

# **Annual report of 2019 from the perspective of economy, Turku University of Applied Sciences Ltd**

## **The economy of Turku University of Applied Sciences Ltd still stable**

**In total, the financial result of Turku University of Applied Sciences Ltd can be deemed very reasonable.**

The company's economy remained stable and the operational volume increased.

The company's economy remained stable in 2019, even though the central government transfers including the strategic funding decreased to 52.45 MEUR from 53.5 MEUR in the previous year. The result of the financial year is 29 086 EUR positive (0.04 percent of the turnover), when the budgeted performance target was 16 777 EUR.

Despite the decrease in central government transfers, the volume of the company's operations increased from the previous year, which indicates the strengthening of other sources of income. The total income of the company, 71.38 MEUR (69.1 MEUR in the previous year) exceeded the budgeted performance target of 70.71 MEUR. Equivalently, the total costs of the company in 2019, altogether 71.35 MEUR (68.8 MEUR in the previous year) exceeded the budgeted costs of 70.69 MEUR.

## **A consequence of increased research, development and innovation activities**

The increase in the level of results is especially a consequence of the increased research, development and innovation activities. The turnover includes the yield from the fundraising in 2019 and the Ministry's matched funding, 1.9 MEUR in total, which has in the financial statements been transferred to the shareholders' equity of the company balance sheet.

The amount of external funding in research, development and innovation activities increased from 7.6 MEUR in the previous year to 10.24 MEUR, i.e. 14.35 percent of the total income. At the same time, the proportion of internal financing at TUAS continued to decrease to 21 percentage points from 24 percentage points in the previous year. The total funding of RDI activities was thus 12.9 MEUR. Measured with the amount of external funding, Turku UAS is one of the most successful universities of applied sciences in Finland.

The turnover of services for business increased to 1.76 MEUR (1.72 MEUR in the previous year), although the result before taxes lowered the equivalent sum to 134 000 EUR.

## **Large-scale procurements for improving premises**

The largest expense item of the financial year was personnel costs, 44 MEUR (43 MEUR in the previous year), which was 61.64 percent of the company's operational expenses. Despite the large-scale procurements aiming at improving the premises, we managed to enhance the second largest individual expense item i.e. facility costs from 13.16 MEUR in the previous year to 13.06 MEUR.

Furnishing the premises and renewing the operations, which started in 2017, has naturally for three years been seen as an increase in both the furnishings in the balance sheet and the number of depreciations which have an impact on the profit. The convertible bond loan granted for the building of the new campus was converted into a 12.53 percent shareholding of Turku Technology Properties Ltd.

## **The financial position remained stable**

The financial position of Turku University of Applied Sciences remained stable. This is demonstrated by the financial strength indicator, the equity ratio, which is at an excellent level at 69 percent (68.2% the previous

year). The best Rating Alfa credit rating, AAA, provided by Suomen Asiakastieto Oy, and the Strongest in Finland certificate also speak of our stable economy. These are a consequence of the company's positive economic indicators, creditworthiness, background data and good payment behaviour.

In total, the financial result of Turku University of Applied Sciences Ltd can be deemed very reasonable.

The company has 100 shares with a nominal value of 5 000 EUR each. Each share entitles to one vote in the shareholders' meeting. The purpose of the company is not to yield profit, nor does it pay dividend or produce other financial benefits to shareholders or other participants in its operations. Possible profits are used for the development of the company operations. (Shareholder agreement 17 Sep 2014, Universities of Applied Sciences Act 14 Nov 2014/932, Section 5)

### **Estimate of upcoming development**

Executing our strategy requires directing investments from traditional classrooms to laboratory and training facilities, utilized jointly with working life, and to virtual environments which support learning. The development work will especially be focused on the engineering laboratories in 2020. Improving staff and student satisfaction will play an important part in the upcoming years.

The major event of 2020 will be the implementation of the new campus building, EduCity. It will both change the organization's internal methods of operation and increase the cost structure according to plans made earlier.

In terms of our core operations, we estimate that the development continues to be stable. Results related to learning will develop a bit over the level of the national average. At the moment, all universities of applied sciences are in the process of greatly developing the optimization of learning operations, which is why maintaining the status of a large UAS requires notable development of operations.

The results of research, development and innovation activities seem to increase further in 2020, after which there will be a slump in the results due to the transition period in EU funding in 2021–2022. A risk in RDI funding is the decrease in national funding, but we have already started taking measures to increase the share of foreign funding. We predict that the turnover of business operations will continue to increase and the result-orientation to moderately improve in the next few years.

In the future, the company needs to expand its financing base. The government funding will not increase significantly, so reaching the goals requires strengthening the role of other sources of funding. At the same time, cooperation with the public and private business operators in the region needs to be enhanced.

In the upcoming years, the exceptional situation caused by the COVID-19 pandemic will create considerable uncertainty in the development of the results and economy. All turnover items (government funding, RDI activities, business) will experience uncertainty, which depends largely on the global economic development.

Tables on financial operations

<b>1. Change in operational volume</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
1.1 Change in turnover %	<b>5.4%</b>	<b>3.5%</b>
<b>2. Profitability of operations</b>		
2.1 Profit % * the profit from 2018 and 2019 includes the yield from the fundraising	*2,69%	*2.61%
2.2 Change in equity % (development of the HEI's own funds)	7.08%	9.5%
2.3 Income on investments in fair values %	2.13%	
<b>3. Liquidity</b>		
3.1 Quick ratio	1.3	1.3
3.2 Days cash on hand	31	49
<b>4. Financial solidity</b>		
4.1 Equity ratio %	69%	68.2%
4.2 Net gearing		

<b>Indirect funds flow statement</b>	<b>2019</b>	<b>2018</b>
	EUR	EUR
<b>Cash flow from operations</b>		
Profit/loss before extraordinary items (+/-)	1 995 816.23	2 125 653.98
Correction items to profit	1 423 540.59	757 158.72
Depreciation according to plan	1 513 386.69	1 107 479.49
Financial income and expenses	-89 846.10	-350 320.77
Cash flow before change in working capital	3 419 356.82	2 882 812.70
<b>Change in working capital</b>	<b>3 494 341.01</b>	<b>-1 123 280.40</b>
Increase/decrease in short-term, interest-free accounts receivable	4 365 971.25	-887 282.19
Increase/decrease in short-term, interest-free debts	-871 630.24	-235 998.21
<b>Cash flow from operations before financial items and taxes</b>	<b>6 913 697.83</b>	<b>1 759 532.30</b>
Paid interests and fees from other business financing expenses	-12 065.32	-13 527.14
Interests received from business operations	101 911.42	363 847.91
Assessed taxes paid (-)	-31 569.48	-19 631.20
<b>Cash flow from operations</b>	<b>6 971 974.45</b>	<b>2 090 221.87</b>
<b>Cash flow from investments</b>		
Investments in material and immaterial goods	-2 947 210.95	-2 409 242.20
Loans granted (-)	-4 025 000.00	
Capital investments in other investments (-)	-17 999 813.50	-25 000.00
Repayments of loans receivable	18 000 000.00	24 000.00
<b>Cash flow from investments</b>	<b>-6 972 024.45</b>	<b>-2 410 242.20</b>
<b>Cash flow from financing</b>		

Increase in shareholders' equity subj. to a charge, incl. investment in invested unrestricted equity fund	1 935 160.00	2 116 650.33
Cash flow from financing	1 935 160.00	2 116 650.33
Change in funds, increase (+) / decrease (-)	1 935 110.00	1 796 630.00
Funds in the beginning of the accounting period	10 050.00	400.00
Funds in the end of the accounting period	10 000.00	10 050.00

## Balance sheet

	31.12.2019	31.12.2018
	EUR	EUR
<b>FIXED ASSETS</b>	<b>27 447 971.90</b>	<b>25 989 145.64</b>
<b>Tangible assets</b>	<b>9 003 209.11</b>	<b>7 569 384.85</b>
Land and water	328 648.00	328 648.00
Buildings and structures	2 523 847.43	2 593 631.23
Fixed structures and equipment	712.40	762.98
Tools and equipment	4 732 641.30	2 500 219.13
Deferred income	1 417 359.98	2 146 123.51
<b>Investments</b>	<b>18 444 762.79</b>	<b>18 419 760.79</b>
Shares in group companies	362 759.79	362 759.79
Shares in associated companies	57 001.00	57 001.00
Other stocks and shares	18 000 002.00	0.00
Other receivables	25 000.00	18 000 000.00
<b>ASSETS IN COMMISSIONS</b>	<b>69 688.38</b>	<b>69 876.88</b>
Assets in commissions	69 688.38	69 876.88
<b>VARIABLE ASSETS</b>	<b>17 057 890.64</b>	<b>17 423 911.89</b>
<b>Receivables</b>	<b>17 047 890.64</b>	<b>17 413 861.89</b>
<b>Long-term receivables</b>	<b>4 000 000.00</b>	
Other receivables	4 000 000.00	
<b>Short-term receivables</b>	<b>13 047 890.64</b>	<b>17 413 861.89</b>
Receivables	675 840.77	1 265 134.10
Intra-group receivables	5 863 986.60	11 610 295.27
Other receivables	1 945 398.61	1 443 835.97
Accrued charges	4 562 664.66	3 094 596.55
Financial securities	10 000.00	10 000.00
Other stocks and shares	10 000.00	10 000.00
<b>Cash in bank</b>	<b>0.00</b>	<b>50.00</b>
<b>TOTAL ASSETS</b>	<b>44 575 550.92</b>	<b>43 482 934.41</b>
<b>EQUITY</b>	<b>29 799 758.63</b>	<b>27 835 511.88</b>
Share capital	500 000.00	500 000.00
Share capital	500 000.00	500 000.00
Other funds	23 819 188.47	21 884 028.47
Reserve for invested unrestricted equity	19 962 010.99	19 962 010.99
Other funds	3 857 177.48	1 922 017.48
Retained earnings	5 451 483.41	5 132 440.63
Profit (loss) for the financial period	29 086.75	319 042.78

<b>CURRENT LIABILITIES</b>	<b>14 775 792.29</b>	<b>15 647 422.53</b>
<b>Short-term</b>	<b>14 775 792.29</b>	<b>15 647 422.53</b>
Payables	1 460 868.99	1 225 071.34
Intra-group loans	747 498.96	588 967.52
Other liabilities	3 979 770.99	3 353 006.02
Deferred credits	8 587 653.35	10 480 377.65
<b>TOTAL LIABILITIES</b>	<b>44 575 550.92</b>	<b>43 482 934.41</b>

## Income statement

	1.1. - 31.12.2019	1.1. 3 31.12.2018
	EUR	EUR
<b>REVENUE</b>	<b>70 680 119.52</b>	<b>68 033 395.28</b>
<b>Other operating income</b>	<b>596 574.69</b>	<b>705 920.47</b>
<b>Raw materials and services</b>	<b>-1 890 052.16</b>	<b>-2 162 273.13</b>
Raw materials and consumables	-530 262.80	-550 850.85
Purchases during the financial year	-530 262.80	-550 850.85
External services	-1 359 789.36	-1 611 422.28
<b>Staff expenses</b>	<b>-43 981 395.12</b>	<b>-43 021 567.15</b>
Wages and salaries	-36 353 625.82	-35 362 482.25
Social security expenses	-7 627 769.30	-7 659 084.90
Pension expenses	-6 366 100.48	-6 415 099.27
Other social security expenses	-1 261 668.82	-1 243 985.63
<b>Depreciation and reduction in value</b>	<b>-1 513 386.69</b>	<b>-1 107 479.49</b>
Depreciation according to plan	-1 513 386.69	-1 107 479.49
<b>Other operating expenses</b>	<b>-21 985 890.11</b>	<b>-20 672 662.77</b>
<b>OPERATING PROFIT (LOSS)</b>	<b>1 905 970.13</b>	<b>1 775 333.21</b>
<b>Financial income and expenses</b>	<b>89 846.10</b>	<b>350 320.77</b>
Income from other investments held as non-current assets	99 000.00	360 000.00
From others	99 000.00	360 000.00
Other interest income and other financial income	2 911.42	3 847.91
From others	2 911.42	3 847.91
Interests and other financial expenses	-12 065.32	-13 527.14
To others	-12 065.32	-13 527.14
<b>PROFIT (LOSS) BEFORE EXTRAORDINARY ITEMS</b>	<b>1 995 816.23</b>	<b>2 125 653.98</b>
<b>PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES</b>	<b>1 995 816.23</b>	<b>2 125 653.98</b>
<b>Year-end allocations</b>	<b>-1 935 160.00</b>	<b>-1 786 980.00</b>
Addition to (-) or reduction from (+) funds	-1 935 160.00	-1 786 980.00
Income taxes	-31 569.48	-19 631.20
Taxes during the financial year	-31 569.48	-19 631.20
<b>PROFIT (LOSS) OF THE FINANCIAL YEAR</b>	<b>29 086.75</b>	<b>319 042.78</b>