

**City of Turku**  
**Annual Report 2021**  
**Summary**

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### Operating environment

After the municipal elections in June 2021, Turku City Council made a historic decision exactly one hundred years after adopting the city manager model, the Council elected a mayor and three deputy mayors instead of a city manager. Before selecting the mayors, the City Council decided to approve the Mayor's Programme for 2021–2025. It is particularly important that all the delegation groups committed themselves to the Mayor's Programme.

During the autumn, a decision-making system based on the mayoral model was launched and the implementation of the city's new management system and organisation continued. The strengthened political process has already shown signs of how well it functions as the City Council has made significant decisions to develop the City in a swift and committed way.

The 2021 operating year was still marked by the coronavirus pandemic and its impacts that limit the functioning of society as a whole. The uncertainty caused by the pandemic has been great, and the City's own functions, business life and everyday life of the residents continued with special arrangements. Successful vaccinations, the subsequent rapidly increased vaccination coverage and the development of variants in a less dangerous direction would seem to facilitate the restrictions imposed because of the pandemic, hopefully for good.

Because of the pandemic, forecasting economic development has been exceptionally difficult. Due to a more positive economic development than expected and successful measures in balancing the economy, the financial year ended with a surplus of EUR 39.0 million. Good performance was significantly affected by better-than-expected development of corporate tax revenue and municipal tax revenue as well as land use agreement payments and proceeds from realisation of assets. The Finnish Government also fully compensated for the direct costs of coronavirus as discretionary government grants.

The Government supported the loss of local government tax revenue as one-off support measures by increasing central government grants for basic services and by continuing the temporary 10% increase in corporate tax, which had a positive impact on the annual margin: approximately EUR 27.3 million. In addition to the subsidies paid as central government grants, Turku received a total of approximately EUR 46.5 million in activity-specific government grants. The largest individual discretionary government grant was received for testing, tracing, vaccination and medical care as well as for other direct costs: approximately EUR 38 million.

The Parliament adopted legislation on the establishment of wellbeing services counties and the reform of the organisation of social welfare and health care services and rescue services on 23 June 2021. The reform means that the responsibility for organising social welfare, health care and rescue services will be transferred from municipalities to the new wellbeing services counties from the beginning of 2023.

The reform is the largest public administration reform in the history of the independent Finland. The City of Turku started preparing for the impacts of the reform in 2021, and the first decisions on the necessary measures in the City's own organisation and finances have already been made.

The health care and social services reform will reduce the latitude in the City's economy and the number of adaptation options. In the future, the lion's share of the City's finances will focus on education and teaching. This is one of the reasons why it is very important that the City's finances are continually directed towards a sustainable baseline by decision-making, despite the upcoming health care and social services reform.

The impact of the new wellbeing services county on the services provided to Turku residents is extremely significant. The City will contribute to the launching of the wellbeing services county, and its decisions will support the welfare county's objectives for shifting the focus of social welfare and health care services heavily towards timeliness, strengthening service guidance and increasing freedom of choice, and thus increasing the impact of the services as a whole.

In 2022, the operating environment will be determined by recovering from the pandemic, implementing the health care and social services reform and preparing for the parliamentary elections to be held in 2023. Still, it is clear that among the greatest uncertainties for the City of Turku is the tumult of the global political situation because of the Russian war on Ukraine launched in February 2022. Very quickly, almost the whole world has taken their places in front that condemns the attack and imposed unprecedented economic and operational sanctions on Russia.

In this situation that has developed rapidly and that still keeps changing, it is impossible to assess all impacts. It is clear that the economic impacts are visible in the western world and also in the daily lives of Turku residents. Residents of the City have again demonstrated their ability to act during change and their willingness to strengthen communality in a difficult and anxiety-inducing operating environment. It is vital that the City direct its operations correctly and effectively so that the services and development of the City can continue in accordance with the objectives, even in a situation that is difficult to predict.

## Development of the economic area

The turnover data specific to the Turku sub-region produced by Statistics Finland will be available until the end of September 2021. The effects of the coronavirus pandemic have been reflected in the development of turnover and number of employees in both the Turku sub-region and the entire country. The decrease in turnover in all business sectors that began in the second quarter of 2020 continued in the Turku sub-region in the first quarter of 2021. In early 2021, turnover in the region decreased by 3.9% (entire country -0.3%) from the same date in the previous year. However, after the decline at the beginning of the year, the trend was reversed, and the turnover increased by 11% in the second quarter of 2021 and by 11.9% in the third quarter compared to the previous year. However, our growth was slightly slower than at the level of the entire country.

Growth in all business sectors of the Turku sub-region took place in the third quarter of 2021 when compared with the same period in the previous year. The industry sector (20.1%) and construction (14.1%) grew the most. The turnover of the maritime industry had also started to grow since the decline that began in the second half of 2020. In the third quarter of 2021, the turnover of the maritime industry was 7.9% higher than in the previous year, compared to the 25.1% decrease in the first half of 2021.

According to Statistics Finland's trend data, the number of employees in all sectors developed along with the turnover on a quarterly basis in the Turku region. In the first quarter of 2021, the number of employees decreased by 2.1% (entire country -1.6%) but increased by 6.0% (entire country 6.2%) in the second quarter and by 5.3% (entire country 5.6%) in the third quarter.

The unemployment that had started to rise in 2020 began to decline in 2021 as a result of the coronavirus pandemic. According to the employment service statistics of the Ministry of Economic Affairs and Employment, the unemployment rate in Turku was 13.2 at the end of 2021, when it was 16.5 a year earlier. The unemployment rate had decreased by 3.3 percentage points during the year. However, the unemployment rate at the end of 2021 was 1.7 percentage points higher than before the beginning of the coronavirus pandemic in December 2019.

At the end of December 2021, 12,651 Turku residents were unemployed jobseekers. A year earlier, there were 15,757 of them. Although the number of unemployed has decreased to the same level as one year prior in December 2021, the number and share of long-term unemployed has increased. At the end of 2021, Turku had 4,985 long-term unemployed and their share of all unemployed was 39%. The share of young people among the unemployed has remained the same and their number has decreased. At the end of 2021, there were 1,559 unemployed people under the age of 25 in Turku, which means 12% of all the unemployed.

Turku had the highest unemployment rate in Southwest Finland and the six largest cities in Finland. The unemployment rate in the entire country was 10.5%. At the end of 2021, the number of unemployed jobseekers in the Turku sub-region was 10.3% of the workforce.

According to Statistics Finland's preliminary data, 195,301 people lived in Turku at the end of 2021, which means an increase of 910 people compared to the official population in 2020. The growth was entirely based on immigration. 1,134 more people moved to Turku from abroad than from here to abroad. The net migration between municipalities was negative for the first time since 2009, while the migration loss in Turku was 158 people. The number of deaths in Turku was 131 more than the number of births.

## Assessment of probable future trends

The City's current financial plan contains a lot of uncertainty. The financial plan was drawn up in the autumn of 2021 with the help of the information available at the time. The health care and social services reform will change the tasks and funding of municipalities from the beginning of 2023. There is still no detailed information available on the changes to the funding of municipalities.

The City has sought to focus its attention on the issues that we can influence ourselves. Naturally, the coronavirus pandemic has also increased uncertainty regarding continuous services and significantly hampered both the setting of goals and the monitoring of operational and economic goals. The governmental policy on full compensation of the effects of coronavirus has been important, and from the City's point of view, the policy should also be adhered to in the future.

The result for 2021 was significantly better than expected, especially due to the faster than expected recovery from the coronavirus's blow. This has increased the taxable income of communities and thus the corporate tax revenue to be paid to the City. As a result of the improved employment situation, municipal taxes have also developed positively.

Positive tax basis development also improves the forecasts for the following years. According to the latest estimates, the positive development will still be moderate. It is also important to remember that the public sector funding model consists of tax revenue and central government grants, which include, for example, the municipality's self-financing share and both a needs-based and income-based equalisation system. The changes made to these will balance income differences between municipalities and may contribute to the slightly diluted positive development of an individual lot. The Government will make adjustments to the funding system at least as a result of the health care and social services reform. The City is concerned that the immediate impact of the above-mentioned positive developments could be cut and adjustment measures could be targeted at local government finances.

For the time being, there are very few assessments of the impact of the crisis in Ukraine. The most significant risks will be directed at rising prices and slowing down the economic growth. As the crisis continues, local government finances will inevitably be negatively affected. The importance of risk management is emphasised, and risks must be assessed extensively. The necessary measures must be identified and actively promoted.

Turku is a growing city and people are very interested in it. This can be seen, for example, in the increasing number of building permits. The situation has been challenging for processing in recent years, but we have been on an active lookout for solutions. For 2021, both the sales proceeds of land and the land use agreement compensations received from construction exceeded the set revenue estimates. Developing the City's own processes has been valuable, and the success has benefited both external actors and the City. This is an excellent example of how efficient and streamlined processes are in the interest of all parties.

Demand for services is expected to continue to increase during this planning period. Changes in the age structure and population growth will increase the demand for public services. The indirect impacts of the coronavirus have probably not yet been fully identified, and these impacts may have effects that increase expenditure pressure. Services divisions must assess the situation and strive to develop their operations to better meet the changing needs.

The health care and social services reform will have an unprecedented impact on the City's financial situation. Once the details of the reform have become clearer and according to an

up-to-date situational picture, estimates of the level of tax funding will be reviewed and the City's investment capacity determined. After this, the current financial plan must be reviewed, and the necessary adjustments made in terms of operational economy, investments and financing.

In the recent years, the aim has been to bring the City's economy to a sustainable level. The most important factor is the moderate development of operational net expenditure. The city personnel have paid attention to the matter in a wide-ranging manner and have contributed to improving our financial position. The City must ensure the carrying capacity of its economy so that high-quality services and the attractiveness of the city can also be ensured in the future.

## City personnel

The amount of labour used in person-years (all personnel) during the period 1 January – 31 December 2021 was 10,781.3. The use of labour in 2021 was 10,464.3, excluding employed persons, pupils and trainees, participants of relocation experiments and disabled persons in subsidised work.

Considering the organisational changes, the use of the entire personnel's labour increased by 323.0 person-years (+ 3.1%) compared to the previous year. The use of labour increased in 2021 by 339.1 person-years (+3.3%), excluding employed persons, pupils and trainees, participants of relocation experiments and disabled persons in subsidised work.

Use of labour (all personnel)	2020	2021	Change
Central Election Committee	0.0	3.7	3.7
Audit Office	4.3	4.9	0.6
Central Administration	565.3	751.0	185.7
Employment Services	375.5	348.7	-26.8
Southwest Finland Emergency Services	560.3	556.1	-4.2
Welfare Services Division	4,235.0	4,207.8	-27.2
Education Services	3,809.8	3,976.7	167.9
Recreation Services	605.5	605.1	-0.4
Urban Environment Services	318.7	327.3	8.6
<b>Total use of labour</b>	<b>10,473.4*</b>	<b>10,781.3</b>	<b>307.9</b>
Change in the use of labour from the previous year, considering organisational changes, total			<b>323.0</b>
<p>*In the 2020 financial statements, the City's labour figure for 2020 was stated to be 10,489.4 person-years (all personnel). The figures have been specified in the review carried out in January 2022 (the pay information system data will be updated retrospectively with, e.g., retrospective pension decisions and other matters affecting the payment of wages).</p>			

The table above takes the following organisational changes into consideration: a total of -15.1 person-years:

- Transfer of the family law unit from 1 March 2020 as a separate unit: 6 persons, and from 1 April 2020 onwards: 3 persons, total impact +1.8 person-years,
- Transfer of system experts from 1 September 2020 to 2M-IT Oy in connection with a transfer of business, impact -9.3 person-years,
- Transfer of business concerning cardiological outpatient clinic operations to the Hospital District of Southwest Finland as of 1 April 2021, impact -5.3 person-years,
- Transfer of business concerning rheumatological outpatient clinic operations to the Hospital District of Southwest Finland as of 1 April 2021, impact -2.3 person-years, and
- also, the Employment Service have been specified as a separate entity in accordance with the new organisational structure that entered into force in 2021. The comparand for 2020 is the Employment Services Centre.

The greatest increase in the use of labour has taken place in the Education Services. An increase in the number of pupils and the number of personnel employed with special coronavirus funding contributed to the increase in the use of labour in this services division. The increase in the use of the Central Administration's labour shows internal transfers from other services due to the administrative reform. In 2020 and 2021, a total of 235 posts have been transferred internally under the Central Administration. Personnel transfers directly affect the comparability of the figures by services division. The growth in the use of labour in the Urban Environment Services showcases the needs of a growing city in the area of building permits and control. The municipal elections in 2021 and the arrangements for the 2022 county elections, on the other hand, are reflected in the figures on the use of labour by the Central Election Committee.

In addition to organisational changes, the decline in the use of labour and the use of labour in the Welfare Services Division have been influenced by the increase in the use of outsourced services and rental labour as well as the greatly weakened recruitment situation in 2021. In addition to personnel transfers, the figures on the use of labour in Recreation Services show the limited use of seasonal workers in 2021.

The last day of the year, the City of Turku employed a total of 12,026 people, out of which 10,212 were full-time employees and 1,814 part-time employees.

The personnel expenditure for 2021 totalled EUR 549.6 million, of which wages and remunerations (adjusted for health insurance, accident insurance and other personnel expenses) totalled EUR 435.9 million and social security contribution EUR 113.7 million. Considering organisational changes, personnel expenditure increased by EUR 30.1 million (+5.8%) from the previous year, while wages and remunerations increased by EUR 24.2 million (+5.9%).

In addition to the increase in person-years, the development of wage expenditure is affected by the contractual increases specified in collective agreements for the municipal sector. The overall cost impact of wage increases in the municipal sector for the contract period from 1 April 2020 to 28 February 2022 was on average 2.11%, or approximately EUR 9.2 million.



## Formation of the profit/loss for the financial period

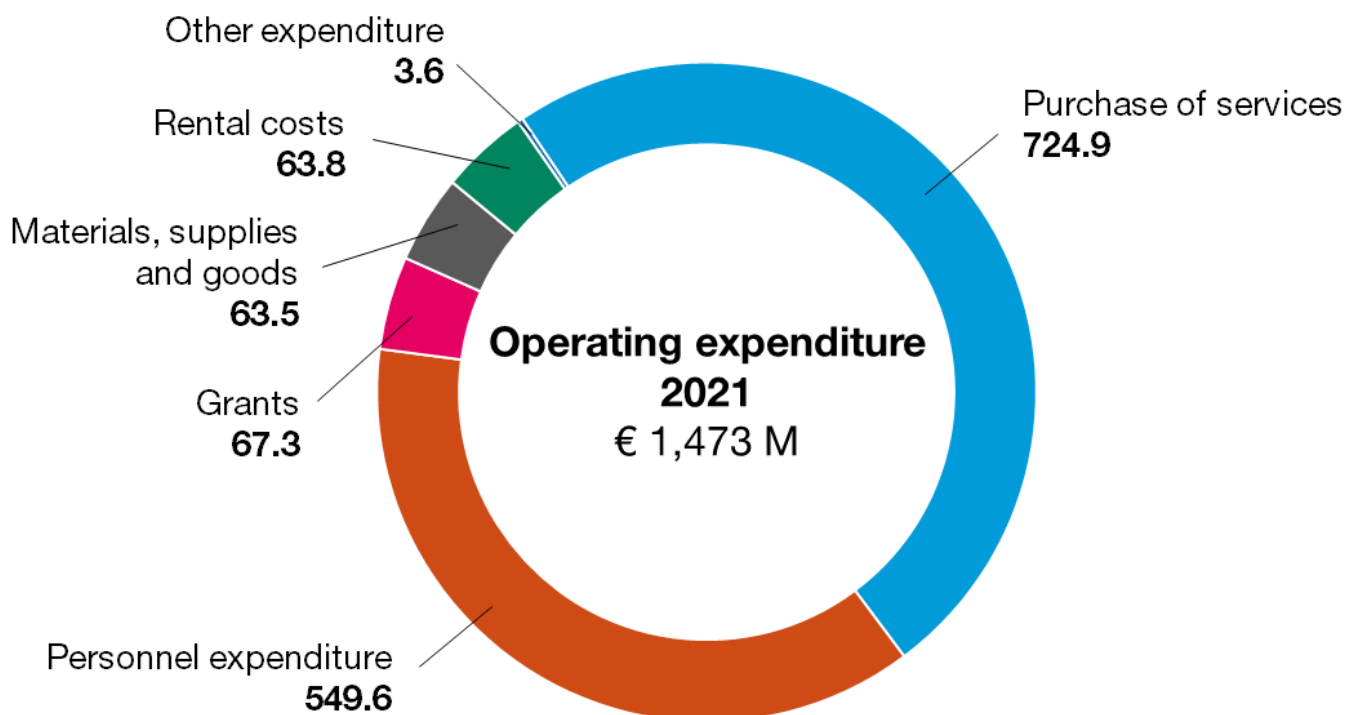
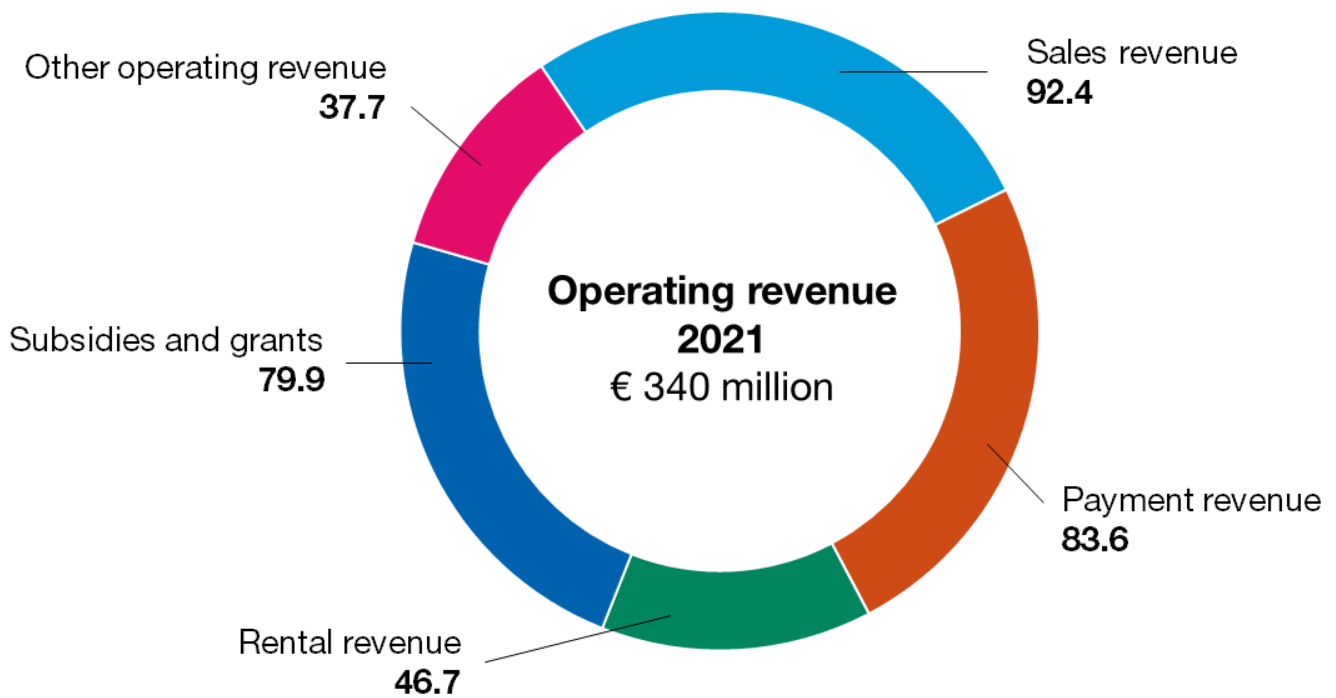
During the year, the coronavirus pandemic, which has continued for another year, had a strong impact on the operating environment. However, the impact of the prevailing economic trend on both the general economy and the economy of the Turku region was more positive than expected.

The financial period ended with a surplus of EUR 39.0 million. Good performance is significantly affected by better-than-expected development of corporate tax revenue and municipal tax revenue as well as land use agreement payments and proceeds from realisation of assets. The Finnish Government also fully compensated for the direct costs of coronavirus. The City's operations have also been adapted by developing the operations in accordance with the adaptation programme approved by the City Council in 2019. The adaptation programme includes measures to balance the economy of all the City's Services. The aim is to achieve permanent savings by the end of 2022. The City Board updated the adaptation programme in 2020 and primarily aims to support growth and immediate measures to improve the financial situation.

The Government supported the loss of local government tax revenue during the last financial period as one-off support measures by increasing central government grants for basic services and by continuing the temporary 10% increase in corporate tax, which amounted to approximately EUR 27.3 million. Turku received a total of EUR 46.5 million in activity-specific government grants. The largest individual discretionary government grant was received for testing, tracing, vaccination and medical care as well as for other direct costs: EUR 38.2 million. Of the EUR 4.4 million coronavirus subsidy granted to public transport in the City Region of Turku, Turku accounted for EUR 3.6 million. The Ministry of Education and Culture granted EUR 4.0 million for emergency conditions caused by coronavirus. The total grant funding received from the Government in 2021 was approximately EUR 74 million, compared to approximately EUR 80 million in the previous year.

Operating revenue totalled EUR 340.4 million. Operating revenue increased by EUR 75.3 million from the previous year. The largest revenue item affecting the growth was subsidies and grants, amounting to EUR 40.2 million. The change was significantly affected by the change in the form of the Government's coronavirus aid from central government transfers to central government grants. A comparable increase in operating revenue would be about EUR 37 million if the coronavirus subsidy of EUR 38.2 million received for direct coronavirus costs would have been received as central government transfers as in the previous year. Comparable subsidies and grants would have increased by approximately EUR 2.0 million from the previous year. Payment revenue increased by EUR 19.8 million, mainly due to the positive accumulation of community service fees, such as land use and development compensations and social welfare and health care customer fees. Other forms of payment revenue decreased. The actual sales revenue of EUR 92.4 million is at a similar level as last

year. Other operating revenue totalled EUR 14.8 million more than in the previous year, mainly due to increased sales revenue on fixed assets.



Operating expenses totalled EUR 1,472.8 million and increased by EUR 84.7 million from the previous year. The operating expenditure, adjusted for self-construction, were EUR 1,470.9 million. The main factor contributing to the increase in operating expenditure was the increase in the City's purchase of services: EUR 44.8 million. Corresponding increase in the previous year was EUR 20.3 million.

Personnel expenditure increased by EUR 29.4 million, of which wages and remunerations accounted for EUR 23.6 million. Organisational changes did not have a material impact on the reference year. In addition to the increase in the number of person-years, the increase in wages was affected by an average increase of 2.11%, or about EUR 9.2 million, in the collective agreements for the municipal sector.

Purchases of customer services increased by EUR 16.3 million, which is mainly explained by an increase of EUR 10.9 million in purchases of social welfare and health care sector's outpatient care services and an increase of EUR 2.1 million in service voucher expenditure.

The EUR 28.5 million increase in purchases of other services was especially affected by an increase of EUR 8.9 million in construction and maintenance services and EUR 12.4 million in purchases of laboratory services. The magnitude of the growth is affected by the return of the municipal share of the joint municipal authority of the Hospital District of Southwest Finland in the previous year, which was targeted directly at the purchases of laboratory services. ICT services increased by EUR 3.5 million and rental labour by EUR 5.1 million, which can mainly be explained by the organisation of coronavirus vaccinations. Ambulance transport services, public transport services and catering services increased by a total of EUR 5.2 million. The total increase in health services and other cooperation shares was approximately EUR 2 million. The increase in expenditure was compensated by a reduction in the costs of expert services by EUR 5.7 million, construction and maintenance services of buildings by EUR 2.3 million and other transport services by EUR 1.6 million. In conjunction with fixed-amount invoicing, the Hospital District of Southwest Finland reimbursed EUR 3.6 million in costs.

The increase in materials and supplies was EUR 5.8 million, mainly due to an increased price of food, heating, electricity and construction materials, totalling EUR 5.4 million.

The operating margin, i.e., net operating expenditure, amounted to EUR -1,130.5 million. The increase is not comparable to the previous year due to the aforementioned change in the form of the Government's coronavirus aid. A comparable increase in operating margin would be approximately EUR 47 million (4.2%).

Tax revenue totalled EUR 72.3 million (8.9%) more than in the previous year. The national increase in municipal tax was 6.1%. The increase in municipal tax in Turku was only 1.7%. Corporation tax revenue increased by EUR 48.5 million from the previous year. Growth at national level was 34% and 44% in Turku. The amount of growth in corporation tax revenue is affected by the weak development in the previous year. Central government transfers amounted to EUR 30.2 million less than in the previous year (-9.0%). The change is affected,

for example, by the change in the form of the Government's coronavirus aid from central government transfers to action-specific central government grants.

Operating revenue covered 23.1% of operating expenditure (19.1% in 2020 financial statements). 76.9% (80.9% in 2020 financial statements) remained to be financed by tax revenue and central government transfers.

The change in financing revenue and expenditure from the previous year was EUR -1.2 million. Interest revenue decreased by EUR 2.7 million and interest expenditure increased by EUR 0.7 million. Other financing expenditure decreased by EUR 1.9 million from the previous year. The decrease in other financing costs is affected by the write-downs made in the previous year, EUR 1.3 million. Write-downs of EUR 0.1 million were made during the financial period.

Annual margin amounted to EUR 94.1 million, which covers the annual fixed asset depreciations and impairments of EUR 57.3 million. The increase from the previous year was EUR 31.7 million (EUR 53 million in 2020 financial statements). Of the balance of EUR 36.8 million for the financial period, EUR -1.1 million has been recorded as a reduction in the investment reserve for VR's workshop area and a corresponding increase in the depreciation difference. The accumulated depreciation difference amounted to EUR 2.2 million to cover planned depreciation of investments implemented with investment reserves.

## Tax revenue

Determination of Turku's tax revenue

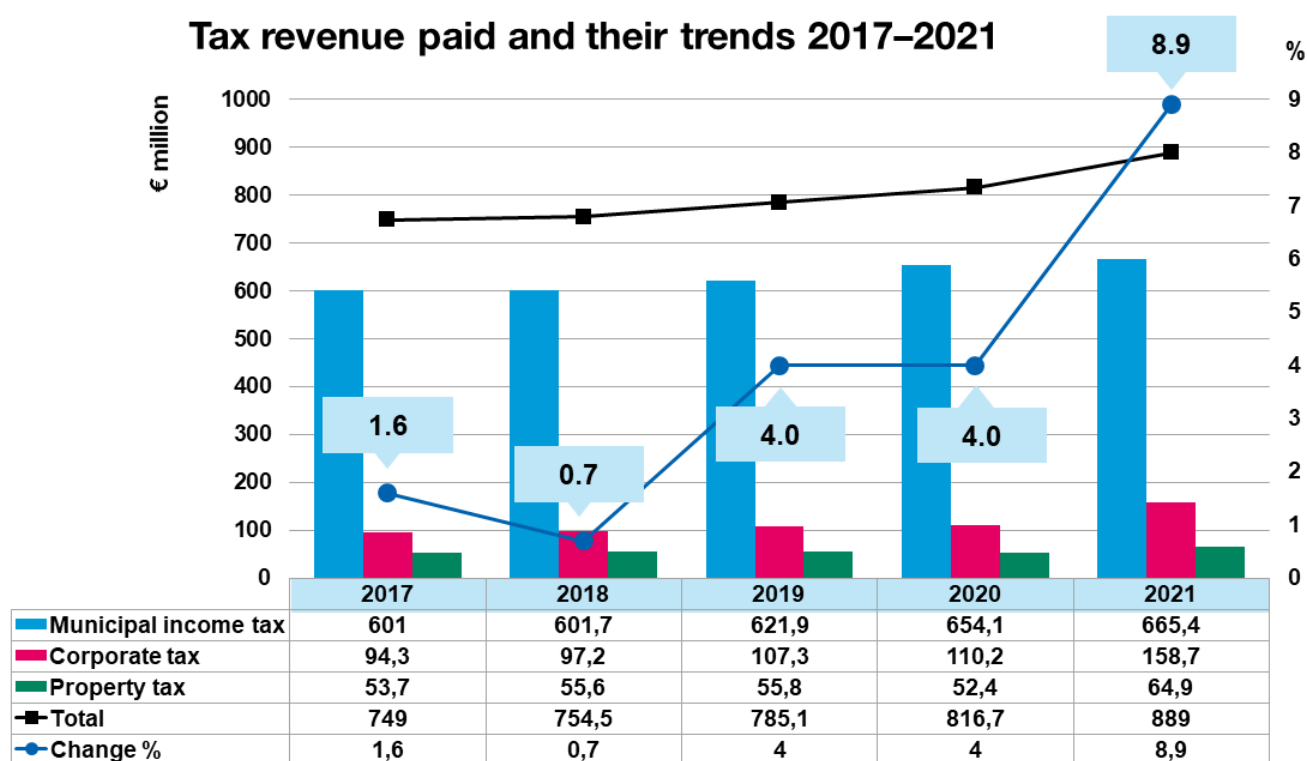
Basis for tax revenue	2017	2018	2019	2020	2021
Income tax rate (%)	19.50	19.50	19.50	19.50	19.50
Property tax rate (%):					
General	1.00	1.00	1.00	1.00	1.15
Permanent residential building	0.41	0.41	0.41	0.41	0.45
Other buildings used for housing	0.93	0.93	0.93	0.93	1.10
Tax rate (%) for an undeveloped building site	3.00	3.00	3.00	4.00	4.00

The total amount of tax revenue was EUR 889.0 million. The growth compared to the previous year was EUR 72.3 million (8.9%) The amount of tax revenue accrued was EUR 41.7 million more than budgeted. The municipal tax accumulation exceeded the budgeted level by EUR 13.3 million. The revenue from corporation taxes was EUR 29.2 million more than the budgeted level, with the revenue from property taxes falling short of the budget by EUR 0.7 million.

The growth in municipal tax revenue compared to the previous year was EUR 11.3 million (1.7%) Corporation tax revenue increased by EUR 48.5 million (44.0%) from the previous year. The very positive development of corporation tax revenue was due to the municipal apportioned share of the corporation tax, which was increased by 10 percentage points for the fiscal year 2021 and the advance taxes paid by companies in 2020, which became payable at the beginning of 2021.

The amount of property taxes paid was EUR 12.4 million (23.7%) more than in the previous year. The major change in property tax compared to the financial statements of the previous year is due to the reform of the rendering of accounts, as a result of which part of the revenue from property tax for 2020 was only rendered in January and February of 2021. The situation will stabilise in the coming years, as 5–10% of the property tax for the previous year will continue to be paid at the beginning of the following year. The financial statements for 2022 are expected to be comparable with 2021.

Rendered tax revenue accounts and their development in 2017–2021:



## Revenue from central government transfers

Revenue from central government transfers amounted to a total of EUR 306.3 million, being EUR 30.2 million (-9.0%) less than the previous year. In 2020 and 2021, the Government granted support to cover the impacts of the coronavirus pandemic. In 2020, the aid was paid through central government transfers, while in 2021 the aid was granted as grants.

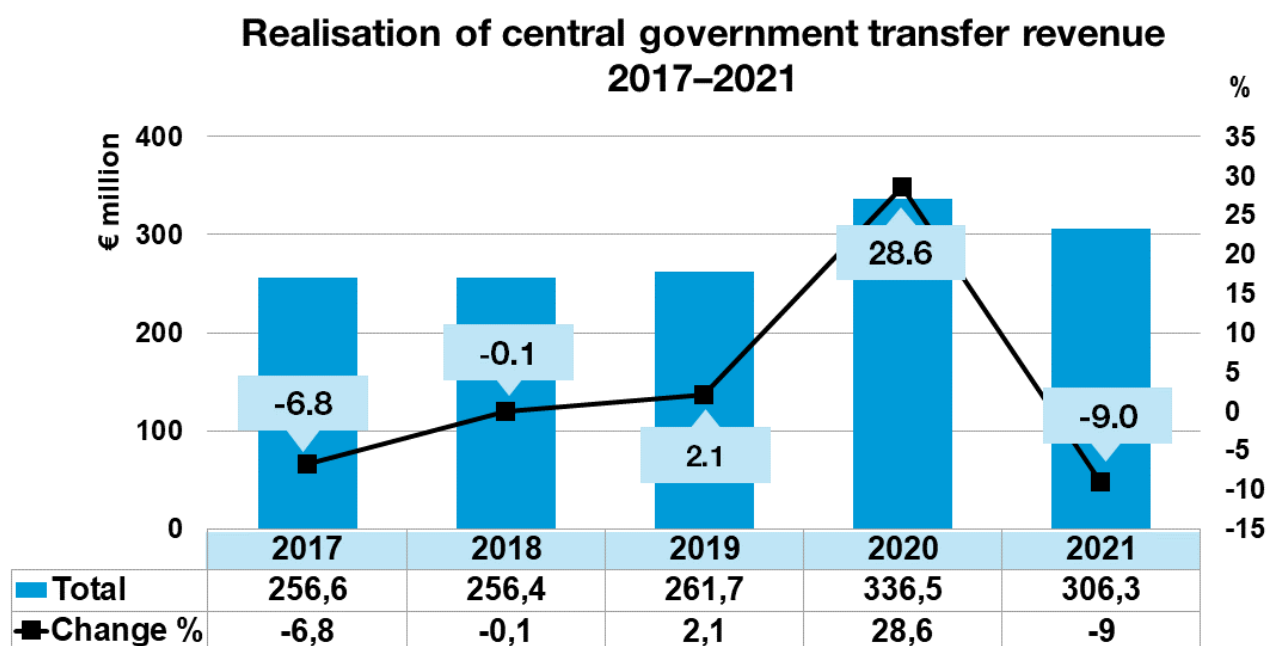
The actual received central government transfer was EUR 175.2 million for basic services. The compensation for tax revenue losses caused by changes in tax criteria, excluding the recovery of postponement arrangements regarding a tax payment, was EUR 87.3 million.

EUR 45.7 million in central government transfers for the education and cultural sector were realised, which was EUR 0.5 million (-1.0%) less than the previous year. Over the course of the year, the Ministry of Education and Culture granted a roughly EUR 4.0 million increase to the central government transfer (EUR 41.8 million), about EUR 0.6 million of which was

allocated to support measures of the special conditions brought about by the coronavirus pandemic.

Turku paid EUR 2.0 million in equalisation of tax revenue to other municipalities, whereas in the previous year, Turku paid other municipalities EUR 0.7 million.

Central government transfer revenue and their development in 2017–2021:



Central government transfer revenue decreased compared to the previous year by EUR 30.2 million (-9.0%). Comparable change is 2.4%, considering the Government's coronavirus aid for testing, tracing, vaccination, medical care and other direct costs, a total change of EUR 38.2 million from central government transfers to central government grants in 2021.

## Funding operations

The operating cash flow was positive by EUR 67.3 million (50.2 in 2020 financial statements). The increase in internal financing was influenced by central government's measures to support municipal tax funding as well as the good development of municipal tax and corporation tax revenue and compensation for land use agreement payments and proceeds from realisation of assets.

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 32.1 million.

The City's investment expenditure stood at EUR 140.8 million and its capital gains from non-current assets were EUR 33.8 million. Compared to the previous year, the City's investments increased by EUR 65.1 million and its capital gains by EUR 14.0 million. EUR 2.1 million in funding contributions were received for investment costs, after which the investment acquisition cost stood at EUR 138.7 million. The internal financing percentage, which measures the funding capacity of city investments, decreased significantly from the previous year to 67.8% (86.2% in 2020 financial statements) Compared to the year before, the figure is lower by more than 18.4 percentage points, which is due to a relatively higher investment level than the previous year.

The operating and investment cash flow for the financial year 2021 is negative by EUR 37.7 million, which is EUR 35.2 million worse than in the previous year. The actual accumulated cash flow for operations and investments between 2017 and 2021 dropped EUR 139.9 million into the negative, while it was EUR 102.4 million in the negative for the previous year. 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.

During the year, long-term loans were paid back in the amount of EUR 6.9 million and granted in the amount of EUR 93.6 million, the most significant portion of which, at EUR 63.9 million, went to the Student Village Foundation of Turku.

A new long-term loan was withdrawn in the amount of EUR 90 million and paid back in the amount of EUR 54.2 million. EUR 47.2 million in short-term loans were withdrawn. There was a EUR 83.0 million increase in the City's loan portfolio. The realised funding cash flow in the closed financial period was EUR 15.1 million in the negative.

## Largest investments and capital gains

The City's investment expenditure was EUR 140.8 million in 2021 (EUR 75.8 million in 2020). An adjustment of EUR -4.6 million to the acquisition expenditure of investments made in previous financial periods has been considered in the comparison data. A financing share of EUR 2.1 million (EUR 3.4 million in 2020) was recorded for the investment targets. EUR 33.8 million (EUR 24.4 million in 2020) in capital gains were recorded. The investment expenditure fell below the budget of EUR 29.4 million. The financing shares exceeded the budget by EUR 0.3 million and the capital gains by EUR 0.9 million.

The largest ongoing infrastructure projects were the Market Square and the Logomo bridge. Other extensive construction projects in the urban environment included the streets and park areas of Kirstinpuisto and Herttuankulma in Linnakaupunki. Among the City's ongoing renovation and construction projects, the largest ones were the renovations and construction at Pääskylvuori school and the construction at Sirkkala school and Tommila day care centre.



The City received a total of EUR 33.8 million in proceeds from divesting land, facilities and equipment. The net overrun in capital gains stood at EUR 0.9 million compared to the budget (EUR 32.9 million). EUR 32.1 million (EUR 17.6 million in 2020) in property sales profits were recorded. An adjustment of EUR -4.6 million to the property sales profits made in previous financial periods has been considered in the comparison data of 2020. The sales profits from land were exceeded by EUR 3.8 million compared to the budget (EUR 28.2 million).

EUR 26.6 million (EUR 9.5 million in 2020) in land use agreement compensations profits were recorded. Compared to the budget, the share of land use agreement revenue was exceeded by EUR 20.6 million (EUR 5.0 million in the budget). The market situation has led to a much faster construction of regions than anticipated, which has triggered the payment of land use agreement compensations at a faster rate than anticipated. The interest situation in the financial markets has also motivated contracting parties to pay their contractual compensations in a frontloaded manner.

## **Implementation of the infrastructure investment plan**

The investment expenditure in the development of the urban environment in 2021 was EUR 42.9 million in total (EUR 36.4 million in 2020). 44% of the investments went towards strategic spearhead projects. The share of infrastructure renovation projects that will reduce the overall renovation debt stood at 26% of the investment expenditure. The share of real estate development projects stood at 22% of the investment expenditure. 3% of the investment expenditure went towards ensuring the smoothness and safety of traffic. These investments covered repairs of the Aura River wall and improvements to the functionality of traffic lights and the transport network 3% of the investment expenditure was channelled towards projects that improve the comfort of local residents, including parks, outdoor recreation sites and playparks. Threshold investments that support operations, such as investments in the City's soil dumping areas, accounted for one per cent of the investment costs.

Delays in the planning phase of land use projects and infrastructure planning are reflected in the timing of investments and the transfer of plots. One of the most significant budget deviations in the construction of the urban environment was the construction of the Agricolankatu–Tehtaankatu route on the banks, which was postponed to 2022, as well as the implementation planning of Manillalaituri. The implementation of the Turku rail yard project has been postponed. The plan for Voimakatu is expected to be completed at the end of 2022. The entry into force of the planned area of Itä-Skanssi has been delayed, and the implementation of the plan has been postponed to 2023. The Fortuna block is not progressing, so the appropriation reserved for it was not used. The focus of the first phase of Topinoja circular economy park will be shifted to 2022. The start of the excavation contract in the Fabriikki area was postponed to early 2022. The construction of Herttuankulma will have more focus on the year 2022 than expected. The focus of planning of Pihlajaniemi will be shifted to 2022. The start of the construction of the steps of Michailow in the Kakola region was postponed to 2022. EUR 1.6 million of the appropriation reserved for gravel roads was unused due to delays with complaints and plans concerning street plans. Due to delays in the plans, the targets of the Sports Committee have been postponed to 2022 for EUR 0.5



million. The construction of Vaunukatu and Vaunuaukio will be postponed due to changes in the rail yard project.

The level of renovation and replacement investments in the City's common areas did not cover the share of depreciation of infrastructure assets as planned. In addition to investments, measures to reduce the renovation debt are carried out in infrastructure maintenance.

## **Implementation of the facility investment programme**

The investment expenditure in the development of the City operating premises in 2021 was EUR 13.9 million in total (EUR 13.1 million in 2020). An adjustment of EUR -3.6 million to the acquisition expenditure of investments made in previous financial periods has been considered in the comparison data of 2020. EUR 6.8 million of the investment appropriation was used on new construction projects and EUR 7.1 million was used on renovation and repair projects. New construction projects have also been carried out by using 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 use of the investment appropriation reserved for the construction of operating premises fell short by EUR 5.5 million. The most significant budget deviations in the construction of operating premises were the technical and operational changes to the Hannunniittu school facilities, for which corrections were not made in 2021. The repair project of Käsämäki fire station launched in 2022 will shift the focus of spending onto 2022. Likewise, the launch of the Nummi school house project at Nummenpakka school has been postponed to 2022. The investment list contains projects whose needs reports or project planning are still ongoing, and the reserved budget funding has not been used. These include Luolavuori school and Lyseo school. The Pienet hankkeet (small projects) list for operating premises construction was only completed in 2021, which had some impact on the amount of work to be carried out in the summer. During the year, more projects were included by decisions made by the Facility Manager as necessary. The projects of 2022 were listed with the aforementioned decisions to start the planning process. In autumn 2021, we already managed to prepare some of the small projects of 2022 for competitive tendering. The level of renovation and replacement investments in the City's service buildings did not cover the share of depreciation of buildings as planned. In addition to investments, measures to reduce the renovation debt are carried out in operating premises maintenance.

The sharp, global rise of the prices of construction materials had an impact and continues to have an impact on all the tender prices available and on the tenderers' willingness and ability to tender. In particular, the prices of small contracts rose to a much higher level than anticipated, which is why some work was not carried out in 2021. The increase of the prices of construction materials will also have an increasing impact on the building expenditure index, which will also be considered in the cost estimate in 2022 and consequently in the appropriation provisions. The same applies to infrastructure construction.

## **Other investments**

The City spent a total of EUR 32.2 million in land procurement and reclamation of buildings, of which EUR 2.0 million went to land procurement and EUR 30.2 million to buildings (EUR 4.5 million in 2020 financial statements). An adjustment of EUR -1.0 million to the acquisition expenditure of investments made in previous financial periods has been considered in the comparison data of 2020. The most significant reclamations were the Viking Line terminal for EUR 17.8 million and the Rettig property for EUR 12.0 million. For affiliates, share acquisition costs and investments in subsidiary shares and other shares stood at EUR 34.8 million in total (EUR 0.8 million in 2020 financial statements).

EUR 9.5 million was invested in the development of city-level IT and information systems (EUR 10.6 million in 2020), while EUR 11.2 million was invested in the procurement of equipment and other non-current assets (EUR 10.4 million in 2020).

## Financial position and its changes

The City's liquidity remained good throughout the year. At the end of 2021, the City's cash reserves amounted to EUR 83.2 million (EUR 139 million in 2020 financial statements), not including investments in the City's own funds. Cash reserves decreased by EUR 55.8 million in 2021. The cash reserves consisted only of cash, deposits in a payment transaction accounts and other deposits. The level of the cash reserves has had to be lowered due to penalty interests imposed by banks, i.e., negative deposit fees. During the year, the cash reserves were EUR 10.3 million at their lowest and EUR 163.5 million at their highest. On average, the cash reserves stood at EUR 77.5 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.

At the end of 2021, the City had EUR 610.0 million in long-term loans (EUR 574 million in 2020), including the following year's repayments- The total amount of long-term loans increased by EUR 35.8 million over the course of the year. In 2021, the repayments of long-term loans stood at EUR 54.2 million and new loans were withdrawn in the amount of EUR 90.0 million. Short-term interest-bearing debt also includes EUR 122.0 million in deposits by subsidiaries and EUR 13.7 in deposits by personnel financial services, resulting in a total of EUR 135.8 million. Short-term local government paper limits were used in accordance with the budget and the City Board's loan plan to balance the fluctuations in cash reserves during the year. 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. A total of EUR 50.0 million in local government papers had been issued at the turn of the year (EUR 0 in 2020).

This brought the loan portfolio, i.e., the total sum of interest-bearing debt, to EUR 795.8 million at the end of 2021 (EUR 712.8 million in 2020) and the debt was increased by EUR 83.0 million during the year. The growth was due to an increase in company deposits and long-term and short-term loans during the year. The interest expenses of the total interest-bearing debt (incl. hedging costs) were EUR 8.2 million with an effective interest rate of 1.40%. A 1% increase in the interest level would reduce the interest cost of the loan portfolio (incl. hedges) to about 1.05%.

At the turn of the year, the City had EUR 770 million in hedges against interest increases affecting the total interest-bearing debt. Of these hedges, EUR 270 million were implemented with loans with a fixed interest rate and EUR 500 million with interest rate swaps with a maturity period of over a year. At the turn of the year, the hedge ratio was about 97%, which means that the City's interest costs will not increase as interests climb. Instead, the costs will decrease, as an increase of short-term reference rates (Euribor) would reduce the payable cash flow for variable interest rates under interest rate swaps. The total nominal value of the open interest rate swaps was EUR 630 million. At the end of the year, the fair value of the interest rate swaps related to the hedges was EUR -30.4 million. In 2021, only one interest rate swap with a capital of EUR 50 million was implemented, which hedged the future loan portfolio.

At the end of the year, the long-term lending portfolio was EUR 569.6 million (EUR 482.9 million in 2020), while the subsidiaries' short-term credit limit debt connected to the Group account was EUR 38.1 million (EUR 41.8 million in 2020). Long-term lending receivables from subsidiaries saw a net increase of EUR 86.8 million during the year. Primarily, the increase took place with regard to loans granted to the TVT Asunnot Oy group (EUR 63.9 million) and Koy Turun Syvälahden ja Yli-Maarian koulut (a total of EUR 28.8 million). Sufficient protective counter securities have been received for the loans in accordance with the Local Government Act, or the companies have committed to providing them to the city.

The guarantee liabilities of EUR 270.2 million decreased by EUR 10 million (EUR 280 million in 2020) during the year. The most substantial guarantee liabilities are to Turun Seudun Vesi Oy (EUR 103.7 million) and Turun Seudun Puhdistamo Oy (EUR 79.2 million). The reduction in guarantee liabilities was due to normal repayments of loan principal for which the guarantee was originally granted. 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, despite the low interest level in 2021 and the prolonged uncertainty in the stock market caused by the COVID-19 pandemic. At the end of the year, the damages fund had EUR 51.9 million in capital and the profit was EUR 3.1. million. The fair return, or market return, of the damages fund was EUR 4.5 million, which corresponds to an annual yield of about 9.8%. At the end of the year, the donation funds had EUR 27.5 million in capital and the profit was EUR 1.8. million. The fair return, or market return, of the donation fund was EUR 3.0 million, which corresponded to an annual yield of about 11.3%. The result of the donation funds will not be consolidated with the result of the City's parent organisation.

At the end of the year, the damages fund allocation was as follows: equity funds and EFT investments 37% and interest investments 63% of the fund's market value. The corresponding allocation for donation funds was as follows: equity funds and EFT investments 51% and interest investments 49% of the fund's market value. In practice, both funds have discontinued direct share investments and have shifted to using passive and cost-efficient exchange-traded funds (ETFs).

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. On 7 December 2020, the City Board also approved a loan withdrawal and investment plan for 2021, which steered more specifically the selection of fund allocations and investment instruments. As a general rule, the weight of city fund share instruments in any portfolio must not exceed 50% of the fund's capital. 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. The investment committee met regularly during 2021.

## Analysis of the balance sheet

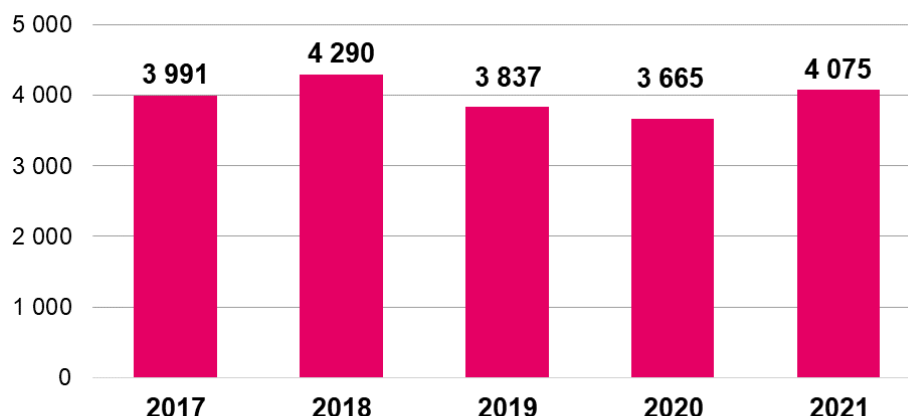
At the end of the financial year, the balance sheet total was EUR 1,927.7 million. The increase compared to the previous year was EUR 139.6 million (7.8%). The surplus for the financial period increased equity by EUR 39.0 million (4.8%). The equity ratio increased by 1.4 percent points, being 44.2% at the end of the year (45.6% in 2020 financial statements). 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 increased by EUR 86.7 million from the previous year. This change was mainly the result of an increase in intra-group loans to group organisations.

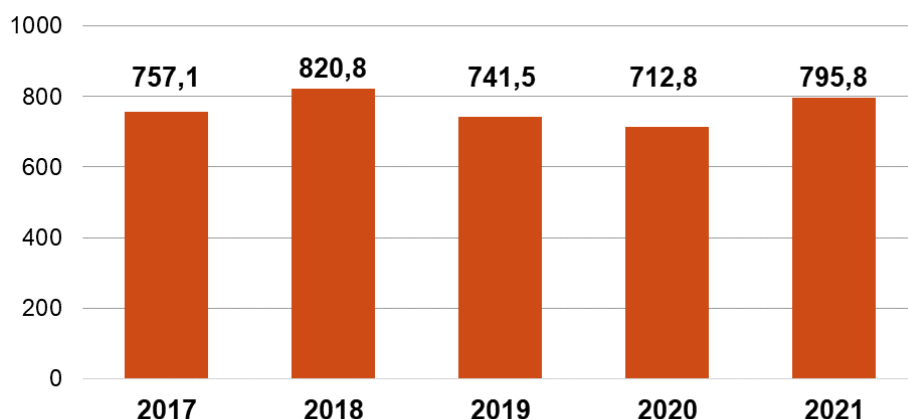
The surpluses/deficits accumulated in the previous financial years include extraordinary non-recurring items that have a total impact of roughly EUR 173.8 million. The most relevant of these are mentioned below: The sale of the business operations of Turun Puhelin in 1997 yielded EUR 45.5 million in 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 5.2 million more than in the previous year, primarily due to the increase in environmental responsibility provisions.

### Loan portfolio 2017–2021 per capita, €



### Loan portfolio 2017–2021, € million



At the end of the year, the loan portfolio was EUR 795.8 million, changing by EUR 83.0 million from the previous year.

The loan portfolio per capita was EUR 4,075 (EUR 3,667 in 2020 financial statements).

Relative indebtedness was 65.9% 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 1.4 percent points from the previous year (64.5% in 2020 financial statements). Total loans and rent liabilities in the amount of EUR 1,162,0 million, up EUR 82.0 million (7.6%) on the previous year. According to the preliminary data on the population, loans and rental liabilities per capita amounted to EUR 5,950, which means an increase of EUR 394 per inhabitant from the previous year.

## Consolidated financial statements and key figures

The City of Turku controls 63 subsidiaries, of which 54 are consolidated in the consolidated financial statements. Of the consolidated subsidiaries, three are foundations and 26 are housing and real estate companies. There are 25 consolidated associated entities and three joint municipal authorities. Three subsidiaries and five 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 79.3 million (a surplus of EUR 34.9 million in 2020 financial statements). The Government supported the loss of local government tax revenue as one-off support measures by increasing central government grants for basic services and by continuing the temporary 10% increase in corporate tax, which amounted to approximately EUR 27.3 million. Turku received a total of EUR 46.5 million in activity-specific government grants. In 2021, the financial statements of the Hospital District of Southwest Finland include a total of EUR 21.7 million in government grants received to cover coronavirus costs, of which Turku's calculated share under the consolidated financial statements is about EUR 6.6 million (consolidation percentage 30.5%). At the Group level, a total of approximately EUR 80 million in coronavirus subsidies for municipalities and joint municipal authorities was received.

The Group's annual margin was EUR 243.6 million (EUR 190.7 million in 2020 financial statements), which can be used for the Group's investments and loan repayments. The Group's annual margin per capita, EUR 1,247, improved by EUR 266 from the previous year (EUR 981 in 2020 financial statements). The euro per capita for 2021 was calculated according to the preliminary data on the population of Turku (195,301), provided by Statistics Finland. The annual margin covered 161.0% of the depreciations according to plan (129.6% in 2020 financial statements).

The Group's operating margin was EUR -1,010.0 million, which was weaker than in the previous year (EUR -1,005.3 million in 2020 financial statements). The change is affected by the change in the form of the Government's coronavirus aid from central government transfers to action-specific central government grants. A comparable change in operating margin, adjusted for the previous year, would be about EUR 43 million (4.3%).

### Financing the Group's operations and investments

The Group's investment expenditure was EUR 348.7 million in total (EUR 240.3 million in 2020). 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 140.8 million
- Turku Student Village Foundation of Turku EUR 13.1 million

- Varsinais-Suomen Asumisoikeus Oy EUR 27.9 million
- TVT Asunnot Oy Group EUR 76.0 million
- Turku Energia Oy Group EUR 35.3 million
- Joint Municipal Authority of the Hospital District of Southwest Finland, Group EUR 10.2 million

The investment costs of Student Village Foundation of Turku, the majority of which went towards the construction of Tyyssija, the renovation of Kuunsilta stairways F–X, and the design of Kylänkulma.

The demand for right-of-occupancy housing of Varsinais-Suomen Asumisoikeus Oy was still strong across all ownership types. At the end of 2021, a total of 160 apartments were under construction in Raisio, Kaarina and Turku. No new right-of-occupancy housing units were completed in 2021. Investments were made in the existing properties through a variety of measures including renovations, four of which were completed in 2021 and initiated in five properties. The coronavirus pandemic did not cause a significant deviation in the initiation of investments or their costs during the year under review. The realisation of investments is influenced by the availability of Ara plots, the timetable for building permits and the timetable for Ara funding.

For TVT Asunnot Oy, the most important investment targets in 2021 were the residential buildings completed in Hirvensalo and Kaarina, the residential buildings being constructed in Hirvensalo, the harbour area, Länsikeskus, Pääskyvuori and Skanssi, the renovation projects in Perno and Moisio, and the day care centre projects in Sofiankatu and Akselintie.

Turku Energia Oy's actual investments mainly focused on the improvement and maintenance of the 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 focused on Suomen Hyötytuuli Oy and Voimaosakeyhtiö SF.

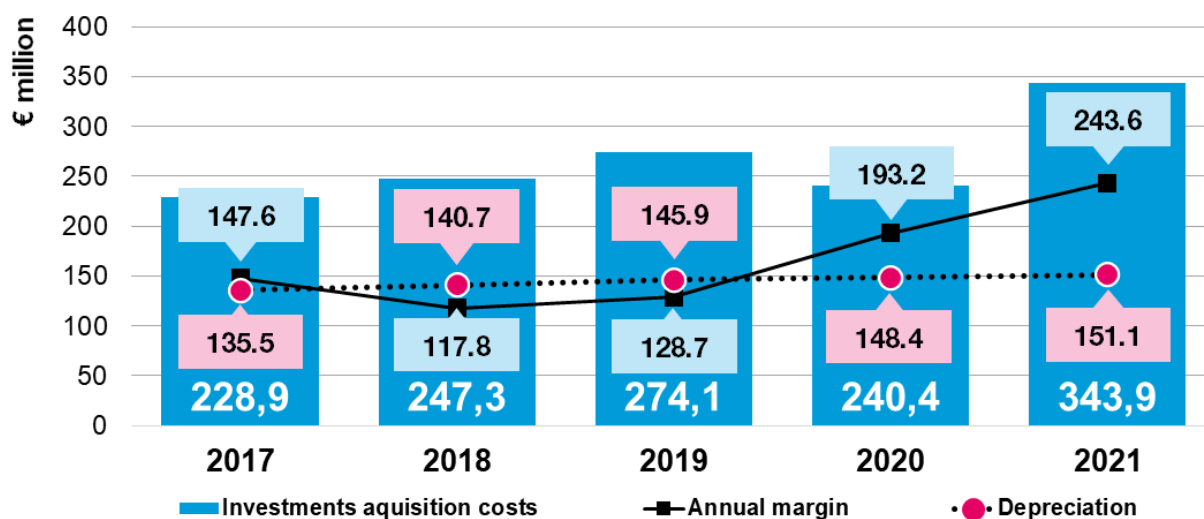
The investments of the Hospital District of Southwest Finland mainly focused on property renovations, refurbishments and modifications as well as acquisitions of research and treatment equipment.

More details about the City of Turku's investments are provided in the annual report's Section 3.2. on the funding of operations.

The investment acquisition cost was EUR 343.9 million. The Group's operating cash flow, EUR 196.5 million, improved by EUR 31.6 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 2017–2021



The capital gains amounted to EUR 56.7 million (EUR 26.4 million in 2020 financial statements). The Group's cash flow from operations and investments was negative by EUR 90.7 million (EUR -44.4 million in 2020 financial statements). The Group's combined total cash flow from operations and investments for the financial year and the previous four years is negative by EUR 408.8 million (EUR -335.8 million in 2020 financial statements). This accumulation was EUR 73.0 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 period, the Group took out EUR 169.6 million in long-term loans and paid off EUR 103.6 million. The additional investments in the right-of-occupancy fund of Southwest Finland increased the Group's equity by EUR 2.3 million.

## The Group's financial position and its changes

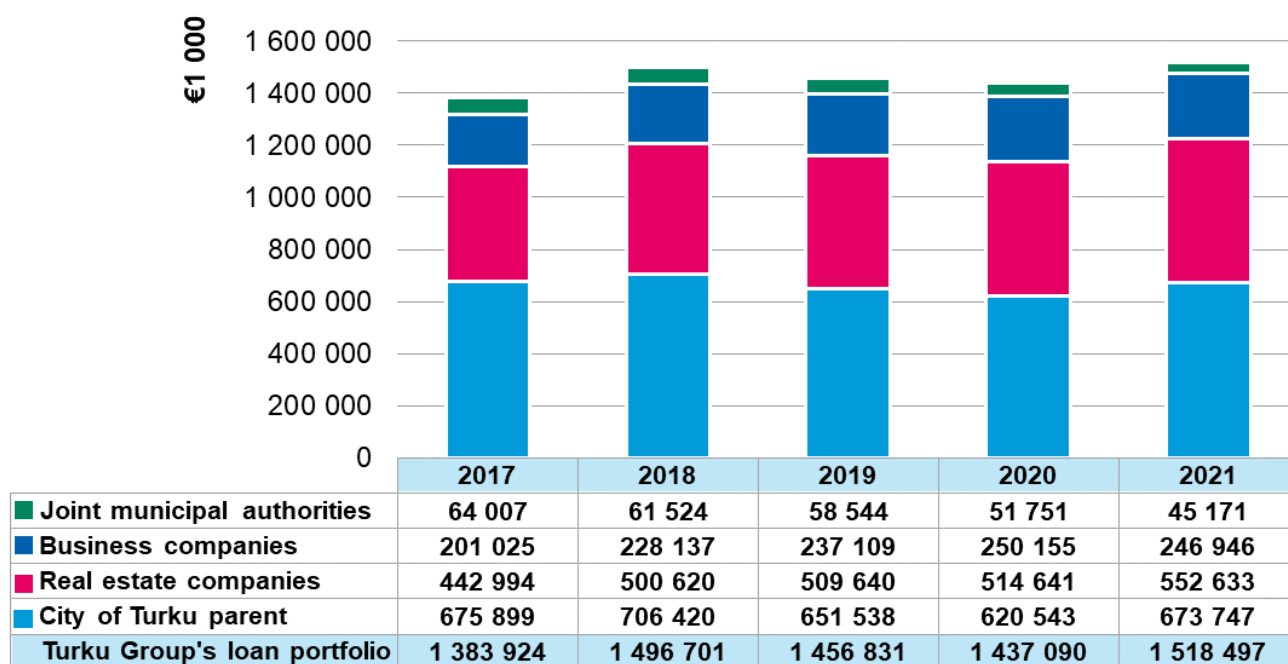
Turku Group's interest-bearing loan portfolio was EUR 1,518.5 million at the end of the financial period (EUR 1,437.1 million in 2020 financial statements). The Group's loan portfolio includes a total of EUR 13.7 million in the personnel financial services' deposits as interest-bearing short-term loans (EUR 46.3 million in 2020 financial statements). The loan portfolio increased by EUR 81.4 million (a decrease of EUR 19.7 million in 2020 financial statements). The Group's loans per capita were EUR 7,775 (EUR 7,393 in 2020 financial statements) according to the preliminary population data for 2021. The loans per capita increased by EUR 382 per capita from the previous year.

Of the Group's interest-bearing loan portfolio, 37% pertains to the real estate and housing business (36% in 2020 financial statements) and 16% to other business operations (17% in 2020 financial statements). Joint municipal authorities accounted for 3% of the loan portfolio.



(4% in 2020 financial statements), while the City of Turku accounted for 44% (43% in 2020 financial statements). The City of Turku's share of liabilities includes EUR 567.5 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 106.2 million (EUR 140 million in 2020 financial statements) of the Group debt, while the Group's subsidiaries and joint municipal authorities are left with EUR 1,412 million (EUR 1,297 million in 2020 financial statements). The subsidiaries' and joint municipal authorities' share of the adjusted loan portfolio has increased by EUR 115 million, while the City's share has decreased by EUR 39 million from the previous year.

### Turku Group's loan portfolio €1 000



The Turku Group's whole loan capital was EUR 2,030.7 million at the end of the year (EUR 1,876.8 million in 2020 financial statements). The growth from the previous year was EUR 154.0 million.

The Group's loans and rental liabilities amounted to EUR 2,137.4 million at the end of the financial year (EUR 2,017.7 million in 2020 financial statements). The Group's equity ratio was 37.7% (38.0% in 2020 financial statements). Relative indebtedness was 86.4%, which represented a decrease from the previous year (86.9% in 2020 financial statements). 86.4% of the Group's operating revenue would be required to repay all borrowed capital.

### Material events concerning the Group after the finalisation of the financial statements and an assessment of probable future trends

Uusikaupunki has become a shareholder in Lounais-Suomen Jätehuolto Oy on 1 January 2022 – the total number of shares in the company has increased to 53,509, and the

number of shares in Turku has remained unchanged (12,018 shares). Turku's shareholding in the company has also fallen to 22.46% (previously 23.00%).

On 21 June 2021, the City Board of Turku approved the Section 302, transfer of business of Turku's occupational health care operations to the Länsirannikon Työterveys Oy as of 1 January 2022. The shares of Länsirannikon Työterveys Oy have been purchased (ownership and possession rights transferred on 1 January 2022) as follows: The City of Turku 220 pcs, Turun Kaupunginteatteri Oy 2 pcs, Turun Vesihuolto Oy 2 pcs ja Turun ammattikorkeakoulu Oy 2 pcs. Turku and its subsidiaries own 226 of the 1,100 shares in the company in question, or 20.55%. Länsirannikon Työterveys Oy is an associated company of the Turku Group.

On 31 January 2022, the City Board decided to establish a company called Visit Turku Archipelago Oy. At the same time, the City Board decided to launch preparations for the transfer of business, in which the operations and personnel of tourism development in the Turku region will be transferred to the company to be established. The City owns 100% of the company's shares.

On 31 January 2022, the City Board decided to establish a project company called Turun Raitiotie Oy for the preparation of the implementation plan for the tramway project. The City owns 100% of the company's shares.

No known material future changes.