

City of Turku Annual Report 2019

Summary



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Mayor's review – Minna Arve

Operating environment

In 2019, the city of Turku and the region around it increased their appeal and maintained their economic growth. Unemployment dropped moderately, reflecting the positive economic trend in the area, but remained at a high level regardless. According to preliminary data, the city's population increased by 1,915 people last year.

The determined efforts to develop the operating environment in the city region continued throughout 2019. The Ministry of Education and Culture's decision to grant Turku the right to expand Master's level education in technology to include mechanical engineering and materials technology was a significant structural measure. Private and public operators in the region have committed to close collaboration with the university in order to develop education and research, which will have long-lasting impacts on regional development.

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 level of construction in Turku remained high, although a slight decrease could be seen compared to the peak year of 2018.

In the Education Division's segment, customer demand increased particularly with regard to basic education and vocational education. The structural changes in working life and the decreased unemployment have led to a notable structural shift in early education from part-time to full-time day care activities. In the Welfare Division's area, migration movements and the ageing of the population have resulted in increased demand for health care services and services for the elderly and people with disabilities.

Many decisions that had visible effects on the daily lives of municipal residents were made over the course of the year. In the city centre area, the significant investments made are currently hindering day-to-day living, but they will ultimately increase the vitality and attractiveness of the city centre substantially. The City Council made the decision to transition to a mayoral model in 2021, which sparked efforts to reform the city's management system.

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, is under way. 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 positive economic trend was not visible in the municipal sector's finances. Three out of four municipalities in Mainland Finland produced a negative result. Among the large cities, Helsinki's economic situation is good, but, alongside Turku, cities such as Tampere and Oulu have suffered heavy deficits.

Finances

The City of Turku's 2019 financial year closed with a deficit of EUR 36.5 million. This deficit falls below the EUR 62.6 million approved by the City Council. The city has sought to respond to the increased customer numbers and service demand, which manifests as an increase in the operating expenses of social, health and education services. 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 17.0 million from the previous year. The municipal sector's wage agreement accounts for roughly EUR 12 million of the increase in personnel expenditure. All divisions increased their human resources.

Purchases of services have increased, particularly with regard to social and health care customer services. Compared to the previous year, the comparable increase in the city's net operating expenditure is roughly EUR 38.6 million (+ 3.7%). Tax earnings increased by EUR 30 million. The annual margin improved from the previous year, but remains too low from the perspective of financial balance.

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 90 million. The funding needs were covered through loan repayments, and an increase in long-term loans was not required. The amount of interest-bearing loans was decreased by some EUR 80 million. At the end of the year, the total of interest-bearing loans, i.e. the loan portfolio, stood at EUR 742 million.

The operating environment has seen a positive change, but the impacts on the city's finances have remained less than desired. Without an increase in tax funding and measures under the City of Turku adjustment programme, the internal financing will not be sufficient to fund services and investments.

Development of the economic area

Southwest Finland is now in the midst of industry-driven economic growth hinging on the maritime and car industries. In the third quarter of 2019, the field that was fastest to increase its turnover was the manufacturing technology industry (metal industry), with an annual increase in turnover of 18.9%, according to Statistics Finland. Rapid growth could also be seen in the ICT sector (12.0%), which is focused in the Turku sub-region, and business

services (11.4%).

The Uusikaupunki car factory, which is driving economy the Vakka-Suomi region, achieved another record high in 2019, with 114,000 cars produced. Once again, this has a direct impact on employment in the Turku region, as less than 700 of the car factory's employees lived in the Turku sub-region at the end of 2019.

The most significant driver of growth in the Turku sub-region is the maritime industry. A substantial investment programme, which has now reached a value of EUR 300 million, is currently under way at the Turku shipyard and will enable the production expansions required by a persistent order book in the coming years. The programme will also affect the expansive subcontracting network in the area.

Perhaps the most important of the individual decisions to support the economy in Southwest Finland and the Turku sub-region in 2019 was the Ministry of Education and Culture's decision to expand the Master's level education in technology provided by the University of Turku. This will help to alleviate the shortage of higher-level graduates in technology and strengthen the foundation for long-term economic growth in the region.

Sector-specific data on turnover in the Turku sub-region, produced by Statistics Finland, are available up to the end of September 2019. The total turnover of companies in all sectors increased by 6.8% (whole country 3.9%) in the third quarter of 2019. The growth was fastest by far in the maritime industry at 43.6%. The annual number of people employed by companies in all fields increased by 3.7% (whole country 1.8%).

According to the preliminary data of Statistics Finland, the population of Turku was 193,246 at the end of 2019, increasing by 1,915 people compared to 2018. As usual, this growth was based on migration (net migration between municipalities +1,411, net immigration +748), as deaths outnumbered births by 223 (population correction -21).

According to the employment service statistics of the Ministry of Employment and the Economy, the unemployment rate in Turku was 11.5% at the end of 2019 (-0.7% compared to the end of 2018). Unemployment in the Turku sub-region stood at 9.3% (-0.5 percentage points) compared to 9.8% for the entire country.

Assessment of probable future trends

The budget for 2020 and the financial plan for 2020–2023 are strongly in deficit. The positive development of the general economic situation is finally beginning to impact the city's finances. Based on tax revenue, the development of taxable income has been promising with regard to both municipal taxes and corporation taxes. The reforms instituted by the Tax Administration in 2019 have made it more difficult to predict the development of municipal tax revenue, which will remain to be the case in 2020.

The decisions made by the state on central government transfers have finally strengthened municipal economies. Among the items planned for 2020, the one-time item related to the Competitiveness Pact was already allocated for 2019, which will hamper growth in 2020.

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. The most significant growth is expected to take place in welfare services. Conversely, the demand for early education services is expected to decline.

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 over the upcoming years.

In conjunction with approving the budget for 2020 and financial plan for 2020–2023, the City Council approved an adjustment programme for measures. The number of measures to be taken in the financial plan period is 95. The measures are aimed at curbing the increase in net expenses. Some of the measures can be implemented quickly and will have economic impacts in the short term. However, the preparation of operational adjustment measures, in particular, will take longer and the effects will not become apparent until later on. Overall, the measures are estimated to reduce the cost level by EUR 59.3 million by the end of the financial plan period, which means that the average annual increase in operating margin will be about 1.7%.

The fact that the Social and Healthcare Committee significantly exceeded the original 2019 budget will likely affect the finances in 2020, and it will likely be necessary to adjust the valid financial plan. The emergency arrangements caused by the coronavirus epidemic impact local economies in many ways, and it is currently impossible to estimate the ultimate repercussions on state-level and municipal finances. 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.

City personnel

Measured in person years and including all employees, the amount of labour used in 2019 was 10,467.3. Over the course of the year, debt counselling services were transferred to the state on 1 January 2019, occupational health care was corporatised on 1 January 2019, the Luolavuori-Koivula home care services were hived off on 28 March 2019, and cleaning services were transferred to the Hospital District of Southwest Finland on 1 June 2019. Taking the organisational changes during the financial year into account, the use of labour across the entire staff increased by 124.1 person years (+1.2%).

Use of labour All personnel	2018	2019	Change	Change considering organisational changes
Central Election Committee	0.5	6.0	5.5	5.5
Audit Office	3.9	3.9	0.0	0.0
Central Administration and service centres	934.8	895.1	-39.7	-14.5

Southwest Finland Emergency Services	538.4	558.7	20.3	20.3
Welfare Division	4,321.8	4,286.8	-35.0	15.7
Education Division	3,695.7	3,774.4	78.7	78.7
Recreation Division	619.0	624.6	5.6	5.6
Urban Environment Division	305.0	317.8	12.8	12.8
Turku in total	10,419.1	10,467.3	48.2	124.1

Excluding employees performing wage-subsidised work, students/interns, outplaced employees and partially disabled persons in job placements, the amount of labour used in 2019 was 10,128.9. Taking the organisational changes referred to above into account, the use of labour increased by 166.1 person-years (+1.7%).

Growth was demonstrated by all divisions. The number of wage-subsidised employees was lower in 2019 than the previous year, which is reflected by the use of labour figures for the Central Administration and service centres. For the Central Administration and services centres, too, the use of labour, excluding wage-subsidised employees and interns, increased from the previous year.

The Education Division and Southwest Finland Emergency Services exceeded the labour use objective set for 2019. The increase in the use of labour was more modest than anticipated towards the end of the year. The growth was most significant for the Education Division due to the increased number of pupils, increased demand for early education services, and new units beginning their operations.

On 31 December 2019, the City of Turku employed a total of 11,522 people, comprising 9,832 full-time and 1,690 part-time employees.

The personnel expenditure for 2019 was EUR 510.4 million, of which wages and remunerations (adjusted based on sickness insurance, accident insurance and other personnel expenditure adjustment items) accounted for EUR 404.5 million and social security contributions for EUR 105.9 million. Taking organisational changes into account, the personnel expenditure increased by EUR 17.5 million (+3.6%) compared to the previous year, while wages and remunerations increased by EUR 15.0 million (+3.8%). Not including employees performing wage-subsidised work, the increase was EUR 15.9 million (+4.2%).

In addition to the increase in person-years, the trend in wage expenditure is also influenced by the agreed upon wage increases defined in the collective agreements for the municipal sector. The cost impact of the agreed upon increases to wages in 2019 stood at about +2.36%. The impacts on the personnel expenditure and wages were EUR 12 million and EUR 9.5 million, respectively.

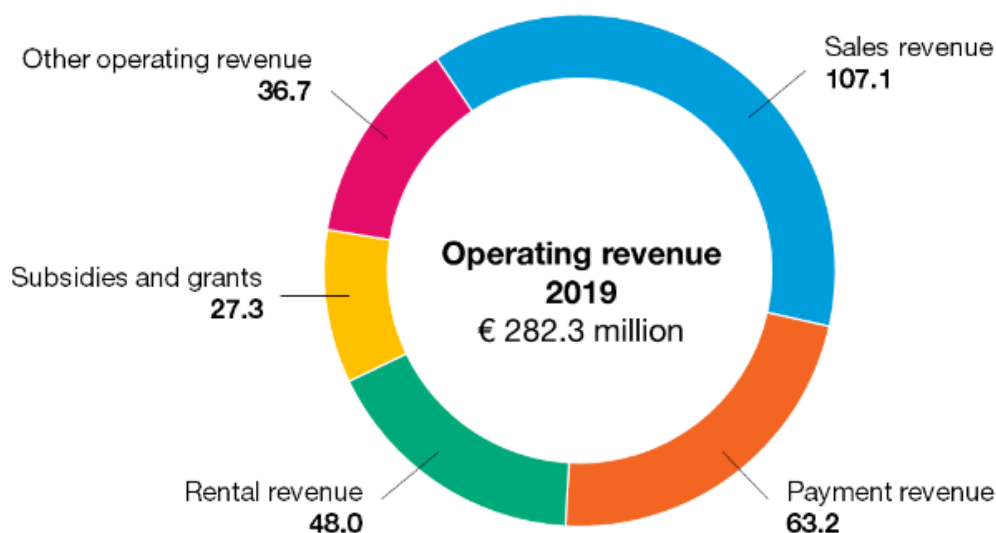
In the assessment of the growth in the personnel expenditure, the increase in holiday pay liabilities, as a result of the removal of holiday pay cuts, must be taken into account for the 2019 financial period (EUR +4.7 million including employer costs). The Education Division switched the teachers of the Vocational Institute to an annual working hour scheme on 1 August 2019. This change did not affect the development of the wage expenditure, but a

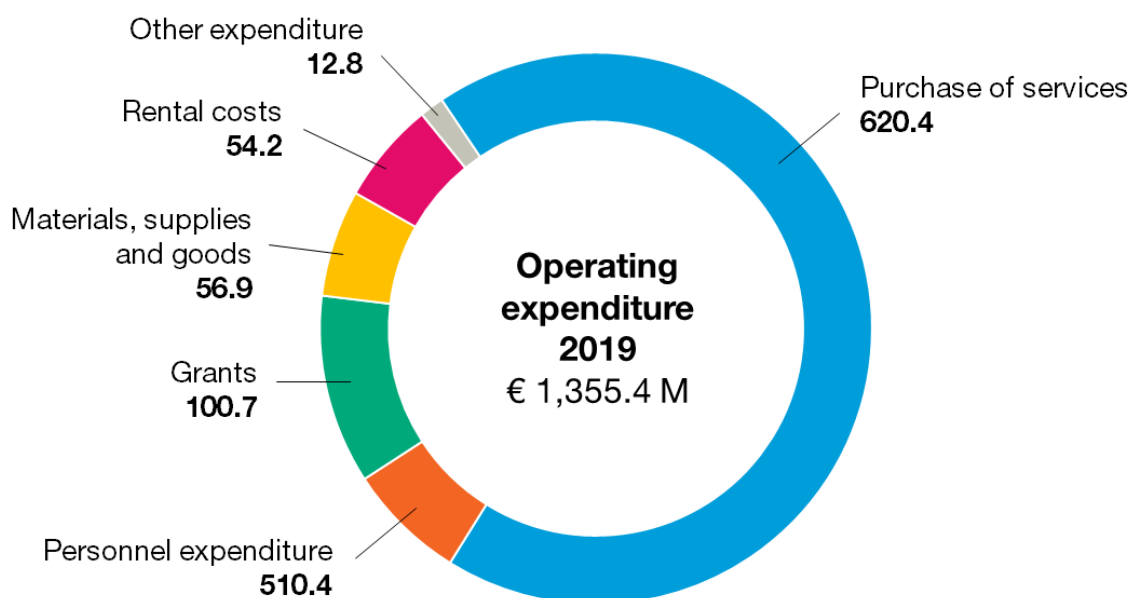
recognition of leave days was agreed upon in conjunction with the transition, which led to a EUR 0.9 million one-time reduction in holiday pay liabilities, including employer costs.

Formation of the profit/loss for the financial period

The total deficit for the financial period was EUR 36.5 million. The profit/loss for the financial year was negative by EUR 38.4 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 deficit was positively impacted by the EUR 7.6 million repayment of the Student Village Foundation of Turku's loan, which was recorded in extraordinary revenue. In conjunction with the transition to the Accounting Act, the foundation's loan was deducted as an uncertain receivable from the accrued surpluses of the initial balance for 1997. Adjusted with a one-time item, the deficit is EUR 44.1 million.

Operating revenue totalled EUR 282.3 million. According to the profit and loss account, operating revenue increased by EUR 10.0 million. The most significant growth, EUR 11.9 million, took place in other operating revenue. The growth was primarily due to the increased sales profits from non-current assets at EUR 12.2 million year-on-year. Sales revenue decreased by EUR 4.1 million. The EUR 0.9 million increase in rental revenue resulted from rents for land and water areas. The accumulation of payment revenue was at the level of the previous year at EUR 63.2 million. Subsidies and grants increased by EUR 1.3 million, which was primarily due to the EUR 0.8 million increase in subsidies from the Ministry of Education and Culture, and the EUR 0.6 million increase in employment aid.





The operating expenditure at EUR 1,355.4 million increased by EUR 45.5 million from the previous year. The increase in service acquisitions by EUR 17.3 million due to higher service demand had the most significant impact in terms of driving the operating expenditure up. Purchases of social and health care customer services increased by EUR 10.5 million, and purchases of cleaning services increased by EUR 3.0 million due to the transfer of the cleaning services to Kaarea Oy. In addition to this, the availability of labour has weakened in the welfare sector, and the amount of funds used for hiring temporary labour increased by EUR 3.4 million year-on-year. The most significant change is related to hiring temporary substitutes for elderly services.

The personnel expenditure increased by EUR 14.5 million, while wages and remunerations increased by EUR 12.4 million. Taking organisational changes into account, the increase was EUR 17.5 million, and EUR 15.0 million for wages and remunerations. In addition to the increase in person years, the increase in wages was affected by the wage increases agreed upon in accordance with the municipal sector collective agreements in the amount of EUR 9.5 million.

The operating margin, i.e. net operating expenditure, was EUR -1,071.3 million. The decrease compared to the previous year was EUR 35.6 million, 3.4%. Taking the organisational changes affecting the personnel expenditure into account, the comparable increase stood at EUR 38.6 million (3.7%).

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 financing revenue was EUR 36.2 million higher than the financing expenditure. Interest revenue decreased by EUR 5.6, and other financing expenses dropped by EUR 9.3 million. The change in other financing expenses is impacted by the share write-downs. Share write-downs were recorded in the amount of EUR 1.0 million (EUR 6.7 million in the financial statements for 2018).

The accumulated annual margin was EUR 11.7 million. This means an increase of EUR 5.5 million from the previous year. The change in annual margin, adjusted based on organisational changes, is EUR 2.5 million. The annual margin does not cover depreciations and impairments, which stand at EUR 57.7 million.

Tax revenue

Determination of Turku's tax revenue.

Basis for tax revenue	2015	2016	2017	2018	2019
Income tax rate (%)	19.50	19.50	19.50	19.50	19.50
Property tax rate (%):					
General	1.00	1.00	1.00	1.00	1.00
Permanent residential building	0.37	0.37	0.41	0.41	0.41
Other buildings used for housing	0.80	0.80	0.93	0.93	0.93
Tax rate (%) for an undeveloped building site	3.00	3.00	3.00	3.00	3.00

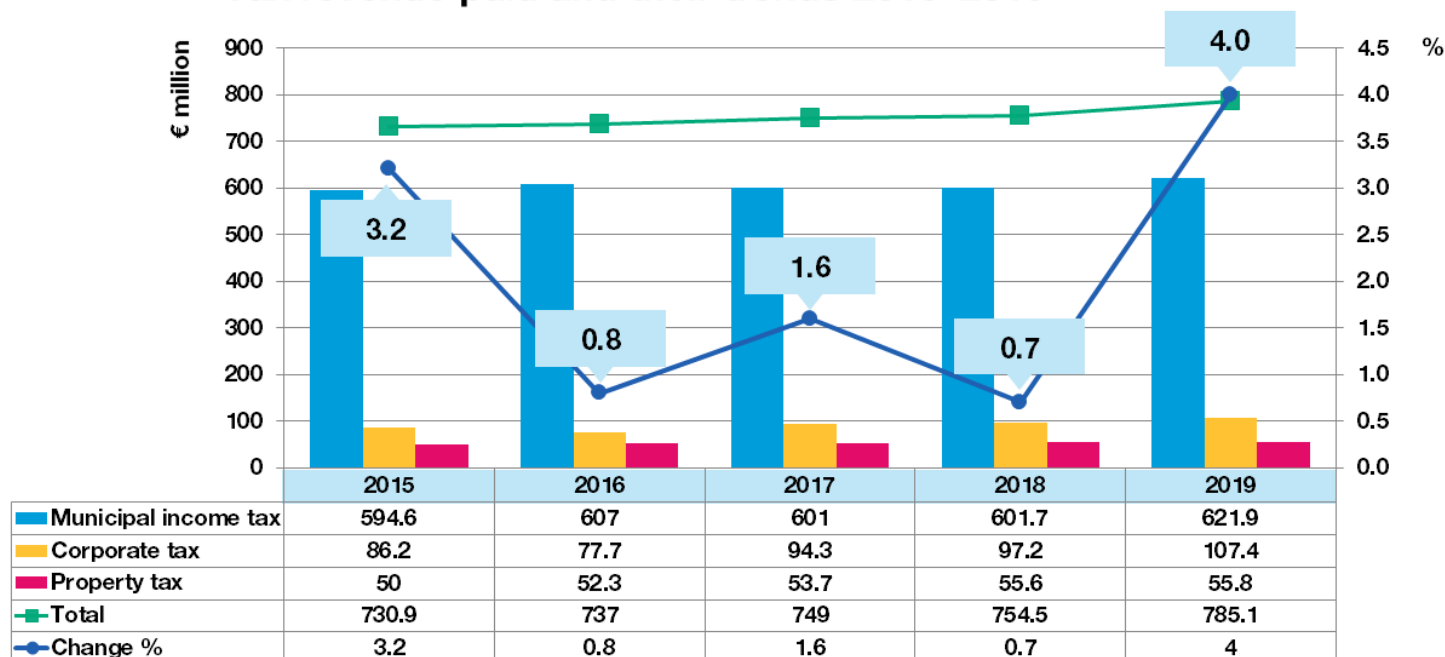
The total amount of tax revenue was EUR 785.1 million. The growth compared to the previous year was EUR 30.5 million (4.0%). The amount of tax revenue accrued was EUR 14.4 million less than budgeted. The municipal tax accumulation fell EUR 22.5 short of the budgeted level. The revenue from corporate taxes exceeded the budget by EUR 8.5 million, with the revenue from property taxes falling short of the budget by EUR 0.5 million.

The growth in municipal tax revenue compared to the previous year was EUR 20.2 million (3.4%). In Turku, the development of taxable income was positive and unemployment dropped from the previous year. Despite the good accumulation, approx. EUR 500 million was calculated as the accumulation deficit due to the 2019 tax card reform and income register issues. The accumulation deficit is expected to be bridged after the completion of the 2019 tax processing season, starting from the summer of 2020. This means that the accounts rendered for 2019 will remain lower than anticipated when preparing the budget.

The corporate tax revenue increased by EUR 10.2 million (10.4%) from the previous year as a result of the increase in the city's apportioned share. Turku's corporate tax revenue remained at a good level, despite the fluctuation in the nationwide economic projections.

The property tax revenue increased by EUR 0.2 million (0.3%) from the previous year. The accounts rendered were affected by the EUR -1.1 million in adjustments for previous years. If these items for tax years 2014–2016 had been adjusted in the 2019 accounts rendered, the increase in property tax accounts rendered would have been 2.3%.

Tax revenue paid and their trends 2015–2019



Revenue from central government transfers

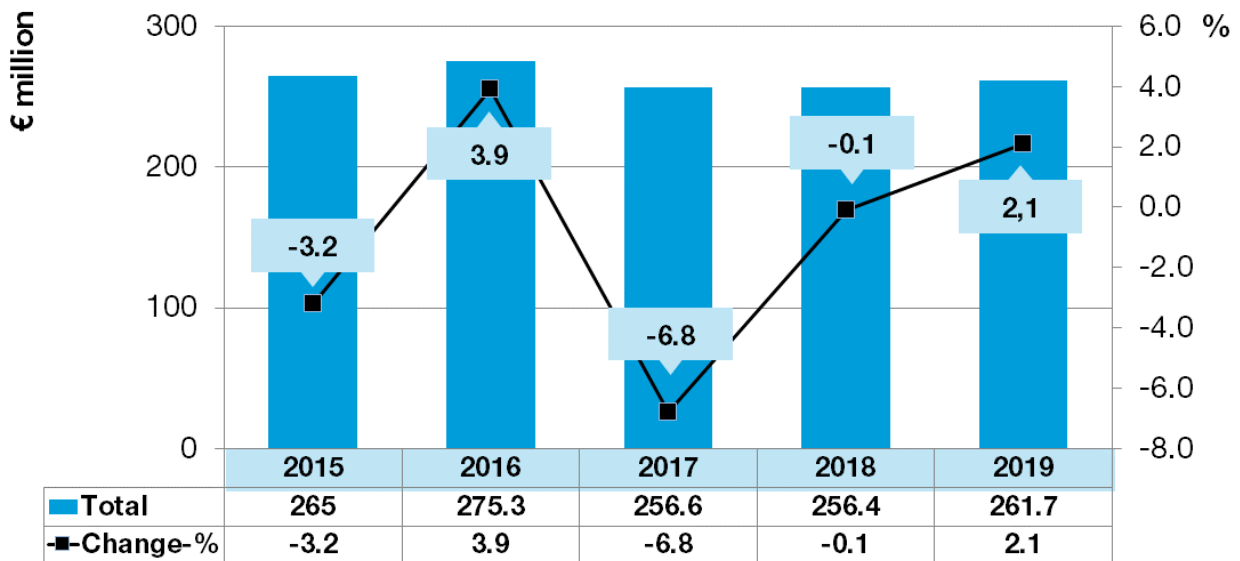
Revenue from central government transfers amounted to a total of EUR 261.7 million, being EUR 5.3 million, i.e. 2.1% more than the previous year.

The central government transfer for basic services (without the equalisation of tax revenue) totalled EUR 224.0 million, which was EUR 2.5 million (1.1%) more than the previous year. The Ministry of Finance decided on 11 November 2019 that the payment of the one-time compensation under the Competitiveness Pact would be moved forward from 2020 to 2019, to compensate for the poor tax revenue accumulation. For Turku, the compensation paid amounted to about EUR 8.2 million. Without the addition to the central government transfer, the change in central government transfer for basic services would have been -2.6%.

EUR 37.2 million in central government transfers for the education and cultural sector were realised, which was EUR 1.2 million (3.4%) more than the previous year. On 30 April 2019, the Ministry of Education and Culture made a decision based on an appeal, and the city gained EUR 1.4 million in additional funding to cover operating costs. Additional funding in the amount of EUR 0.3 million was received to cover the basic financing of vocational education.

Turku received EUR 0.5 million in equalisation of tax revenue from other municipalities, whereas in the previous year, Turku paid equalisation to other municipalities in the amount of EUR 1.0 million.

Realisation of central government transfer revenue 2015–2019



Revenue from taxes and central government transfer, i.e. tax funding, increased by EUR 35.9 million (3.5%) from the previous year. Without the additions to the central government transfers, the tax funding would have a shortfall of roughly EUR 25 million and the increase from the previous year would be 2.6%.

Funding operations

The operating cash flow (internal financing) was negative by EUR 6.5 million. The low operating cash flow is contributed to by the exceptionally low annual margin. The annual margin of EUR 11.7 million is not enough to cover the EUR 57.8 million in planned depreciations. The planned depreciations increased by EUR 1.9 million from the previous year. The repayment of the Student Village Foundation of Turku's loan, which was deducted as an uncertain receivable from the surpluses accrued in conjunction with the preparation of the initial balance for 1997. The internal financing adjustment items correct the capital gains from non-current assets, which are presented in the investment cash flow – as well as losses amounting to a total of EUR 27.4 million.

The city's gross investments stood at EUR 120.9 million and its capital gains were EUR 33.3 million. EUR 4.2 million in funding contributions were received for investment costs, after which the investment acquisition cost stood at EUR 116.7 million. The internal financing percentage, which measures the funding capacity of city investments, was low at 10.0%. Compared to the previous year, this was an improvement of 2.2 percentage units.

The operating and investment cash flow for the financial year 2019 is negative by EUR 89.9 million, which is a decrease of EUR 15.2 million from the previous year. The actual accumulated cash flow for operations and investments between 2015 and 2019 is left at no

more than EUR 31.0 million. In previous years, the amount was 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 191.5 million. During the year, a total of EUR 8.7 million was lent out in long-term loans, the most significant portion of which, at EUR 7.6 million, went to the Student Village Foundation of Turku.

New long-term loan withdrawals were not made. During the financial period, the shares of Turun seudun sosiaali- ja terveystalvelukiinteistöt Oy were sold to Hemsö Storåker Finland Oy at the beginning of April. The trade reduced the city's loans by roughly EUR 119 million, as the company divested by the city repaid its debt to the city. This also reduced the city's borrowing needs temporarily, and new loan withdrawals were not required. The loan portfolio, i.e. interest-bearing debt, decreased by EUR 79.3 million. (increase of EUR 63.8 million, financial statements for 2018).

The realised funding cash flow in the closed financial period was EUR 120.7 million, primarily due to the aforementioned loan repayment.

Largest investments and capital gains

The city's investment expenditure in 2019 was a total of EUR 120.9 million (EUR 81.2 million in 2018). A total of EUR 4.2 million in funding contributions was recorded for investment projects (EUR 1.1 million in 2018).

The largest individual on-going infrastructure projects were the Market Square, Logomo bridge and funicular. The most significant investments in city street and park development activities were made in the Pääskytuorenrinne and Kakola districts, and in infrastructure projects that reduced the renovation debt (e.g. street paving and strengthening the Aura River embankments).

The largest of the on-going school projects is the renovation of Puolala School. The largest on-going construction projects were the Viinämäki day-care centre, Aunela Library and Youth Centre, and the Kaksikerta/Satava fire station. The Tallimäki and Kastu day care centres and the intensified sheltered housing units Kulkurinvalssi and Vuokkokoti were completed by subsidiaries as facility projects supporting the city's service production.

The city received a total of EUR 33.3 million (EUR 19.9 million in 2018) in proceeds from divesting land, facilities and shares. The capital gains exceeded the budgeted value by EUR 7.2 million, which consisted of an increase in the earnings from the sale of land, property and shares. A total of EUR 4.2 million in funding contributions was recorded (EUR 1.1 million in 2018).

The share of sales profits/losses totalled EUR 27.4 million (EUR 19.2 million in 2018). Profits from the sale of assets exceeded the budgeted value by EUR 8.4 million. The unexpectedly high overhead was primarily due to the site redemptions completed late in the year and profits from the sale of property. A total of EUR 4.6 million was recorded in land use agreement compensations (EUR 1.7 million in 2018). The share of the land use agreement revenue exceeded the budget by EUR 2.6 million, which was due to the faster-than-expected payment schedule of agreement compensations.

Implementation of the infrastructure investment plan

The investment expenditure in the development of the urban environment in 2019 was EUR 30.3 million in total (EUR 38.2 million in 2018). Of the investment expenditure, 41.1% was incurred from strategic land use projects, such as the development of the city centre, while 7.1% 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 36.6% of the investment costs. They include the 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 0.6% of the investment costs. A total of 10.0% 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 4.6% of the total costs of the construction of the urban environment.

Implementation of the facility investment programme

The city's investment expenditure in the development of facilities and service buildings was EUR 20.8 million in total (EUR 15.2 million in 2018). The investment costs were distributed as follows: EUR 8.1 million in school premises, EUR 3.5 million in day care centres, EUR 2.1 million in libraries and youth facilities and EUR 1.4 million in the Kakskerta/Satava fire station. The share of renovation and replacement investment projects was two-thirds of the total costs, of which a total of EUR 9.5 million was spent on renovation projects at named school properties of the Education Division and other smaller projects at schools. EUR 1.7 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 1.0 million), roofs (EUR 0.9 million), and windows and bathrooms in hospital buildings (EUR 0.4 million).

The most significant construction projects developed by the city were the Viinämäki day-care centre, Aunela Library and Youth Centre, and the Kakskerta/Satava fire station. New service buildings for the city were also constructed 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. The Tallimäki and Kastu day care centres and the intensified sheltered housing units Kulkurinvalssi and Vuokkokoti were new investment projects conducted within the Group.

Other investments

The city spent a total of EUR 7.3 million in the procurement of real property (EUR 10.2 million in 2018). Acquisitions of land and land areas stood at a total of EUR 3.9 million, which includes the retaining wall required for construction in the southern section of Kakolankatu. In addition to this, the city purchased a property from Turun Seudun sosiaali- ja terveystalvelukiinteistöt Oy for a price of EUR 3.4 million, which included the Kurjenmäki Home buildings and the related land leasing right.

The share acquisitions costs of affiliates and investments in subsidiary shares amounted to EUR 50.0 million, of which Turun Teknologiaikiinteistöt Oy's subscription was EUR 41.6 million. An additional EUR 7.9 million was invested in the shares of subsidiary corporations.

A total of EUR 3.2 million was invested in city-level IT systems and digital service development (EUR 3.1 million in 2018). A total of EUR 4.4 million (EUR 3.1 million in 2018) was used for procuring firefighting and extinguishing equipment for the Southwest Finland Emergency Services, and EUR 2.5 million was recorded in funding contributions (EUR 1.0 million in 2018).

As regards sports, youth services and culture, a total of EUR 0.9 million (EUR 0.8 million in 2018) was invested in refurbishing artificial turf, updating the main library, adding to the visual arts collections, and developing a mobile library with a new concept. The Education Division invested a total of EUR 1.7 million (EUR 2.9 million in 2018) in updating the equipment and premises in basic education, upper secondary schools and vocational education. The Welfare Division invested a total of EUR 1.7 million (EUR 0.6 million in 2018) in customer data systems and furnishing intensive sheltered housing units. The Urban Environment Division spent a total of EUR 0.6 million (EUR 0.3 million in 2018) on information management solutions and developing travel systems for public transport.

Financial position and its changes

The city's liquidity remained good throughout the year. At the end of 2019, the city's cash reserves amounted to EUR 204 million (EUR 176 million in 2018), not including investments in the city's own funds. The EUR 28 million increase in cash reserves was primarily due to the capital gains from the sale of Turun seudun sosiaali- ja terveystalvelukiinteistöt Oy's shares. Cash and cash equivalents, which included cash reserves as well as investments in the city's own funds (damages fund), totalled EUR 239 million (EUR 208 million in 2018).

The cash reserves were EUR 112 million at their lowest during the first half of the year and EUR 281 million at their highest. On average, the cash reserves amounted to EUR 203 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

city's short-term local government paper limits or other non-binding limits at the end of the year was EUR 440 million.

At the end of the financial year, the city had EUR 568 million in long-term loans (EUR 652 million in 2018), including the following year's repayments. Over the course of the year, the amount of long-term loans decreased by EUR 83 million and there was no need to make any long-term loan withdrawals at all. The strong cash position was primarily due to the EUR 128 in earnings from selling the shares of Turun seudun sosiaali- ja terveystalveteistöt Oy.

The worth of the local government papers in circulation at the end of the year was EUR 30 million, and their number increased by EUR 30 million during the year. Interest-bearing debt, not including deposits by affiliated companies and personnel financial services, stood at EUR 598 million. Short-term debt also includes EUR 90 million in deposits by subsidiaries and EUR 53 in deposits by personnel financial services, resulting in a total of EUR 143 million in interest-bearing debt.

The loan portfolio, i.e. the total amount of interest-bearing debt, was EUR 742 million at the end of the year. The city's interest-bearing debt decreased by EUR 79 million during the year. The interest expenses of the total interest-bearing debt were EUR 7.4 million with an effective interest rate of 1.18%, including hedging costs.

At the turn of the year, the city hedged EUR 620 million of the interest-bearing debt from an increase in the interest rate. Of these hedges, EUR 210 million was implemented with loans with a fixed interest rate and EUR 410 million with interest rate swaps. At the end of the year, the hedge ratio was slightly over 100%, meaning that the city's interest expenditure will not increase very much if interests increase and will more likely drop if the current short negative Euribor interests become positive over the coming years. The fair value of interest rate swaps for hedging purposes stood at EUR -20.3 million at the end of the year.

Lending receivables from subsidiaries decreased by EUR 191 million during the year, which was primarily due to the EUR 119 million repayment of Turun seudun sosiaali- ja terveystalveteistöt Oy's loans, the exchange of Turun Teknologiaiinteistöt Oy's convertible loans for share capital and the repayment of a junior loan, resulting in a total of EUR 52 million. At the end of the year, the long-term lending portfolio was EUR 458 million (EUR 641 million in 2018), while the subsidiaries' short-term credit limit debt connected to the Group account was EUR 46 million (EUR 53 million in 2018). At the end of the year, the amount of interest-bearing debt was EUR 0.9 million less than interest-bearing short-term and long-term receivables and cash investments (including finances in the damages fund).

In 2019, guarantee liabilities decreased by EUR 10 million to EUR 277 million (EUR 287 million in 2018). The most substantial guarantee liabilities are Turun Seudun Vesi Oy (EUR 109 million) and Turun Seudun Puhdistamo Oy (EUR 72 million). The largest leasing liabilities consist of fixed asset purchases included in the framework agreement and the Turun Satama Oy's leased property, which has been re-leased to the company.

The capital in city funds increased slightly, despite the low interest level in 2019 and the mercurial situation on the stock markets. At the end of the year, the damages fund had EUR 47 million in capital. The capital increased by EUR 2.4 million in a year, which equates to 5% in annual return. Total donation fund capital stood at EUR 27 million. The investment activities of the city and donation funds adhere to the investment principles approved by the City Council on 18 March 2019, with particular emphasis on section 4 on the investment activities of funds. The principles of managing assets in special margin funds. As a general rule, the weight of city fund share instruments in any portfolio must not exceed 50% of the fund's capital. The more detailed investment plan and allocation for the funds are decided on annually by the City Board in conjunction with the approval of the loan withdrawal and investment plan. Furthermore, an investment committee has been established to steer fund investment activities. The committee is tasked with providing recommendations on fund allocations and the risk profile, among other things.

Analysis of the balance sheet

At the end of the financial year, the balance sheet total was EUR 1,806.3 million. The decrease compared to the previous year was EUR 111.8 million (5.8%). Due to the poor financial period's profit/loss, equity decreased by EUR 36.5 million (4.5%).

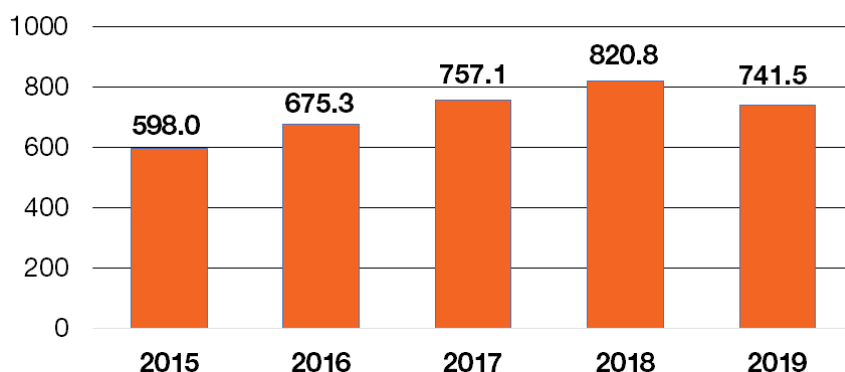
The equity ratio increased by 0.6 per cent, being 44.8 per cent at the end of the year (44.2% in the financial statements for 2018). A level that exceeds 50% can be regarded as the general target level for municipal economies.

As regards investments under non-current assets, other loan receivables decreased by EUR 182.8 million from the previous year. This was mostly the result of divesting the shares of Turun seudun sosiaali- ja terveystalvelukiinteistöt Oy to Hemsö Storåker Finland Oy at the beginning of April. The trade reduced the city's loans by roughly EUR 129 million as the company divested by the city repaid its debt to the city.

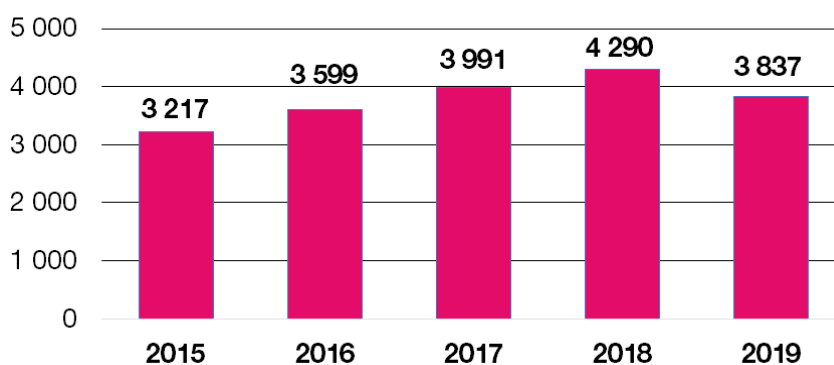
The surpluses/deficits accumulated in the previous financial years include extraordinary non-recurring items that have a total impact of roughly EUR 173.8 million. The most relevant ones of these are mentioned below: The sale of the business operations of Turun Puhelin in 1997 yielded EUR 45.5 million 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.

The other statutory provisions recorded stood at EUR 2.2 million more than in the previous year, primarily due to the increase in environmental responsibility provisions.

Loan portfolio 2015–2019, € million



Loan portfolio 2015–2019 per capita, €



At the end of the year, the loan portfolio was EUR 741.5 million, changing by EUR -79.3 million from the previous year. The loan portfolio per capita was EUR 3,837 (EUR 4,290 million in the financial statements for 2018).

Relative indebtedness was 70.8 per cent of the operating income (operating revenue, tax revenue and central government transfers), which is required to pay back the loan capital. Relative indebtedness decreased by 8.3 per cent from the previous year (79.1% in the financial statements for 2018). Total loans and rent liabilities in the amount of EUR 1,132.5 million (EUR 1,210.6 million in the financial statements for 2018) dropped by EUR 78.1 million (6.5%) from the previous year.

Consolidated financial statements and key figures

The City of Turku controls 57 subsidiaries, of which 48 are consolidated in the consolidated financial statements. Of the consolidated subsidiaries, three are foundations and 18 are housing and real estate companies. There are 29 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 surplus for the financial year was EUR 50.6 million (a deficit of EUR 33.7 million in the financial statements for 2018). The subsidiary Turun Seudun Sosiaali- ja terveystalvelukiinteistöt Oy, which was fully owned by the City of Turku, was sold to Hemsö Storåker FINLAND Oy at the beginning of April. As a result of the trade, the Group recorded more than EUR 76 million in extraordinary capital gain. Without the one-time extraordinary item, the Group's deficit would have been EUR 25.7 million. The profit/loss for the financial year was EUR 59.1 million in surplus (EUR 22.9 million in deficit in the financial statements for 2018). Without the one-time extraordinary item, the profit/loss would have been EUR -17.2 million.

The Group's annual margin was EUR 128.7 million (EUR 117.8 million in the financial statements for 2018), which can be used for the Group's investments and loan repayments. The Group's annual margin per capita, EUR 666, improved by EUR 50 from the previous year (EUR 616 in the financial statements for 2018). The euro per capita for 2019 was calculated according to the preliminary data on the population of Turku (193,246), provided by Statistics Finland. The annual margin covered 88.2 per cent of the depreciations according to plan (83.7 per cent in the financial statements for 2018).

The Group's operating margin was EUR -959.1 million (EUR -930.5 million in the financial statements for 2018). As a result of the divestment of the subsidiary, the rental costs (approx. EUR 8 million) to be paid to Turun seudun sosiaali- ja terveystalvelut Oy were converted into expenses outside the Group. Overall, the Group's rental expenditure increased by EUR 9.5 million from the previous year. The comparable change in operating margin is EUR -20.6 million. The Group's operating revenue was used for financing 50.5 per cent of the operating expenditure, reduced by the item 'manufacture for own use'.

Financing the Group's operations and investments

The Group's investment expenditure was EUR 278.5 million in total (EUR 251.1 million in the financial statements for 2018). EUR 24.0 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 120.9 million
- TVT Asunnot Oy Group EUR 50.6 million
- Turku Energia Oy Group EUR 25.4 million

- Logomon tapahtumatilat Oy EUR 26.6 million
- Turun Ammattikorkeakoulu Oy EUR 21.0 million

In 2019, a new building with 119 housing units was completed in three phases for TVT Asunnot Oy in the Iso-Heikkilä district at the address Revontulenkatu 8–12. In addition to this, 39 new housing units were completed in Käsämäki at the address Käsämäentie 62. The construction of two apartment buildings was initiated in May 2019. 22 housing units will be built in Käsämäki at the address Puustellinkatu 3, and 44 housing units will be built in Hirvensalo at the address Arolankaari 3. The construction of 76 housing units in two apartment buildings was started in the centre of Kaarina at the address of Lautakunnankatu 16. The renovation at Lumikonkatu 2 A and B was completed in December 2019. Renovation work at Lampolankatu 8 commenced in March 2019. The construction of two sheltered housing units for the elderly with round-the-clock care was completed for Turun Palvelutilat Oy at Kuralankatu 2 and Murkionkatu 10. The buildings feature 118 and 119 available housing units. The sites are rented to the Services for the Elderly of the City of Turku Welfare Division. At the beginning of 2019, the Kastu day care centre at Pyörämäentie 4 and, in spring, the Tallimäki day care centre at Malminkatu 1 were completed for Turun Päiväkodit Oy. Both day care centres have been leased to the City of Turku.

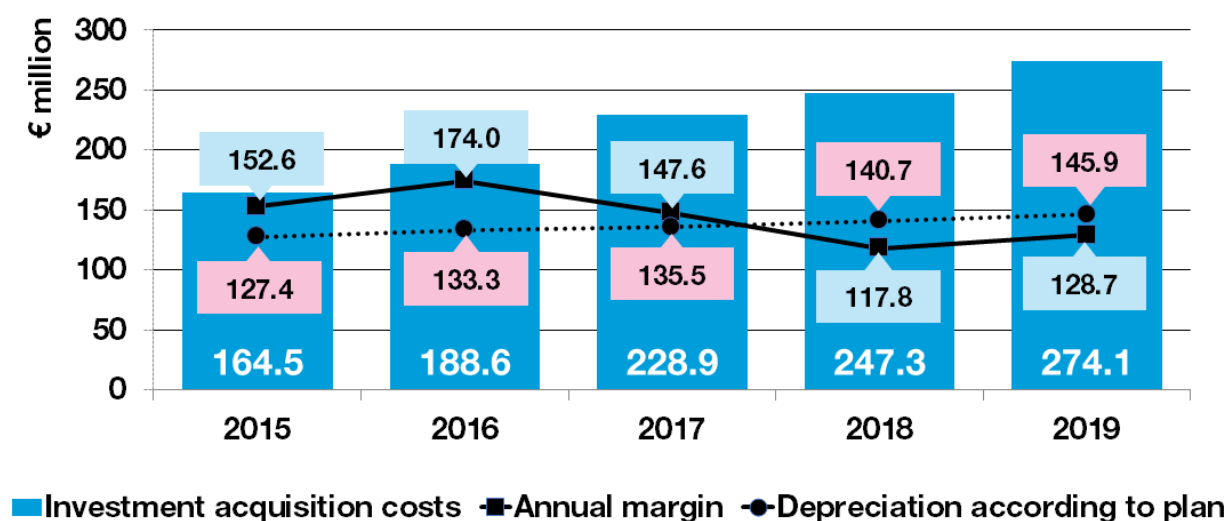
Turku Energia Oy's investments mainly focused on the improvement and maintenance of networks' transmission capacity and operational reliability. Heating business investments focused on expanding heating networks and procuring equipment. The investments by the electricity grid company focused on improving and maintaining the electricity grids' transmission capacity and operational reliability. Long-term investments were made in Suomen Hyötytuuli Oy.

Turun ammattikorkeakoulu Oy's investments largely consisted of a EUR 18 million investment in the shares of Turun teknologiakiinteistöt Oy through the conversion of a convertible loan. The other investments consisted of machine and equipment acquisitions primarily for the new campus facilities that remain partially under construction: Medisiina D and EduCity, which are to be opened in the autumn of 2020.

Logomon tapahtumatilat Oy was established due to the partitioning of the Logomo Oy group on 18 October 2018. The first financial statement was prepared for an extended financial period 18 October 2018–31 December 2019. The change in non-current assets was about EUR 26 million, according to a separate financial statement.

The investment acquisition cost was EUR 274.1 million. The Group's operating cash flow, EUR 106.6 million, decreased by EUR 20.5 million compared to the previous year, and it was not enough to cover the investment acquisition costs.

Group's investment acquisition costs and annual margin 2015–2019



The capital gain was EUR 66.4 million (EUR 30.6 million in the financial statements for 2018). The Group's cash flow from operations and investments was negative by EUR 101.2 million (EUR 89.6 million in the financial statements for 2018). The Group's combined total cash flow from operations and investments from 2018 and the previous four years is negative by EUR -298.7 million (EUR -166.8 million in the financial statements for 2018). This accumulation was EUR 131.8 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 176.5 million in long-term loans and paid off EUR 125.5 million.

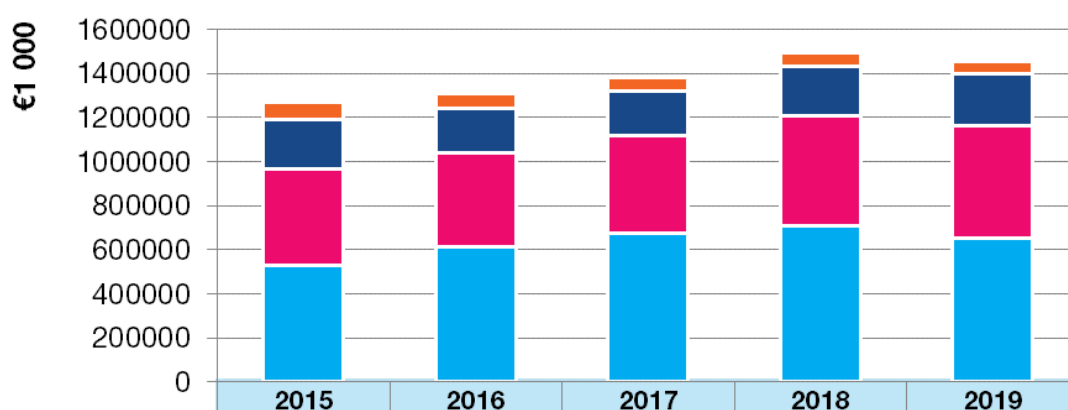
The Group's long-term loan receivables, EUR 23.9 million, decreased by EUR 71.4 million from the previous year. The decrease was primarily due to the conversion of convertible loans into shares in conjunction with the corporate restructuring of Teknologiaikiinteistöt Oy and Turun ammattikorkeakoulu Oy.

The Turku Group's interest-bearing loan portfolio was EUR 1,456.8 million at the end of the financial year (EUR 1,496.7 million in the financial statements for 2018). The Group's loan portfolio includes a total of EUR 52.9 million in the personnel financial services' deposits as interest-bearing short-term loans (EUR 54.8 million in the financial statements for 2018). The loan portfolio decreased by EUR 39.9 million (an increase of EUR 112.8 million in the financial statements for 2018). The most significant reductions in Group debt were made by the City of Turku. The Group's loans per capita were EUR 7,539 (EUR 7,823 in the financial statements for 2018) according to the preliminary population data for 2019. The loans per capita decreased by EUR 284 per capita from the previous year.

Of the Group's interest-bearing loan portfolio, 35 per cent pertains to the real estate and housing business (33 per cent in the financial statements for 2018) and 16 per cent to other

business operations (15 per cent in the financial statements for 2018). Joint municipal authorities accounted for 4 per cent of the loan portfolio (4 per cent in the financial statements of 2018), while the City of Turku accounted for 45 per cent (48 per cent in the financial statements for 2018). The City of Turku's share of liabilities includes EUR 446 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 206 million (EUR 121 million in the financial statements of 2018) of the Group debt, while the Group's subsidiaries and joint municipal authorities are left with EUR 1,251 million (EUR 1,376 million in the financial statements for 2018). The subsidiaries' and joint municipal authorities' share of the adjusted loan portfolio has decreased by EUR 125 million, while the city's share has increased by EUR 85 million from the previous year.

Turku Group's loan portfolio



	2015	2016	2017	2018	2019
Joint municipal authorities	76623	69021	64007	61524	58544
Business companies	226087	202111	201025	228137	237109
Real estate and housing companies	435872	425204	442994	500620	509640
City of Turku, parent	530030	611943	675899	706420	651538
Turku Group's loan portfolio	1268613	1308280	1383924	1496701	1456831

The Turku Group's whole loan capital was EUR 1,888.0 million at the end of the year (EUR 1,937.2 million in the financial statements for 2018). This means a decrease of EUR 49.2 million from the previous year.

The Group's loans and rental liabilities amounted to EUR 1,981.6 million at the end of the financial year (EUR 1,881.5 million in the financial statements for 2018). The Group's equity ratio was 37.1 per cent (35.4% in the financial statements for 2018). Relative indebtedness was 90.4 per cent, which represented a decrease from the previous year (95.8% in the financial statements for 2018). 90.4 per cent of the Group's operating revenue would be required to repay all borrowed capital.