalities with EUR 1.0 million, which was EUR -3.2 million (-75.9%) less than the previous year.

Realisation of central government transfer revenue 2014–2018



Funding operations

The operating cash flow was negative by EUR 14.5 million. The low operating cash flow is contributed to by the exceptionally low annual margin of EUR 6.2 million as well as the adjustments to the capital gains included in the investment cash flow, listed under adjustments to internal financing.

The city's gross investments were EUR 81.2 million. The financial years are not comparable. The comparable growth, without the capital investment of EUR 30.0 million into Turun Vesihuolto Oy in 2017, is 6.0% (the comparable investments were EUR 76.6 million in 2017).

Gross investments €
81.2 million

The operating and investment cash flow for the financial year 2018 is negative by EUR 74.7 million. The comparable change is EUR -55.9 million. Comparability was calculated by taking into account the impact of the non-recurring capital investment of EUR 14.5

million in the Turku 2029 foundation on the annual margin as well as the impact of the capital gain of EUR 23.7 million gained from the sale of the business operations of Turku Water Utility on the profit/loss for the financial year. The investment acquisition cost was EUR -80.0 million. Not including the share capital investment in Turun Vesihuolto Oy, the comparable investment acquisition cost for 2017 is EUR -75.4 million.

The actual accumulated cash flow for operations and investments between 2014 and 2018 is positive by EUR 128.7 million. The amount accumulated is substantially affected by the capital gains and sales proceeds gained from corporatisation in different financial years. The proceeds gained from the sale of properties used by health care and social services was EUR 127.9 million in 2015, while extraordinary profit totalled EUR 87.2 million. In 2017, the proceeds gained from the sale of Turku Water Utility was EUR 104.3 million, while extraordinary profit totalled EUR 23.7 million.

Repayments of loans lent totalled EUR 21.5 million. During the year, a total of EUR 14.0 million was lent out in long-term loans. Most of

this amount, a total of EUR 10.6 million, was lent to Turku Energia Oy and TVT Asunnot Oy, which belong fully to the Turku Group. A loan of EUR 3.3 million was granted to Logomon Toimistot Oy.

A new long-term loan of EUR 120.0 million was taken out. The loan portfolio increased by EUR 63.8 million (EUR 81.8 million in the financial statements for 2017). EUR 14.0 million of the loan that was taken out was lent forward to the city's subsidiaries.

The annual margin was EUR 6.2 million. The annual margin is not enough to cover the EUR 55.8 million in planned depreciation. The planned depreciation increased by EUR 0.2 million from the previous year. The annual margin of EUR 39.1 million for the comparison year 2017 was weakened by the capital investment in the Turku 2029 foundation by EUR 14.5 million. The comparable annual margin is EUR 53.6 million, with a change of EUR -47.3 million, not including the capital investment referred to above.

A loan of EUR 3.3 million was granted to Logomon Toimistot Oy.



Largest investments

The city's investment expenditure was a total of EUR 81.2 million in 2018 (EUR 76.6 million in the financial statements for 2017, not including the EUR 30 million share capital investment in Turun Vesihuolto Oy). A total of EUR 1.1 million in funding contributions was recorded for investment projects (EUR 1.2 million in the financial statements for 2017). EUR 19.9 million was recorded as proceeds from the sale of assets (EUR 16.8 million in the financial statements for 2017, not including the EUR 104.3 million in proceeds from the sale of Turku Water Utility). The comparative figures for 2017 were made comparable by deducting items arising from the sale of the business operations of Turku Water Utility.

The largest individual infrastructure projects that were being implemented in 2018 include the Logomo pedestrian bridge, the Market Square and the funicular. The largest local investments in the construction of the city's public areas were made in the areas of the Blue Industry Park, Pääskyvuorenrinne, Herttuankulma and Linnafield. Approximately 30% of the investment expenditure in infrastructure services was incurred from public area projects that reduced the renovation debt, such as street structure repairs,

pavements, lighting, pedestrian and bicycle routes, playgrounds and strengthening the embankments of the Aura River.

The largest renovation projects included school properties of the Education Division, of which the final stages of the renovation of Puropelto School and Pallivaha School and the renovation of the facade of Hepokulta School were completed in 2018. The renovation of the largest among the school renovation projects, Puola School, is scheduled to be completed by the end of 2019. Syvälahti and Yli-Maaria Community Centres and Kastu Day Care Centre were implemented by subsidiaries as facility projects that support the city's service provision.

Implementation of the infrastructure investment plan

The investment expenditure in the construction of the urban environment in 2018 was EUR 38.2 million in total (EUR 29.6 million in 2017). Of the investment expenditure, 40.6% was incurred from strategic land use projects, such as the development of the city centre, while 7.0% was incurred from revenue-generating

sites that will provide the city with plots to sell or revenue through land use agreements. Projects that reduce the renovation debt accounted for 31.2% of the costs. They include all infrastructure renovation projects and replacement investments, including renovations of stormwater infrastructure. Threshold investments that support operations, such as investments in soil dumping areas, accounted for 0.8% of the costs.

Urban environment €
38.2 million

A total of 16.1% of the costs was invested in the functionality and safety of transport. This included renovation of the embankment of the Aura River and investments in the funicular, public transport infrastructure and traffic safety. Investments in the improvement of resident comfort included parks, outdoor exercise facilities and playgrounds, accounting for 4.3% of the total costs of the construction of the urban environment.

The total sum invested in infrastructure fell EUR 9.7 million (20.2%) below the budget, as some of the projects were delayed or rescheduled fully to the next year. The annual spending on

strategic land use projects fell EUR 5.4 million below the planned spending. The main reasons for this were the delay in the implementation of the Logomo pedestrian bridge, the demanding building design solution used in the retaining wall on Tiililinnankatu in Kakola, the failure to relocate all the cabling on Turku Energia's plot on schedule and the postponing of the start of the construction in Koroistenkaari to 2019. For revenue-generating projects, spending fell EUR 0.7 million below the budget due to the focus in the implementation of the Marjamäki-Pyölinmäki residential area being postponed to 2019. The spending on projects that support operations fell below the budget due to a delay in the environmental permit procedure for the soil dumping areas (EUR 0.8 million). For projects that reduce the renovation debt, the projects that fell below budget the most were the renovation of stormwater systems and gravel streets. However, projects that reduce the renovation debt accounted for a third of all investments made in infrastructure within the investment programme.

Implementation of the facility investment programme

The city's investment expenditure in the construction of facilities and service buildings was EUR 15.2 million in total (EUR 14.4 million in 2017). Refurbishment projects accounted for 94.3% of the total costs, with a total of

EUR 10.5 million spent on renovation projects at named school properties of the Education Division and other smaller projects at schools. EUR 1.3 million was used on small renovation projects at day care centres. Other renovation projects included the renovation of kitchens at schools and day care centres (EUR 0.8 million), renovation of lifts and roofs (EUR 0.6 million in total) and replacement of the building technology at the central fire station's command centre (EUR 0.6 million).

The construction of new service buildings for the city was primarily implemented by utilising the Turku Group's implementation solutions. The city may grant temporary funding to projects for the duration of the construction process via a limit on the Group account or grant a surety for the projects' funding. Significant new investment projects within the Group that were completed in 2018 included Syvälahti Community Centre, Yli-Maaria Community Centre and Kastu Day Care Centre. Ongoing new investment projects include Tallimäenkenttä Day Care Centre and the intensified sheltered housing units Kulkurinvalssi and Vuokkokoti. Rental projects implemented outside the Group include Kupittaa Ball Game Hall and the renovation of the upper secondary school Turun Suomalainen yhteiskoulu, which were both opened at the beginning of 2018.

The implementation of the facility investment

programme fell EUR 12.5 million below the planned budget (45.2%). Annual spending on renovations fell EUR 9.2 million below budget, of which school renovation projects of the Education Division accounted for EUR 8.1 million. The impact of the rejection of the project plan for Ruiskatu 8 was EUR 6.0 million, and the fact that most of the renovation of Puolala School will be carried out the following year had an impact of EUR 1.8 million. The annual spending on the construction of new buildings was EUR 0.8 million, which was a total of EUR 2.8 million less than planned due to the postponing of most of the implementation of Tommilankatu Day Care Centre, Viinämäki Day Care Centre, the Aunela library and youth facility and Kakskerta Fire Station to 2019.

Other investments

The city spent a total of EUR 10.2 million on procuring developed land and land areas in 2018 (EUR 17.1 million in 2017).

The investment expenditure includes the procurement of the shares of Logomo tapahtumatilat Oy (EUR 5.5 million, City Council 16 April 2018) as a result of the ownership and financing scheme for Logomo Oy. The share acquisition costs also include the shares of Turku Science Park Oy and Kuntarahoitus Oyj, which were handed over, with full ownership, to the City of Turku by the

city's subsidiary Turku Energia Oy as part of a payment of dividends. The share acquisition cost was EUR 1.1 million in total.

IT & digital services €

3.1 million

The city invested approximately EUR 3.1 million in city-level IT systems, IT service development, improvement of enterprise resource planning and development of digital services (EUR 6.0 million in 2017). A total of EUR 3.1 million (EUR 3.3 million in 2017) was used for procuring firefighting and extinguishing equipment for the Southwest Finland Emergency Services, and EUR 1.0 million was recorded in funding contributions. With regard to sports, youth and cultural investment projects, the city invested a total of EUR 0.8 million (EUR 1.4 million in 2017) in equipping Syvälahti Community Centre and Yli-Maaria Community Centre, adding to visual art collections, procuring sports equipment, funding recreational facilities for young people and upgrading the technical systems of facilities. The Education Division invested a total of EUR 2.9 million (EUR 1.1 million in 2017) in upgrading equipment used at schools and day care centres, making facility

arrangements, digitalising the matriculation examination and procuring equipment for vocational education. The Welfare Division invested a total of EUR 0.6 million (EUR 0.3 million in 2017) in developing patient data systems and electronic services, investing in health technology and equipping school facilities used by public health nurses. A total of EUR 0.3 million (EUR 0.3 million in 2017) was spent on developing public transport travel systems.

The actual land acquisitions exceeded the budget by EUR 6.7 million due to the reparcelling included in the land use agreement for Herttuankulma, located in the port district. For these, the city recorded EUR 8.5 million in investment expenditure that was not included in the budget.

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. At the end of 2018, the city's cash reserves amounted to EUR 176 million (EUR 183 million in 2017) (investments in the city's own funds not included), i.e. cash reserves decreased by EUR 7 million in 2018. Cash and cash equivalents, which included cash reserves as well as investments in the city's own funds, totalled EUR 208 million (EUR 216.3 million in 2017).

The cash reserves were EUR 110 million at their lowest during the first half of the year and EUR 216 million at their highest. On average, the cash reserves amounted to EUR 154 million. Group financing and payment transactions by the city's subsidiaries have increased fluctuations in cash reserves, in addition to the city's own financial transactions. Short-term local government paper limits or other limits were used in accordance with the budget and the City Board's loan plan to balance the fluctuations in cash reserves. The worth of the local government papers in circulation was EUR 90 million at its highest. 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 2018, the city had EUR 651.6 million in long-term loans (EUR 601.6 million in 2017). During the year, a total of EUR 120 million was taken out in long-term loans, while EUR 70 million in loans was paid off. During the year, the city took out loans with loan periods of 7, 8 and 15 years. Of the new long-term loans, the EUR 20 million and EUR 70 million loans were single payment loans, while the EUR 30 million loan had a repayment schedule.

Long-term loans €

651.6 million

No local government papers were in circulation at the turn of the year. The stock of local government papers decreased by EUR 20 million during the year. The loan

portfolio therefore totalled EUR 651.6 million, not including the deposits by the affiliated companies and the personnel financial services. In addition to these, the short-term debt includes EUR 114.4 million in deposits by subsidiaries and EUR 54.8 million in deposits by the personnel financial services, for a total of EUR 169.2 million.

The amount of interest-bearing debt was EUR 821 million at the end of the year. The city's interest-bearing debt increased by EUR 63 million during the year. The interest expenses of the total interest-bearing debt were EUR 7.3 million, with an effective interest rate of 0.95%.

At the turn of the year, the city hedged EUR 570 million of the interest-bearing debt from an increase in the interest rate. Of these hedges, EUR 220 million was implemented with loans with a fixed interest rate and EUR 350 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 2.34 million to a change in the swaps' fair values. At the end of the year, the degree of hedging was 69%, meaning that the city's interest expenditure will not increase very much if interest increases. At the end of the year, the fair value of the interest rate swaps related to the hedges was EUR 17.1 million.

The city lent EUR 14 million to its subsidiaries. Repayments of loans lent amounted to EUR

21.5 million, with the net reduction being EUR 7.5 million. At the turn of the year, the long-term loans lent amounted to EUR 640.6 million (EUR 648.1 million in 2017), while the subsidiaries' short-term credit limit debt connected to the Group account was EUR 53.1 million (EUR 60.3 million in 2017).

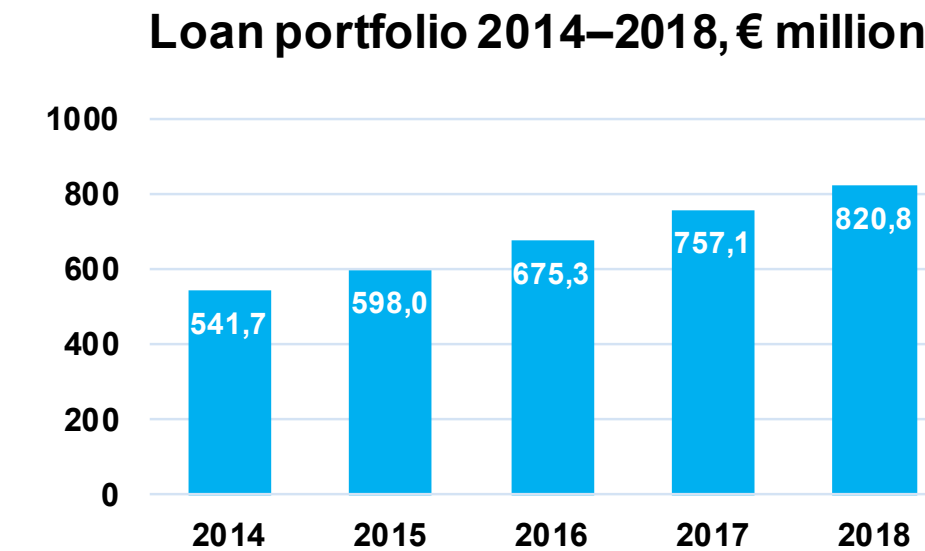
At the end of the year, the interest-bearing receivables and monetary investments exceeded the interest-bearing debt by roughly EUR 80.6 million. In 2018, guarantee liabilities increased to EUR 287 million (EUR 227 million in 2017). This was caused by the investments in Turun seudun puhdistamo Oy (Turku Region Wastewater Treatment Ltd), Koy Turun Kaupunginteatteri and Koy Turun Syvälahden koulu. The city has received EUR 76.5 million in mortgage on company assets and real estate as a counter security. Leasing liabilities remained almost the same, at EUR 26.1 million. The largest leasing liabilities comprise fixed asset purchases included in a framework agreement as well as the port's leased property. Most of the guarantee liabilities are to regional water companies.

Despite the difficult market situation at the end of the year, the city's fund capital increased slightly. At the end of the year, the damages fund had EUR 45.3 million in capital. Over the course of the year, capital increased by roughly EUR 0.6 million, i.e. 1.3%. The donation funds had roughly EUR 24 million in capital.

Analysis of the balance sheet

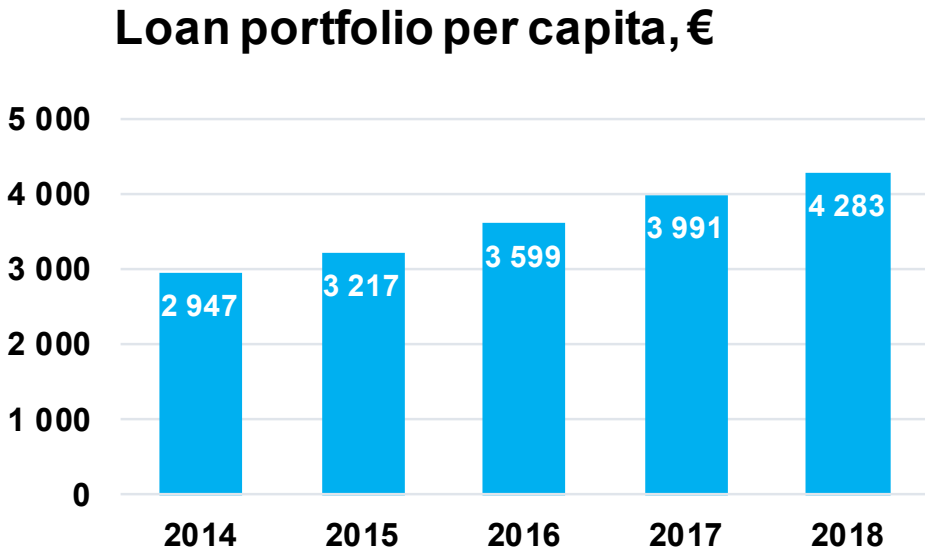
At the end of the financial year, the balance sheet total was EUR 1,918.2 million. The growth compared to the previous year was EUR 0.5 million (0.03%). Equity decreased by EUR 47.8 million (5.6%). The equity ratio decreased by 2.6 per cent, being 44.2 per cent at the end of the year (46.8% in the financial statements for 2017).

The surpluses/deficits accumulated in the previous financial years include extraordinary non-recurring items that have a total impact of roughly EUR 174 million. The most relevant ones of these are mentioned below. The sale of the business operations of Turun Puhelin in 1997 yielded EUR 45.5 million in capital gain. The connection fee fund was discontinued in 2004, and the accrued surpluses/deficits increased by EUR 13.1 million. In 2008, as a result of the crisis in the financial security market, EUR 31.9 million was recorded as write-downs of financial securities, listed under current assets. In conjunction with the merger of the Turku Science Park Oy Group in 2010, a write-down of EUR 14.1 million was recorded in investments under non-current assets. The



corporatisation of the business operations of the Port of Turku yielded EUR 30.9 million in capital gain in 2013. The corporatisation of social and health care services properties in 2015 yielded EUR 87.5 million in capital gain. The corporatisation of Turku Water Utility in 2017 yielded EUR 23.7 million in capital gain. Relative indebtedness was 79.1 per cent, weakening by 3.75 per cent from the previous year. A total of 79.1 per cent of the operating

income (operating revenue, tax revenue and central government transfers) is required to pay back the loan capital, whereas the corresponding number was 75.3 per cent in 2017. At the end of the year, the loan portfolio was EUR 820.8 million, changing by EUR 63.8 million from the previous year. The loan portfolio per capita was EUR 4,283 (EUR 3,991 in the financial statements for 2017).



After deducting the city's loans receivable and cash and cash equivalents from the total debt, the city has approximately EUR 81 million more in receivables and its own monetary investments than it has in debts (EUR 168 million in 2017). Loans and rent liabilities accounted for 115.7 per cent of the operating income, with the corresponding figure being 106.2 per cent the previous year.

Consolidated financial statements and key figures

Consolidation of the organisations included in the consolidated financial statements

The City of Turku controls 59 subsidiaries, of which 48 are consolidated in the consolidated financial statements. Of the consolidated subsidiaries, three are foundations and 17 are housing and real estate companies. There are 24 consolidated associated entities and three joint municipal authorities.

Four subsidiaries and four associated entities have been consolidated through the sub-group of the Joint Municipal Authority of the Hospital District of Southwest Finland.

Formation of the Group's profit/loss for the financial year

The accumulated Group deficit for the financial year was EUR 33.7 million (a surplus of EUR 15.5 million in the financial statements for 2017). The closing entries for the comparison year include EUR 14.5 million, which was recognised as revenue from the damages fund for the financing scheme for the Turku 2029 foundation. The Group's comparable surplus is roughly EUR 1.0 million. The comparable change is EUR 34.7 million.

The profit/loss, annual margin and operating margin for the comparison year are affected by the non-recurring investment of EUR 29 million in the Turku 2029 foundation.

The profit/loss for the financial year was EUR 22.9 million in deficit (EUR 12.0 million in surplus in the financial statements for 2017). The comparable profit/loss for the financial year in 2017 is EUR 41 million.

The Group's annual margin was EUR 117.8 million (EUR 147.6 million in the financial statements for 2017), which can be used for the Group's investments and loan repayments. The comparable change is EUR -58.8 million. The Group's annual margin per capita, EUR 615, improved by EUR 163 from the previous year (EUR 778 in the financial statements for 2017). The euro per capita for 2018 was calculated according to the preliminary data on the population of Turku (191,664), provided by Statistics Finland. The annual margin covered 83.7 per cent of the depreciations according to plan (108.9 per cent in the financial statements for 2017).

The Group's operating margin was EUR -930.5 million (EUR -905.9 million in the financial statements for 2017). The comparable change is EUR -53.5 million. The Group's operating revenue was used for financing 50.4 per cent of the operating expenditure, reduced by the item 'manufacture for own use'.



Financing the Group's operations & investments

The Group's investment expenditure was EUR 251.1 million in total (EUR 230.5 million in the financial statements for 2017). EUR 3.7 million was eliminated from the Group's investment expenditure as items within the Group. The most significant investments included in the separate financial statements of organisations within the Group were

- The City of Turku EUR 81.2 million
- TVT Asunnot Oy Group EUR 47.5 million
- Turku Energia Oy Group EUR 41.0 million
- Student Village Foundation of Turku EUR 16.3 million
- The Joint Municipal Authority of the Hospital District of Southwest Finland Group EUR 13.1 million
- Koy Yli-Maarian koulu EUR 12.1 million.

In Spring 2018, the construction of a new site comprising 114 apartments in the Skanssi area was completed for TVT Asunnot Oy. The construction of three apartment buildings and 119 apartments continues in the Iso-Heikkilä. Construction started on 39 new apartments in Kärsämäki and 63 apartments in Runosmäki. Turun Palvelutilat Oy continued building housing units intended for 24-hour care of the elderly, comprising 118 and 119 apartments,

respectively. The sites are rented to the Services for the Elderly of the City of Turku Welfare Division. At the beginning of 2019, Kastu Day Care Centre was completed for Turun Päiväkodit Oy. It is rented to the City of Turku.

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. The investments by the electricity grid company focused on improving and maintaining electricity grids' transmission capacity and operational reliability. Long-term investments totalling EUR 16.1 million were made in Voimaosakeyhtiö SF and Suomen Hyötytuuli Oy as well as the associated entity Svartisen Holding A/S upon its acquisition of Fortum Oyj's 10% share of Hafslund Produksjon Holding AS, a hydropower production company operating in Southern Norway.

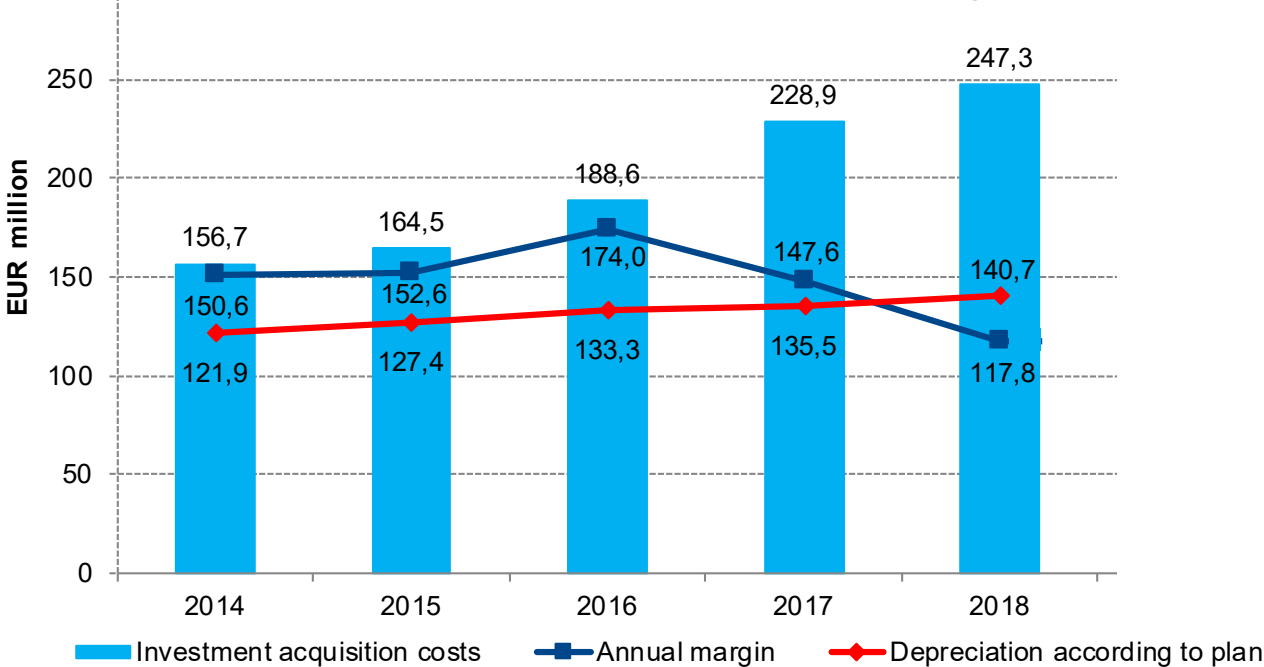
Most of the investments made in the production of student housing by the Student Village Foundation of Turku focused on the construction

of the new building Aitiopaikka. The Housing Finance and Development Centre of Finland (ARA) provided an investment subsidy of EUR 2.6 million for the construction of Aitiopaikka. The investments by the Joint Municipal Authority of the Hospital District of Southwest Finland focused on construction and renovation of buildings. Koy Yli-Maarian koulu's investments focused on the construction of new buildings.

The investment acquisition cost was EUR 247.3 million. The Group's operating cash flow, EUR 127.1 million, improved by EUR 7.5 million compared to the previous year, and it was not enough to cover the investment acquisition costs. The capital gain was EUR 30.6 million (EUR

26.5 million in the financial statements for 2017). The Group's cash flow from operations and investments was negative by EUR 89.6 million (EUR -82.9 million in 2017). The Group's combined total cash flow from operations and investments from 2018 and the previous four years is negative by EUR -166.8 million (EUR -123.9 million in the financial statements for 2017). This accumulation was EUR 42.9 million weaker compared to the previous year, and the Group was forced to cover investment expenditure either by reducing cash reserves, taking out more loans or selling assets. During the financial year, the Group took out EUR 251.4 million in long-term loans and paid off EUR 116.4 million.

Group's investment acquisition costs and annual margin 2014–2018



The Group's financial position and its changes

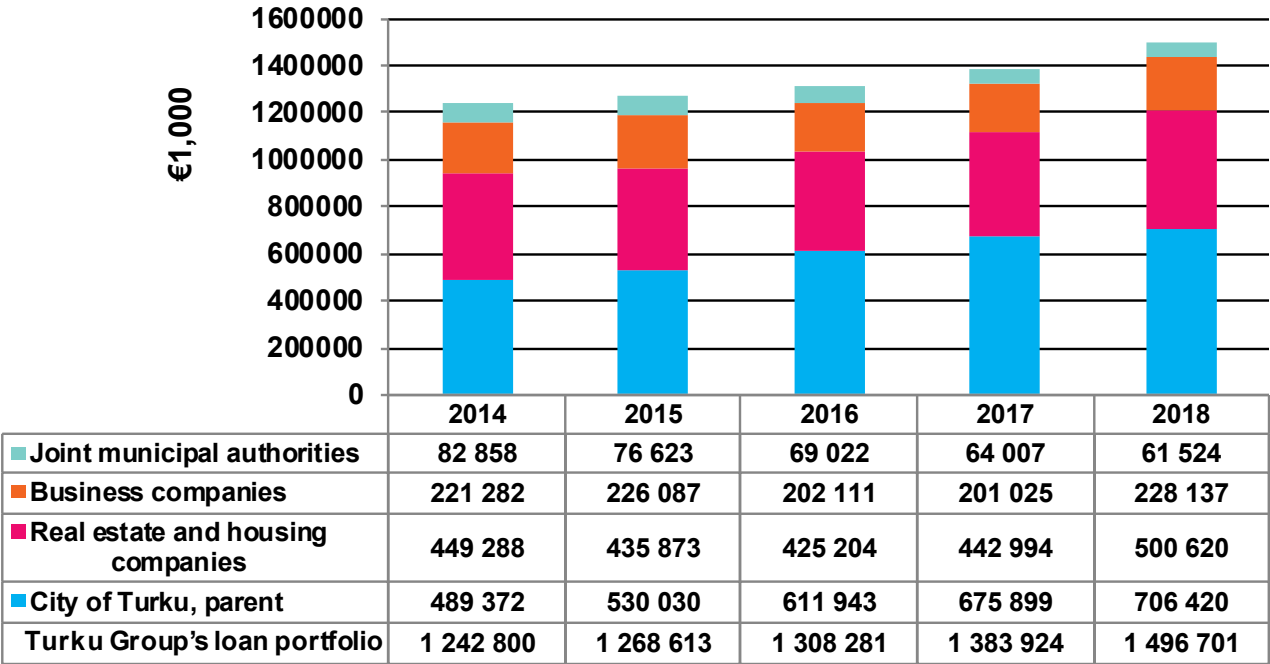
The Turku Group's loan portfolio was EUR 1,496.7 million at the end of the financial year (EUR 1,383.9 million in the financial statements for 2017). The Group's loan portfolio includes a total of EUR 54.8 million in the personnel financial services' deposits as interest-bearing short-term loans (EUR 54.3 million in the financial statements for 2017). The Group's loan portfolio increased by EUR 112.8 million (EUR 75.6 million in the financial statements for 2017). The Group's debt was increased the most by the City of Turku, Turun seudun puhdistamo Oy (Turku Region Wastewater Treatment Ltd), Koy Syvälahden koulu, the Student Village Foundation of Turku and Koy Turun Kaupunginteatteri. The Group's loans per capita were EUR 7,809 (EUR 7,297 in the financial statements for 2017) according to the preliminary population data for 2018. The loans per capita increased by EUR 512 per capita from the previous year.

Of the Group's entire loan portfolio, 33 per cent pertains to the real estate and housing business (32 per cent in the financial statements for 2017) and 15 per cent to

other business operations (15 per cent in the financial statements for 2017). Joint municipal authorities accounted for 4 per cent of the loan portfolio (5 per cent in the financial statements of 2017), while the City of Turku accounted for 48 per cent (49 per cent in the financial statements for 2017). The City of Turku's share of liabilities includes EUR 586 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 (EUR 585.6 million), the City of Turku is left with EUR 120.9 million (EUR 27.8 million in the financial statements of 2017) of the Group debt, while the Group's subsidiaries and joint municipal authorities are left with EUR 1,375.9 million (EUR 1,356.1 million in the financial statements for 2017).

The subsidiaries' and joint municipal authorities' share of the adjusted loan portfolio has increased by EUR 20 million, while the city's share has increased by EUR 93 million from the previous year.

Turku Group's loan portfolio



The Turku Group's whole loan capital was EUR 1,937.2 million at the end of the year (EUR 1,826.5 million in the financial statements for 2017). This means an increase of EUR 110.7 million from the previous year. The Group's leasing liabilities were EUR 48.8 million at the end of the financial year (EUR 63.2 million in the financial statements for 2017). The City of Turku's share of leasing liabilities is EUR 26.1

million, while its subsidiaries' share is EUR 22.7 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 370.4 million at the end of the financial year (EUR 372.2 million in the financial statements for 2017).