



 Riigi Kinnisvara

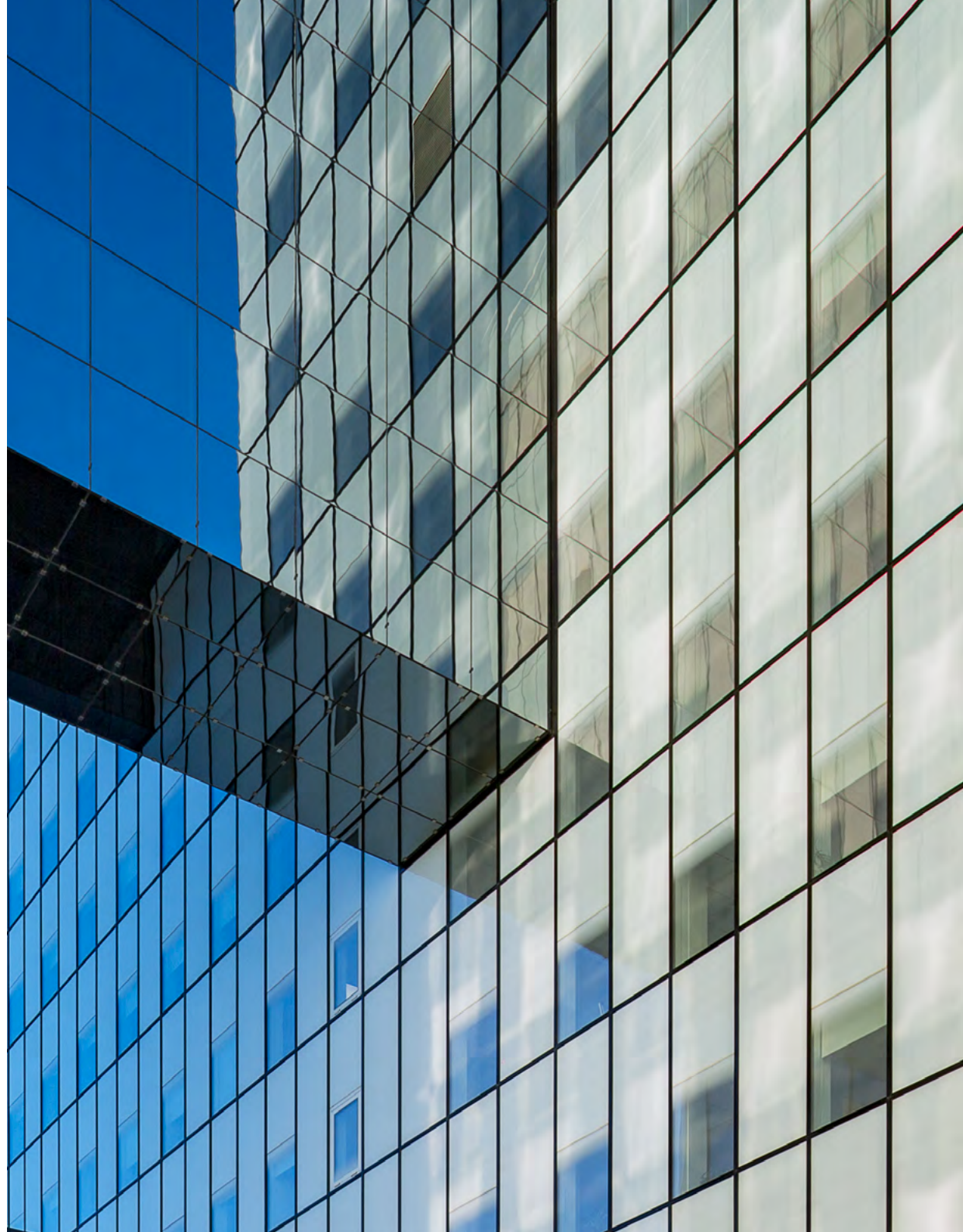
# ANNUAL REPORT 2017

# BRIEF OVERVIEW OF THE COMPANY

Riigi Kinnisvara AS (RKAS) is an enterprise established in 2001 and engaged in development and management of real estate, with 100% of shares in the ownership of the Republic of Estonia.

RKAS as Estonian national centre of excellence operates in the field of real estate management. Main customers include state agencies and public service providers, to whom the company provides property management, development and advisory services. The RKAS group also includes subsidiary OÜ Hooldus Pluss, which provides property maintenance services in special-purpose facilities.

Main function of RKAS consists in reorganisation, more transparent and efficient development and management of real estate taken over from the state, and transfer of real estate unnecessary for governance purposes.



# CONTENTS

## 4 MANAGEMENT REPORT

### 4 RIIGI KINNISVARA AS IN 2017

- 4 Performance indicators
- 5 Address of the Chairman of the Management Board

### 8 ABOUT THE COMPANY

- 8 Strategy of the state's real estate activity
- 10 Strategy of RKAS

### 14 ECONOMIC ACTIVITIES

- 14 Economic performance
- 15 Development trends in financial year 2018
- 17 Procurement activities
- 22 Service portfolio
- 28 Investments, real estate valuation and improvements
- 32 Customers
- 35 Membership of associations
- 36 Employees

### 42 ENVIRONMENT

- 42 Energy consumption and efficiency
- 42 Energy and water consumption by company
- 46 Energy efficiency projects

### 50 GOVERNANCE

- 50 Organisation management
- 50 Report on Good Company Management Practice
- 57 Risk management

## 60 GRI CONTENT INDEX

- 60 Structure of Annual Report
- 60 Assessment of Importance
- 62 GRI Content Index

## 65 ANNUAL ACCOUNTS AND NOTES

# MANAGEMENT REPORT

## RIIGI KINNISVARA AS IN 2017

### Performance indicators

No. of immovable properties:

**824**  
(1,221 buildings)

Closed net area of buildings in portfolio:

**1,139,757 m<sup>2</sup>**

Return on asset portfolio:

**8.4%**

Vacancy rates across portfolio:

**29%**  
(incl. vacancy rates in management portfolio 7%)

Number of employees at the end of the year:

**217**

Number of immovable properties taken over during the year:

**55**

Number of properties sold during the year:

**108**

Sales revenue:

**106.2** million euros

Operating profit:

**17.8**  
million euros

Net profit:

**16**  
million euros

Level of investments:

**77.2**  
million euros

Organised public procurements:

**773**  
procurements for 55 million euros

## Address of the Chairman of the Management Board

Dear reader,

**The year 2017 was successful for Riigi Kinnisvara AS, but it also involved changes. As a new member of the team of Riigi Kinnisvara AS, I wish to look into the future and focus on continued development of the real estate centre of excellence. We aim at greater participation in shaping the state's real estate policy and act as a strategic partner to the state in the real estate sector.**

The reform of improved state real estate has not been completed yet. Grouping the state's real estate in a single centre of excellence will give more time and resources for better governance. By the end of 2017, the portfolio of Riigi Kinnisvara AS contained 1,221 buildings with closed net area of more than 1.1 million square metres. Approximately 800,000 square metre area still awaits delivery to Riigi Kinnisvara or conclusion of management agreement.

One of the most important objectives of Riigi Kinnisvara AS during recent years has consisted in improvement of customer service. We wish to ensure optimum price-quality ratio of the services provided to state agencies, as well as transparent and understandable pricing principles. The same subjects will remain in focus in 2018. Additionally, we try to increase the flexibility of the company in order to provide even better support to the operation of our customers.

Last summer, Riigi Kinnisvara AS organised in Tallinn the annual conference of the Workplace Network W4, a global network of companies engaged in the management and development of state's real estate. The subject of the conference was "Service design in public sector". Service design and adding value to customers are two central keywords in the objectives of Riigi Kinnisvara AS for 2018 and in further activities. We wish to create clear and need-based common share between our services and

customer's wishes, to support valuation and efficient use of state's real estate.

One of the largest and most interesting real estate development projects in 2017 was the joint building for ministries at Suur-Ameerika 1 in Tallinn. The building accommodating several ministries represents a unique cooperation project between public and private sector in our region, primarily in conceptual and economic terms. Spatial planning of the joint building makes partial use of activity-based free spatial solution of personal workplaces, which is an innovative and bold solution in Estonian public sector. It has excited interest also outside Estonia. Another significant site of Riigi Kinnisvara AS completed last year was the office and laboratory building of the Health Board, featuring low energy consumption and sustainable technologies. Thirdly, I would like to mention the completion of large-scale renovation works and reopening of Ugala Theatre in Viljandi.

Conclusively, total annual investments reached 77.2 million euros and repair works were performed for 12.3 million euros. In 2017 there was a successful issue of debt instrument in the amount of 48.5 million euros, which will be used to finance investment properties that are crucial for the state.

Põlva State Gymnasium completed last year is an excellent example of nearly zero energy building. From 2019 onwards, the design of all public buildings will have to comply with the criteria for similar class A energy label. Moreover, new buildings of Riigi Kinnisvara AS shall be designed by using Building Information Modelling (BIM), a technology that has crucial importance for creation and dissemination of digital building information in view of improved performance and quality of the construction sector. In summer, Riigi Kinnisvara AS and the Ministry of Economic Affairs and Communications, Port of Tallinn, Tallinn City Government and Road Administration signed the declaration of common intent concerning digital building. We

aim to share our knowledge and experience in the field of digital construction, thus facilitating the development of private sector in terms of digital construction. In case of new public buildings, Riigi Kinnisvara AS intends to pay great attention to solutions for improving accessibility and working environment, development of which could serve as an example for the private sector.

Last year we started construction works at several meaningful sites, the results of which will be visible this year. Education landscape will improve by addition of contemporary state gymnasiums in Rapla and Viimsi and the Tallinn European School to be completed in summer. In the beginning of this year, brand new premises were handed over to rescue crews in Vändra and Vastse-liina. By the end of summer, the memorial to victims of communism and officers' monument will be completed at Maarjamäe in Tallinn; other new buildings include Tallinn courthouse at Lubja Street and new complex of Tallinn Prison in Rae rural municipality. The development of comprehensive solution of Patarei Sea Fortress and its sur-

rounding area will continue; the said area will also increase its value after the completion of the eu-LISA building in summer.

Company's increasing capacity as well as environmental changes and advances require constant work in team and process development. Public sector needs to find new ways for cost optimisation. The vision of Riigi Kinnisvara consists in creating a real estate solution that proceeds from the specific features of the functions of state agencies and that is the most optimal, efficient and sustainable for the state as a whole. We will do our best to ensure good quality, energy efficiency and prudent management of the real estate environment for our customers.



**Kati Kusmin**  
**Chairman of the Management Board**



**JOINT BUILDING FOR MINISTRIES IN TALLINN**

# About the company

## Strategy of the state's real estate activity

The strategy of the state's real estate activity (Ministry of Finance, 2007<sup>1</sup>) sets out four main objectives.

**Main objective I:** to ensure the development of the real estate required by the state to the level determined by contemporary requirements in the best possible social, ecological, spatial design and economical way, taking into account that requirements change over time and developing the financial models required for the execution of these tasks.

**Main objective II:** to ensure the administration and maintenance of the real estate required for performing public functions in compliance with modern standards and in the most economically effective manner.

**Main objective III:** to ensure that disused real estate is transferred to economic circulation in the most effective way for the state, taking into account the long-term

perspective of the development of the state real estate.

**Main objective IV:** to ensure the comprehensive and coordinated management of the development, administration and maintenance activity of real estate required to perform public functions, the creation of the essential organisational foundations, legal regulations and information systems and a motivation mechanism.

The sole shareholder set the following strategic goals for RKAS in 2016.

1. To be a centre of excellence for the provision of a property environment and services to state agencies.
2. To centralise and optimise the property used by the state and its expenses.
3. To develop the company and the state's real estate competence by being a strategic partner to the Ministry of Finance.

4. To cooperate with the private sector in order to guarantee the best solutions for state agencies in market competition.

The general strategy of the state's real estate activities foresees a transition from decentralised management of real estate to a comprehensive management system that allows for more effective development and organisation of the real estate environment. The objective of comprehensive real estate management is to achieve and maintain the scale effect of expenses and economically better justified decisions in conditions where resources are limited and balanced responsibility. According to the strategy, the majority of the state's property will be transferred to RKAS, the centre of excellence that can develop and manage it more transparently and efficiently, and organise the sale of property that is not required.

The activities of RKAS depend largely on how quickly the state delivers its real estate. RKAS estimates that the optimal volume of building delivery is 200,000 m<sup>2</sup> per year. If this pace is maintained, state buildings could be delivered to RKAS by the end of 2020. Until now, the volumes of real estate delivered have been smaller than expected over the years.

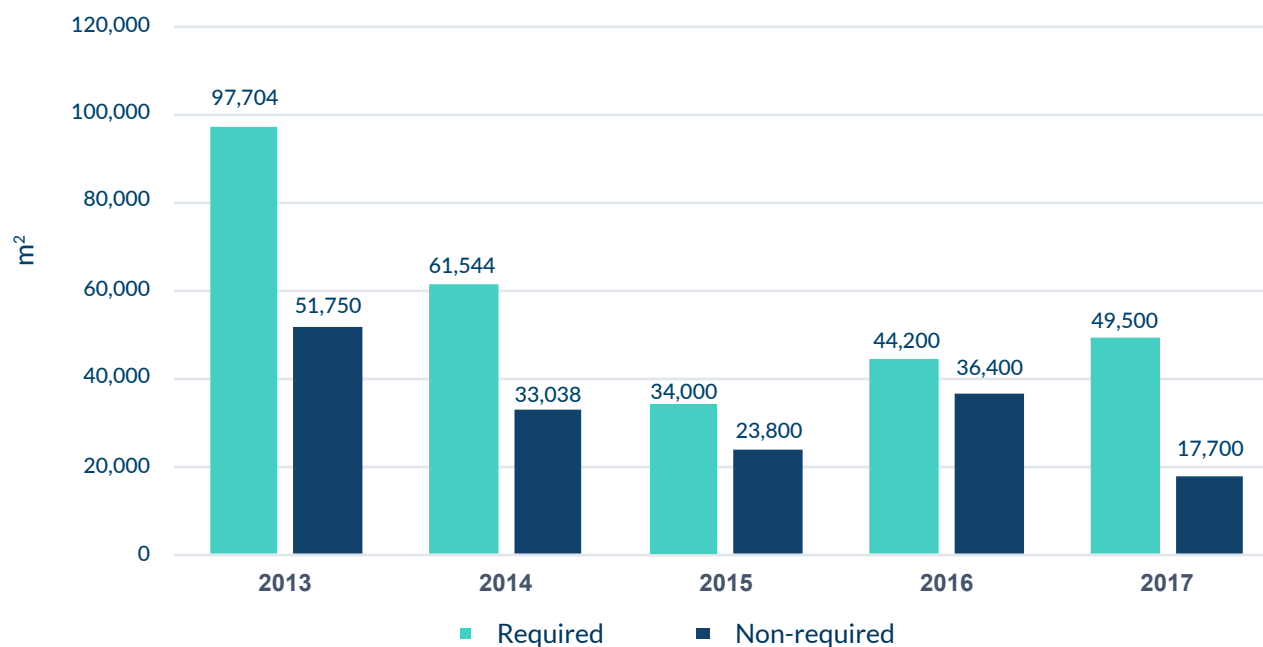
### Real estate in state ownership by governance at the end of 2017

Administrator of real estate	Area of registered real estate, m <sup>2</sup>	Share
Ministry of Finance	1,804	0%
Ministry of the Interior	83,239	11%
Ministry of Rural Affairs	53,176	7%
Ministry of Education and Research*	536,566	68%
Ministry of Cultural Affairs	34,037	4%
Ministry of the Environment	20,897	3%
Ministry of Foreign Affairs**	8,950	1%
Ministry of Economic Affairs and Communication	45,093	6%
<b>Total</b>	<b>783,762</b>	<b>100%</b>

\* In 2018, MER shall deliver approximately 400,000 m<sup>2</sup> under management agreement.

\*\* Most likely will not be delivered.

### Premises delivered to RKAS (m<sup>2</sup>)



## Strategy of RKAS

Based on the strategy of the state's real estate activities, the strategy of RKAS as the state's real estate centre of excellence for 2017–2020 is phrased as follows:

- to maintain and save more on maintenance due to the scale effect with continuing centralisation and efficient organisation of work;
- to maintain and develop competencies for the optimisation of the real estate used by the state by both area of administration and geographic location;
- to complete describing leased premises as the core service of RKAS; to create packages of services and products that consider the duties and functions of state agencies alongside a transparent and understandable pricing model;
- to guarantee readiness for developing the property environment according to dynamic requirements, incl. by considering the present-day aspects of energy efficiency<sup>2</sup>, environmental sustainability and user-friendliness.

<sup>2</sup> Energy efficiency is the estimated or measured quantity of energy required for the satisfaction of the energy demand related to the typical use of the building, which covers the energy consumed for heating, cooling, ventilation, heating water and lighting. We will reduce the environmental impact caused by activities which arises from energy consumption in buildings through the better management of resources, incl. complying with requirements arising from legislation.

## VISION

To create a real estate solution that proceeds from the specific features of the functions of state agencies and that is the most optimal, efficient and sustainable for the state as a whole.

## MISSION

To guarantee the good quality, energy efficiency and prudent management of the real estate environment for state agencies.

## Main strategic topics

Considering the expectations of the owner, the operating environment and the company's vision, RKAS has set itself the following strategic priorities for 2017–2020.

The goals for the strategy period have been set on the following assumptions:

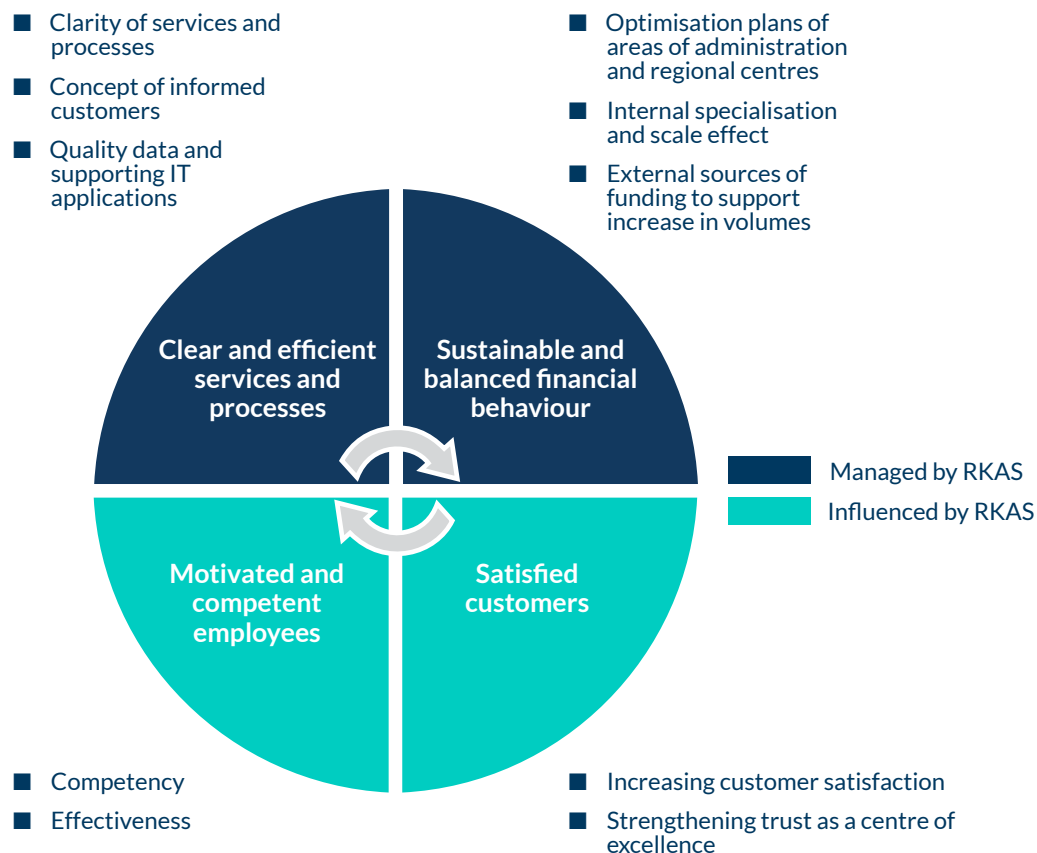
1. the delivery of real estate to RKAS continues at the pace of 200,000 m<sup>2</sup> per year;
2. the transfer to market rent (the market level or, in the case of special-purpose properties, the level that considers productivity and renovations) will take place two ye-

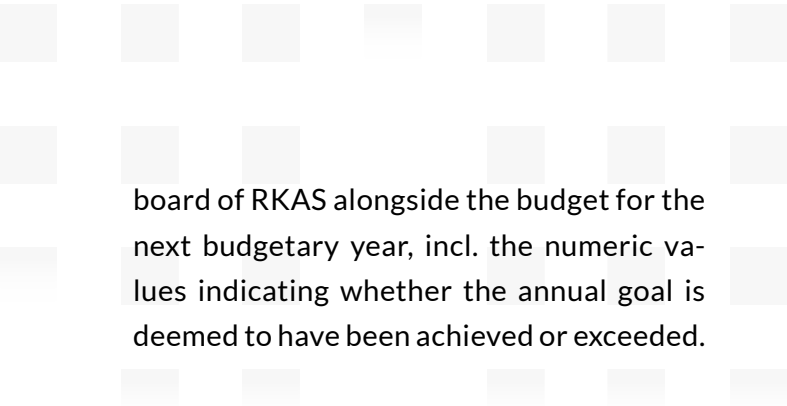
ars after the transfer of the real estate.

This strategic model allows the company to continue concentrating the management of the state's real estate in a single model and thereby find possibilities for optimisation, planning expenses for longer term as well as maintaining and increasing the value of the property.

## Implementation of the strategy

The strategy will be implemented within the scope of the annual action plans of units according to the main strategic topics. The action plans cover periods of 1 + 3 years and a responsible person and deadline is appointed to each action. The priority and success of actions is assessed once a quarter with interim reports. An assessment of whether the strategy is relevant and up-to-date is carried out at least once a year before the drafting of the company's budget starts. The indicators used to assess the achievement of goals and the relevant technical measuring points are established by the supervisory



A decorative graphic consisting of a grid of squares in various shades of gray, arranged in a pattern that tapers off to the right.

board of RKAS alongside the budget for the next budgetary year, incl. the numeric values indicating whether the annual goal is deemed to have been achieved or exceeded.

## Values

We are always aware that the majority of our activities and decisions are under constant public scrutiny. Our common organisational structure and values are key factors in the successful implementation of the strategy. Values support the achievement of our goals, unite the team and make us successful in our area. We are characterised by the values listed below.

### Competency

- We know our area. We are always prepared to share our knowledge and thoughts. We want to develop and work hard to achieve this.
- We are thorough, committed and determined. We focus on the goal and

the solution.

- We can talk about our activities and solutions in simple and comprehensible terms.
- Our activities are transparent.
- We value long-lasting cooperation.

### Reliability

- We dare to take responsibility and consider the impact of our activities and decisions.
- We are honest – our actions always match our words.
- We stick to promises, deadlines and agreements.
- We admit our mistakes and learn from them.

### Empathy

- We recognise the concerns of our partners.
- We are open and respectful to ourselves and to others in our activities.

- We help and support one another, know how to listen and give feedback.
- We are patient and consistent.



**JOINT BUILDING FOR MINISTRIES IN TALLINN**

# ECONOMIC ACTIVITIES

## ECONOMIC PERFORMANCE

Compared to previous year, sales revenue (consolidated data) increased by 16.1 million euros and reached 106.2 million euros in 2017, including rental income 61.0 million euros. Compared to 2016, the volume of mediated services increased by 2.5 million euros, totalling 33.4 million euros. Revenue from sales of inventories as 8.3 million euros in 2017.

In 2017, the company undertook a successful bond issue for 48.5 million euros. AS LHV Varahaldus subscribed to the issue. These resources shall be used for financing investments.

On 31.08.2017, the City of Tallinn exercised the right of repurchase of the right of superficies regarding five school buildings. More than ten years ago, RKAS renovated the school buildings under the state school investment programme “Koolid korda” and the city used them under long-term lease contract.

Main financial ratios describing the main activity of the group are given in the table below.

	2017	2016	2015
Net profit margin (net profit/sales revenue)	15.0%	14.8%	17.8%
Operating margin (operating profit/sales revenue)	16.8%	18.1%	21.5%
Return on equity (net income/shareholders' equity)	4.4%	4.4%	6.5%
Equity ratio (equity/assets)	64.6%	68.2%	59.7%
Return on assets (net income/ total assets)	2.9%	2.9%	3.9%
Return on real estate portfolio ((operating profit + depreciation) / annual average real estate portfolio)*	8.6%	7.7%	12.5%

*\* In this case, real estate portfolio consists of long-term financial investments, investment properties and tangible assets (except for RKAS' office appliances, other office-related tangible assets, unfinished construction, and prepayments).*

The exercised right of repurchase is established in all contracts under school investment programme. Transaction cost amounted to 14.6 million euros.

In 2017, the company earned operating profit 17.8 million euros. Net profit of the group for this financial year was 16.0 million euros.

In 2017, Riigi Kinnisvara AS carried out 773 public procurements with total value of

approximately 55 million euros.

Consolidated data (€ million)

Performance indicator	2017	2016
1. Revenue	106.2	90.2
2. Operating expenses	0.7	0.6
3. Wages and benefits of staff	8.1	8.2
4. Payments to capital providers	1.9	3.0
5. Investments in the community	0.0	0.1

# Development trends in 2018

## Real estate management

In 2018, we plan to contribute more to the customer experience management and strengthen customer relations by means of systematic communication. In the beginning of the year, we started collecting customer feedback by using Kantar Emor MyClient system that provides prompt information regarding potential bottlenecks of the service provided, thus allowing us to respond in a more operative manner.

We will continue the development of customer value propositions and systematisation of services that we started in 2017, based on the needs and expectations of customers.

We continue to focus on timely response of customer enquiries, performance of scheduled repair works according to agreement and time plan, and contribution to preventive maintenance to avoid the occurrence of emergencies.

This year, the greatest challenge in property management consists in taking over 32 vocational schools of the Ministry of Education and Research with total area of buildings 394,910.4 m<sup>2</sup>. Formerly, our estimated annual takeover capacity was ca 200,000 m<sup>2</sup>, and exceeding it twice exerts lots of pressure on the team and corporate processes. Implementation of the takeover are supported by clear and reasoned action plan and close communication with the Ministry of Education and Research and schools.

## Real estate development

In 2018, we have planned investments in projects for 75.8 million euros. In comparison with actual costs in 2017, the total amount of expected investment projects will decrease by approximately 1.5 million euros.

The following investments represent the largest single projects in 2018 (million euros):

1. Tallinn Prison (28.5 million euros), estima-

ted time of completion in December 2018;

2. Tallinn courthouse (7.6 million euros), estimated time of completion in July 2018;

3. Pärnu common building for internal security (7.1 million euros);

4. Victims of Communism Memorial and Officers Monument at Maarjamäe in Tallinn (5.0 million euros); estimated time of completion in August 2018.

## Sales of unnecessary real estate

Total target sales of unnecessary real estate in 2018 is 14.0 million euros. In terms of sales activities and realisation of unnecessary assets, priority is given to decreasing the share of assets in real estate portfolio with negative net revenue, and share of residential property.

## Compilation of real estate management plans

We aim to compile real estate management plans for all governance areas by the end of this year, covering real estate used by each governance area irrespective of the ownership of particular property. Management plans give an overview of initial need for investment and renovation and optimisation options regarding all real estate. On state level, compilation of such plans allows cross-governance optimisation of the premises and provides comprehensive view with regard to long-term real estate plans and priorities.

## State houses project

This year, we plan to commence implementation of the concept of establishing state houses prepared by order of the Ministry of Finance in 2017. The first projects to be launched include state houses in Rapla and Viljandi.

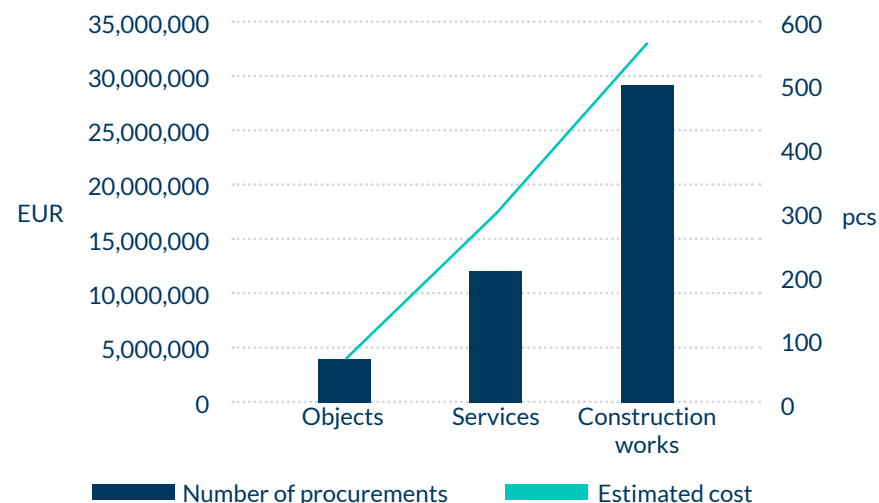


## Procurement activities

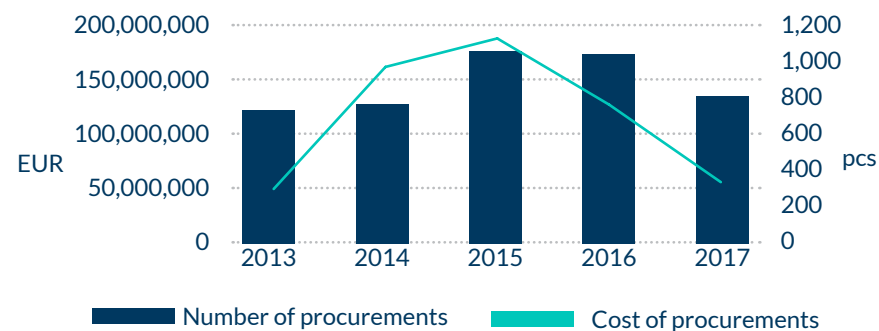
Procurement activities play a crucial role in daily business of the company. RKAS performs all purchases in compliance with the Public Procurement Act and internal regulations prepared based on that act. Internal procurement-related regulations are published on company homepage. Behind each purchase is a person, who among other things is responsible for formulating technical description of the purchase. Legal and procurement department provides the departments carrying out procurements with assistance regarding the compliance of the procurements with legislation, communicates with public procurement register and maintains procurement competence of the company. Procurements are carried out and documentation is processed in special environment, which also allows preparing and monitoring procurement plan and constant monitoring of procurements.

As one of the major contracting authorities in the country, RKAS organised 773 public procurements in 2017 with a total volume of approximately 55 million euros.

**Procurements in 2017 based on object of procurement and estimated cost**



**Procurements in 2013-2017**



Of the types of procurement procedures, those under the threshold of a simplified procurement were organised the most (71.5%), and their cost comprised 10.6% of the total volume of procurements.

Based on the cost of procurements, the largest part comprised procurements organised within an open procurement procedure in the total amount of ca 44.6 million euros. Divided by procurement objects, the largest number of procurements were building procurements, which made up 70% of all procurements and 60.2% of the total cost of procurements.

Three procurements in total were disputed in 2017, all of the requests for review were denied. In comparison, nine procurements were disputed in 2016, three of which were satisfied. In 2015, seven requests for review regarding six procurements were submitted, five of which were denied.

### **Implementation of the principle of economic advantageousness in public procurements**

So-called value-based procurements (i.e.



### **Implementation of the principle of economic advantageousness in 2017 (comparison of cost)**

**88%** Total procurements in 2017

**12%** Economic advantageousness

procurements based on more than just the lowest value of a tender) continued in 2017 in order to ensure buildings and services of higher quality that take greater account of the needs of the contracting entity. Those value-based procurements that deserve the most attention were international procurements “Contracting for property maintenance service at Suur-Ameerika 1, Tallinn 1.08.2017–31.10.2020” (contractual price 1,086,989 euros) and “Construction works of the building of Viimsi State Gymnasium” (contractual price 5,093,231 euros).

For the purpose of ensuring a public contract at best value for money, the new Public Procurement Act adopted in 2017 supports

implementation of assessment criteria that are based on more than just the value of a tender.

If the contracting authority enters into a public contract on the basis of the most economically advantageous tender, the contracting authority names the assessment criteria of tenders that are related to the object of the public contract and allow for objective assessment. The decisive criteria can include quality, price, technical value, aesthetic and functional characteristics, as well as properties that have an impact on the environment, operational costs, cost-effectiveness, after-sales maintenance and technical support and cost thereof, the term of executing the

public contract, and the specific proven skills or experience of responsible persons on which the work quality directly depends. The contracting authority attributes an objectively justified relative proportion to each assessment criterion.

In addition to the price (proportion from 60% to 80%), RKAS also assesses tenders on the basis of the work plans or programmes included in the submitted tender and orally presented to the contracting authority after opening the tenders at an agreed time. Tenderers must outline their work plan to the panel orally within 30-60 minutes so that the panel can make sure that the tenderer has thought the project through and assessed its risks thoroughly.

### Procurements to purchase electricity

In 2016, RKAS organised a nationwide joint procurement to purchase electricity for estimated annual quantity of 135 GWh (which makes up approximately 1.7% of total electricity consumption in Estonia) and 1,911 measuring points from 01.01. to 31.12.2017.

As the purpose of RKAS is to purchase electricity at the lowest possible cost and reasonable risk, we arranged the purchase of electricity within the framework of two procurements:

1. **Open supply.** In the framework of this procurement, we purchased electricity at indexed price in the Estonian region of Nord Pool Spot, plus provider's service fee.
2. **Framework agreement.** For quick purchase of additional prescribed supplies and reduction of price-related risk if necessary.

The procurement carried out by RKAS in 2017 concerned the purchase of electricity 135,862 MWh, which is 2.3% lower than in the previous year.

In 2017, out of all participants in the joint procurement, the electricity consumption increased the most for RKAS (3%) and the Ministry of Culture (5%). The increase in the consumption by RKAS was due to the fact that during last year, RKAS took over admi-

nistration of objects of several state agencies, thus increasing total consumption of RKAS. Increase in electricity consumption of the Ministry of Culture was mainly due to increased consumption of Ugala theatre.

RKAS took the risk to purchase entire electricity amount at market price. During last year, no supply contracts were concluded for fixed price portfolio. Last year, the market price was almost the same as in the year before that and reduced consumption was the reason why the cost of entire portfolio was 203,000 euros lower than in 2016.

Cost of electricity:

- 4.676 million euros in 2017;
- 4.879 million euros in 2016.

The electricity cost of participants in joint procurement have decreased, except for RKAS and the Ministry of Culture, where consumption increased due to addition of new premises.

## Organisation of competition for commissioning work of art

Pursuant to the Commissioning of Artworks Act, one percent of the cost of a public building is allocated to commission artworks and through that to improve the public space aesthetically. The scope of possible orders is broad, covering traditional oil or acrylic paintings, drawings and sculpture as well as photographic art, installation, videos and objects of light and sound.

RKAS organises competition in compliance with the Commissioning of Artworks Act, but such competition is then followed by negotiated tendering procedure without prior publication of a tender notice, in order to execute the winning design. The cost or price of the tender is not a criterion for choosing the artwork, because it is previously determined and known to all participants at the time of announcing the competition. The jury shall assess the artworks in terms of the aesthetic and functional properties as well as properties that have an impact on the environment of the designs submitted to the competition

pursuant to the criteria defined in the competition guide. Artistically best artwork in terms of location, the use of the building, the area of activity of the institution and the potential audience shall be declared as the winner of the competition.

In preparing the competition guide and conducting the competition, RKAS has acted on the principle that the process must be transparent and understandable to everybody. The anonymous designs submitted to the competition for the commissioning of a work of art shall be evaluated by the jury consisting of at least five members. In order to ensure high artistic level of the commissioned artworks, the law prescribes that at least two-thirds of the members of the jury shall be appointed by the management board of an artistic association pursuing visual arts. Depending on the terms of reference and need, the jury shall involve the architect of the building, interior architect, cultural heritage or other expert.

RKAS organised six competitions for the commissioning of a work of art with total value of 222,281 euros during the period in question.

## WORKS COMPLETED IN 2017:

- NUKU Theatre, winning design “Katusipoisid”/ Roof boys (outdoor interactive installation) by Varvara Guljajeva and Mar Canet Sola;
- National Archives, winning design “Metabor”/ Metabor (sound) by Kiwa and Martin Kikas;
- Põlva Gymnasium, winning design “Tuum”/ Core (outdoor sculpture) by Bruno Lillemets;
- Ugala Theatre, winning design “Eesriie”/ Curtain (outdoor sculpture) by Kaiko Kivi, Argo Männik and Bruno Lillemets;
- Health Board, winning design “Kaks teost”/ Two Works (installation “Maa”/ Land and photo series “Õhuline”/Air Wave) by Oliver Soomets, Bruno Lillemets and Tarvo Hanno Varres;
- Health Board, winning design “Oa algus”/Bean start (outdoor sculpture) by Pille Tael, Kristjan Taaksalu and Marta Vaarik.



OUTDOOR SCULPTURE "OA ALGUS," HEALTH BOARD BUILDING IN TALINN

## Service portfolio

The purpose of RKAS consists in providing real estate services and related advisory services to mainly state agencies and public service providers. Company's main activities are: real estate management, maintenance, development and investments (incl. repair works), as well as purchase, sales and rental of real estate, construction management and owner supervision.

In terms of property ownership and function, RKAS portfolio is divided into four groups:

**Administrative portfolio** – properties that belong to RKAS and are covered by lease contracts and in regular use;

**Development portfolio** – built-up or not built-up immovable properties that are vacant or will be vacant in the short term, but will potentially increase in value through development activities. The development portfolio also includes assets where the development process is ongoing;

**Sales portfolio** – non-required assets, administration of which is no longer expedient from the perspective of the state's needs and which RKAS has decided to give up, valuing the assets before-

hand, if necessary;

**Contractual portfolio** – objects of administration not owned by RKAS and where RKAS provides the administration service under a contract.

The implementing role of RKAS in state's real estate management has extended compared to its initial objectives of activity. Schools, internal security buildings, and other buildings and facilities intended for special purposes have been included in addition to the administration of mostly office buildings.

RKAS does not provide development and maintenance services directly, but arranges their outsourcing. As long as it remains economically more effective, all required services will be outsourced from the private sector.

According to the investment plan of organising the school network, RKAS coordinates the development and construction management service and provides administration service to objects under the governance of the Ministry of Education and Research.

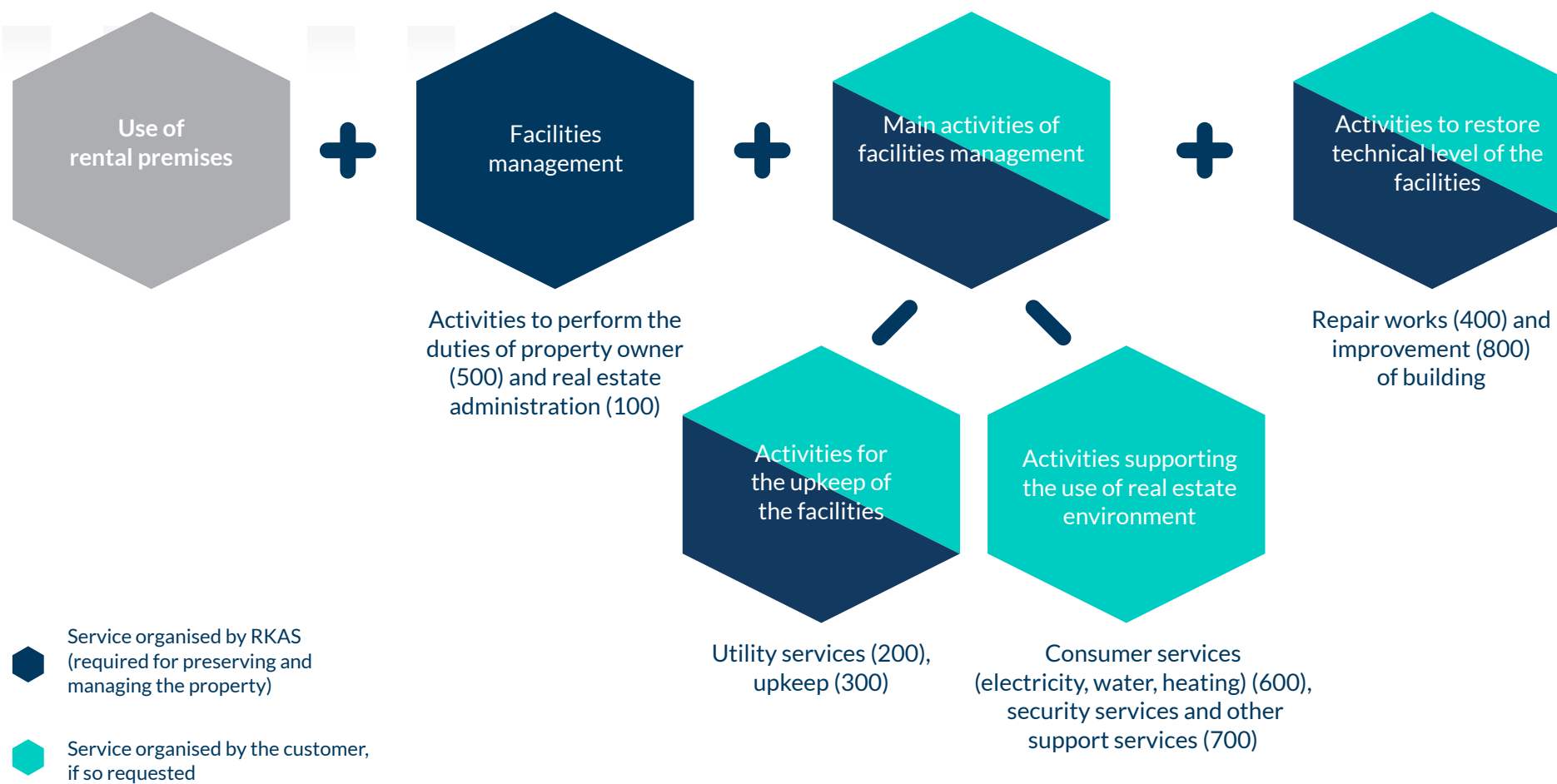
## Organisation of property maintenance services

Provision of property maintenance services represents one of main activities of RKAS. RKAS provides full property maintenance service, comprising administration, utility services, upkeep, repair, owner duties, consumer and support services. All of the said services, except for administration and owner duties, are bought in.

As a person liable to public procurement, RKAS selects suppliers through public procurement. Unless it is a value-based procurement, the tenderer offering the best price wins. Based on security measures or function, an exemption is made to special administrative objects (such as prisons), where maintenance service is provided by RKAS subsidiary OÜ Hooldus Pluss.

Main areas, where maintenance services are bought in, include utility, upkeep and security services.

*RKAS provides the following property maintenance services.*



## Organisation of real estate development services

Real estate development service represents another main activity of RKAS besides property maintenance services. RKAS aims at development of facilities based on dynamical demand, incl. in view of aspects of contemporary energy efficiency, environmental sustainability and user friendliness. We provide our customers with facilities management service, and assist with solving questions related to creation and renewal of their facilities upon real estate development.

RKAS provides the following basic and additional services with regard to real estate development.

### BASIC SERVICES



### ADDITIONAL SERVICES

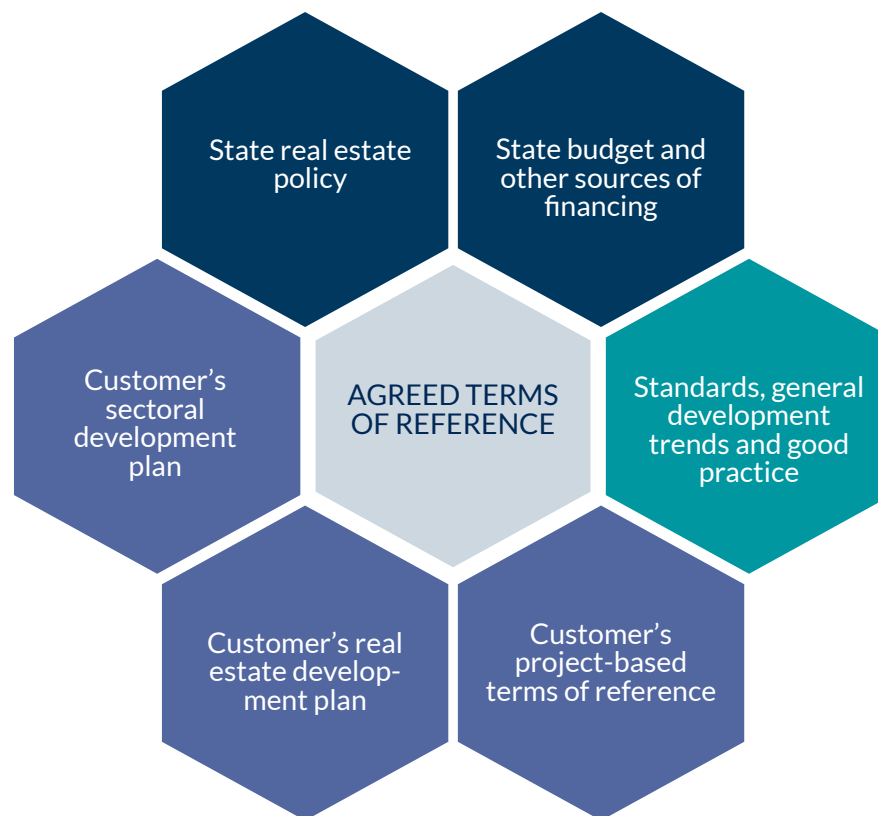
In cooperation with the customer, we specify the needs related to the facilities, design necessary solutions and assist with acquisition and implementation. We consult the customer with regard to facilities development and represent the customer in relations with third parties.

Input of every project consists in analysis of the sectoral development plan of the customer and resulting real estate needs, as well as general development trends of the state, state budget and other financing options, general development trends in architectural design and organisation of work environment and relevant applicable standards.

Well-advised agreement on the terms of reference is the basis of successful cooperation in real estate development.

Service quality and customer satisfaction depend on whether the results correspond to expectations (terms of reference) and whether the resources are used within agreed limits (time, money). By managing these indicators, RKAS ensures the quality of its

real estate services and solutions, and customer satisfaction.



The persons providing RKAS with real estate development services can be divided into three groups based on type of procurement: things, construction works and services.

## Quality indicators

In 2017, RKAS had a valid ISO 9001:2008 quality management certificate and ISO 14001:2008 environmental management certificate, which was renewed in early 2018 in the course of re-certification pursuant to ISO 9001:2015 and ISO 14001:2015.

Compliance with ISO 9001:2015 standard ensures systemic functioning of the company and specifies requirements for quality management system in a situation, where the organisation a) must demonstrate its ability to provide consistently products corresponding to customer's and applicable legislative and statutory requirements, and b) tries to increase customer satisfaction through effective implementation of the system, incl. constant improvement of the system by ensuring the compliance of processes with customer and

applicable legislative and statutory requirements.

Compliance with ISO 14001:2015 certificate gives the stakeholders of the company assurance that the company is committed to ensuring sustainability and continuous compliance of its activities with environmental legislation and confirms efficient and constant functioning of the environmental management system.

RKAS is the only one in Estonia, who has been granted four-star certificate of real estate management by Eesti Kinnisvara Korrashoiu Liit (Estonian Property Management Association). That certificate is issued to a company that meets the conditions below.

- All managed objects are covered by real estate managers holding valid professional certificate (level IV or 6) (every object is inspected at least once a quarter);
- Job descriptions of employees of the management company are based on professional standards;
- Employees are capable of professional development of customer's real estate

(construction project management with regard to extension or renovation of the managed object, employment relationship with at least one employee with relevant qualification in construction management);

- Company provides reliable and professionally organised customer service and consultancy for all persons using the managed objects;
- All serviced objects have maintenance logbook;
- Management company is able to manage objects used in at least three counties;
- Customer is guaranteed the preparation and submission of reporting prescribed by law and additional reporting requested by the customer.



**RECONSTRUCTED UGALA THEATER IN VILJANDI**

## Investments, real estate valuation and improvements

**Investment properties and real estate valuation at RKAS is mainly focused on the development of office premises and special buildings (e.g. depot buildings and schoolhouses).**

Development projects are divided into two: investments projects and service projects (project management, consultancy, procurements, etc.). In case of investment projects, asset is created for the purpose of earning rental income in future, or for own activities of RKAS. Costs incurred in service projects will be compensated by the customers.

In 2017, the total volume of investment properties was 77.2 million euros (55.7 million euros in 2016, 61.9 million euros in 2015). Fifty-seven percent of all investments consisted in the largest ongoing development project – new Tallinn Prison (total investment value of the project 96.7 million euros).

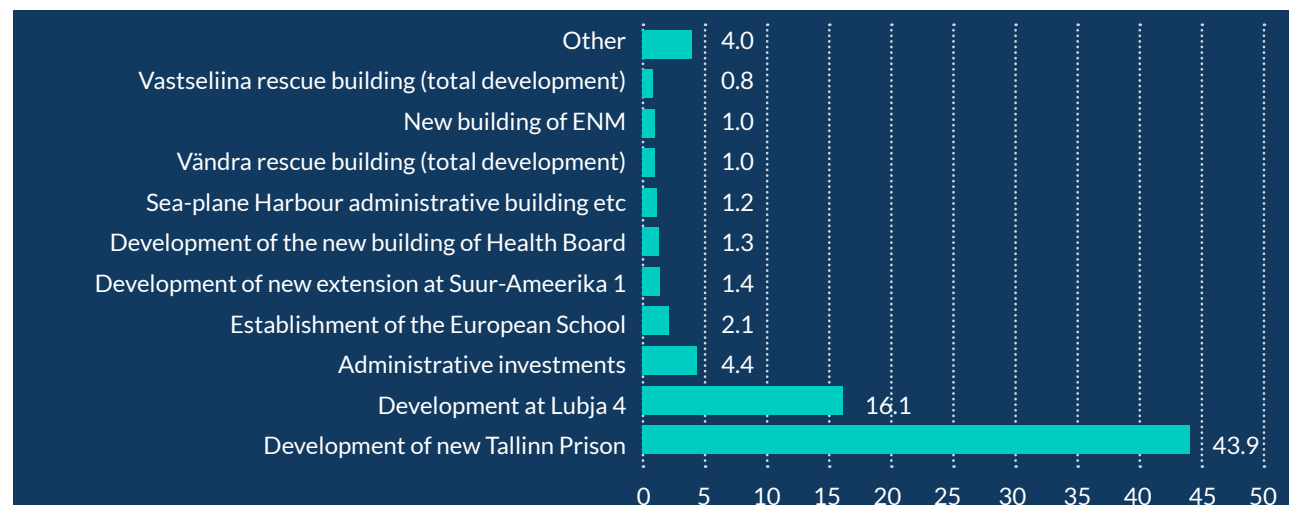
Other ongoing or prepared major development projects in 2017 included the following

investments (investment 2017 / total project investment):

- Lubja 4 Tallinn Courthouse (16.1 million euros / 35.4 million euros)
- European School in Tallinn (2.1 million euros / 6.2 million euros)
- Office building and infrastructure of Seaplane Harbour (1.2 million euros / 1.6 million euros)

- Vändra Rescue Depot (1.0 million euros / 1.3 million euros)
- Vastseliina Rescue Depot (0.8 million euros / 1.5 million euros)
- Victims of Communism Memorial and Officers Monument (0.5 million euros/ 6.9 million euros)

### Investments in projects in 2017 (€ million)



As for major future development projects, the following investments were prepared (planned, designed) in 2017 (investment in 2017 / total project investment):

- Joint building of Police and Rescue Board in Pärnu (0.4 million euros / 18.8 million euros);
- The School of Fine Arts (0.3 million euros / 40.9 million euros);
- Design work of the joint building of Police and Rescue Board in Sillamäe (9 thousand euros / 0.2 million euros);
- Kihnu Rescue Depot (3 thousand euros / 1.5 million euros).

**Major RKAS objects completed in 2017 were:**

- Joint building of ministries at Suur-Ameerika 1 (Police and Border Guard Board project, RKAS investment 3.3 million euros)
- Office and laboratory building of the Health Board in Tallinn (1.3 million euros / 7.6 million euros);
- Renovation of building at Rahukohtu 1

(0.2 million euros / 0.9 million euros).

Investment projects were completed in due time and within approved budget in 2017.

**Due to changed situation, the following intended investments were not made in 2017:**

- Knighthood building (3.4 million euros);
- Reconstruction works at Kotka 2 (0.9 million euros)

Among other things, the valuation of real estate belonging to RKAS (e.g. planned building rights by means of detailed plan) covered the following projects in 2017:

- Detailed plan of Patarei Sea Fortress;
- Detailed plan of Liivalaia 24;
- Detailed plan of Tartu mnt 85;
- Detailed plan of Marja 4.

More than 25 service projects were in progress in 2017. The content of the service ranged from procurements and design contest to full project management service. The most important service project in 2017 was ma-

nagement of the renovation project of Ugala theatre, investment value 13.6 million euros). Major service projects in 2017 based on investment value were:

- Renovation of Estonian Embassy in Russia, Moscow (16.3 million euros);
- Construction of eu-LISA building (9.6 million euros);
- Development of Viimsi State Gymnasium (4.5 million euros);
- Development of Rapla State Gymnasium (5.5 million euros);
- Design of Jõgeva Seed Centre (0.1 million euros).

In 2017, the objects belonging to RKAS were subject to repair works for 12.3 million euros (14.2 million euros in 2016, 12.8 million euros in 2015). Based on individual types of work, more than 1,100 works were performed at more than 270 objects. Major repair works in 2017 were:

- Hiie 11, Tartu (0.93 million euros);
- Turu 56, Tartu (0.43 million euros);
- Lossiplats 4, Haapsalu (0.37 million

euros);

- Student Home, Urvaste village (0.34 million euros);
- Pargi 1, Viljandi (0.31 million euros).

Sales of unnecessary real estate in 2017 comprised 108 real estate objects in total sum of 8.3 million euros. Sales transaction with highest value was the sale of objects at Gonsiori 29, 29a and Kollane 2 in Tallinn, total sum of 3.81 million euros. They were followed by Porkuni Manor in Lääne-Viru county for 360,000 euros.





RECONSTRUCTED UGALA THEATER IN VILJANDI

## Customers

**In 2017, RKAS reorganised customer service in order to harmonise the level of service and increase customer satisfaction. Customer relations that were formerly distributed between different departments, was centralised in administration department, which is now responsible for representing customers' interests both in terms of property maintenance and development.**

Maintenance of customer relations is the duty of customer relations managers and property managers of RKAS. Customer relations are divided between two levels: customer relations managers take care of the so-called key customer view (i.e. areas of governance in the public sector, state agencies, etc.) and property managers take care of site-based customer relations (i.e. users of specific properties). Communication with customers takes place according to customer plans approved by management, which set out the main goals agreed with each specific customer for the year.

In order to improve the transparency and elaboration of the services for customers, RKAS services were mapped in 2017.

RKAS has carried out customer satisfaction surveys in cooperation with Kantar Emor since 2011. The surveys are carried out by using international methodology for analysing customer satisfaction surveys TRI\*M, measuring the strength of customer relationships, considering the dimensions of rational satisfaction, behavioural loyalty, emotional connection and the surrounding environment.

In 2017, 706 customers responded to the customer satisfaction survey. For the first time, the survey included not only decision-makers and contractual partners, but also – as a pilot project - selected number of end users working at RKAS on a daily basis. The index of the strength of customer relationships increased to 47 in 2017 (44 in 2016), but the indicator still remains below the score of 57 in 2015. In 2017, customers

gave positive assessment to the competence and adherence to agreements by customer relations manager and property manager, performance of contractual obligations, service of property transfer and availability of customer support. The areas that need more attention include real estate development, transparency of service pricing, repair works and servicing utility systems and consultancy service when providing various property solutions based on customers' needs.

In early 2018, we started monitoring of customer satisfaction after each customer contact by using Kantar Emor MyClient system to ensure quicker response to bottlenecks occurring in the course of providing the service.

RKAS manages 990 customer relationships, of which 908 are based on rental agreement and 82 based on maintenance contract. In case of rental agreement, RKAS is the owner of the property and provides agreed maintenance services to the customer based on

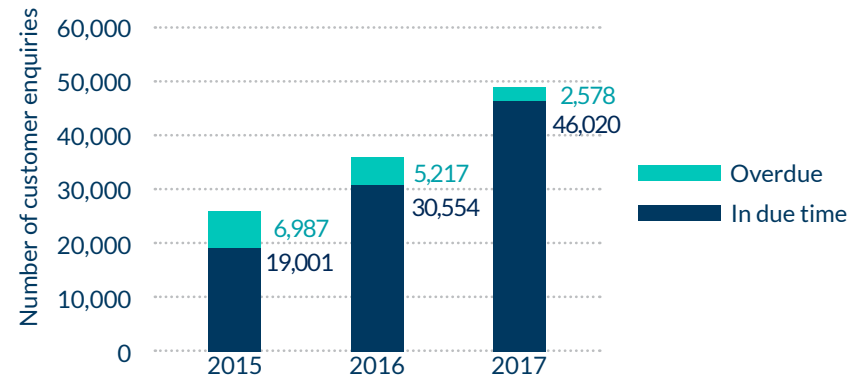
rental agreement. In case of maintenance contract, the customers have given their property to our care and RKAS ensures its maintenance and correspondence to customers' needs.

When providing the services, RKAS focuses greatly on preventive activities to avoid the occurrence of emergency situations and inconveniences for our customers.

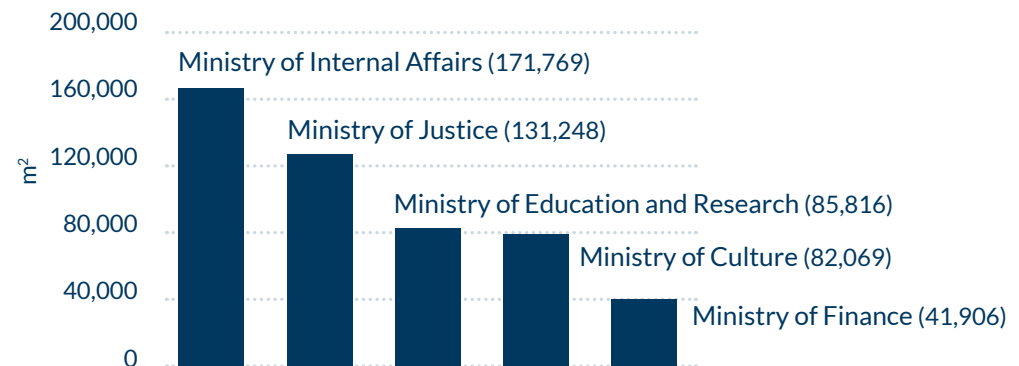
We have ensured operative assistance for our customers through customer support, where they can turn to with their problems and propositions. Customers use that option more and more each year.

In 2017, 48,598 customer enquiries were made in total, on average 133 enquiries and contacts every day.

### Customer enquiries met in due time and overdue



### Major users of rental premises





RECONSTRUCTED UGALA THEATER IN VILJANDI

## Membership of associations

**Riigi Kinnisvara AS makes an effort to contribute to various areas. RKAS has membership of the following organisations:**

- NPA Corporate Social Responsibility Forum;
- NPA Estonian Chamber of Commerce and Industry;
- NPA Estonian Human Resource Management Association PARE;
- NPA Estonian Property Management Association;
- NPA Estonian Taxpayers Association;
- NPA Digital Construction – The Digital Construction Cluster.

Furthermore, RKAS is the member of international organisations PuRE-net (The Public Real Estate Network) and The Workplace Network that bring together companies engaged in management and development of real estate in different countries.

RKAS is represented at the Heritage Conservation Advisory Panel operating in the Ministry of Culture. The Heritage Conservation Advisory Panel shall:

- make proposals and express opinions concerning all issues arising from the Heritage Conservation Act, incl. amendment and supplementing of heritage conservation legislation;
- make proposals concerning designation of things of cultural value as monument and revocation of designation and alteration of information relating to monuments;
- if necessary, give an opinion upon determining the value of a finding;
- review proposals for adding Estonian cultural heritage in international registries and lists.

The opinions of the Advisory Panel constitute the recommended basis for the National Heritage Board and local governments

in the planning of heritage conservation work and the elaboration of heritage conservation principles.

RKAS is represented at the Accessibility Council of the Ministry of Social Affairs, one of the duties of which is to lead public discussion concerning accessibility and universal design to increase social awareness and implement the way of thinking and acting in accordance to the principles of inclusive living environment. The Accessibility Council observes and evaluates the implementation of legislation and standards related to accessibility to ensure constant improvement of the situation.

## Employees

**The total number of employees decreased in comparison with the previous period and changes also occurred in the age and position structure of employees. The number of employees decreased mainly on the account of skilled workers and specialists.**

The total number of employees in RKAS at the end of 2017 was 217. Similar to previous years, seven persons worked under a contract for services and two persons under an authorisation agreement. Thirty new employees joined the company for other purpose than in relation to the takeover of assets. The share of newcomers in 2017 was 13.6%, i.e. significantly lower than 22.4% in 2016. The voluntary turnover of employees increased from 8.99% to 10.6%.

The number of full-time employees in 2017 was 207 and 10 persons worked part-time.

This year, one employee took paternity leave, and two employees returned from parental leave. The number of employees in

field training did not change in comparison with the previous year; one person did their professional traineeship at RKAS during the period.

Based on regional division, most people work in the Northern region of Estonia, similar to the previous year.

The share of male employees in RKAS is 57.7% and the share of female employees is 42.3%. In comparison with the previous year, the share of female employees has increased by a few percent. The company employs two persons with special needs.

This year, the average age of employees has increased to 50 years, while it was 48.6 years in the previous year.

In 2017, one case of discrimination was registered, where RKAS terminated the employment contract of relevant employee based on material breach of work obligations, loss of employer's trust, causing mist-

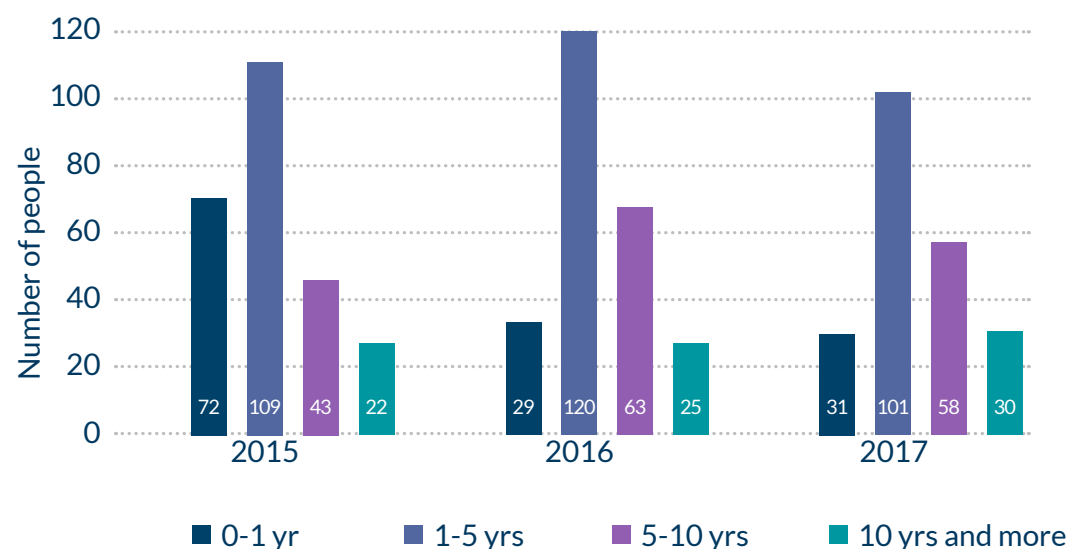


rust of the third party towards employer, and breach of the obligation to maintain confidentiality. The employee contested the termination of the employment contract with labour dispute committee of the Labour Inspectorate and the labour dispute committee satisfied the appeal of the employee. The management of RKAS did not appeal the decision.

### Commitment and satisfaction of employees

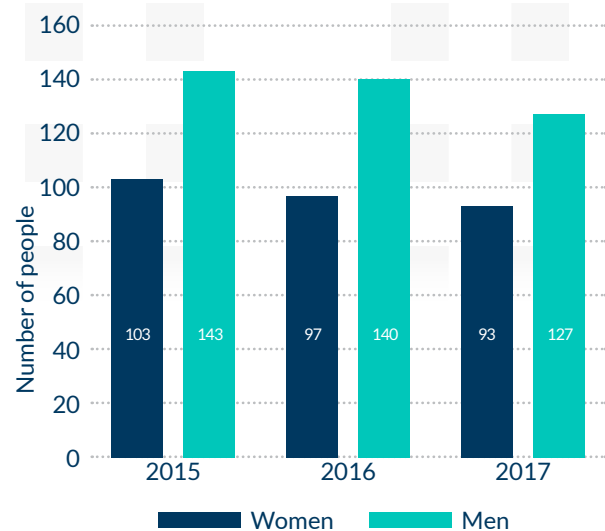
The survey on the commitment and satisfaction of employees carried out at the end of 2017 revealed the strengths of the organisation in direct management, organisational stability, fair treatment and fair levels of pay. Employees also gave high evaluation to the working environment. The employees pointed out the areas that need attention and improvement such as uneven workload, unclear roles, information movement and management quality in general. The survey respondents consisted in 86% of employees.

Employees by length of service

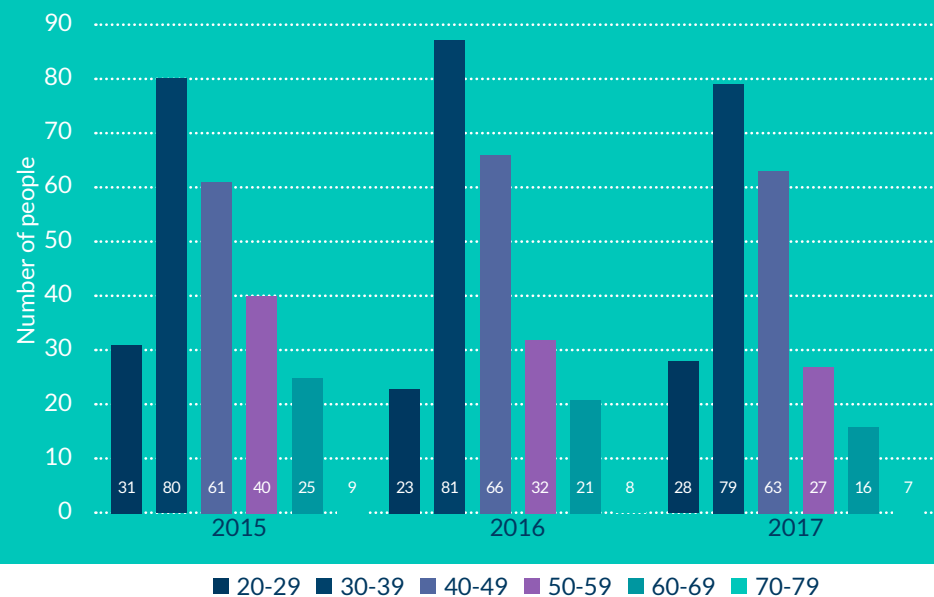




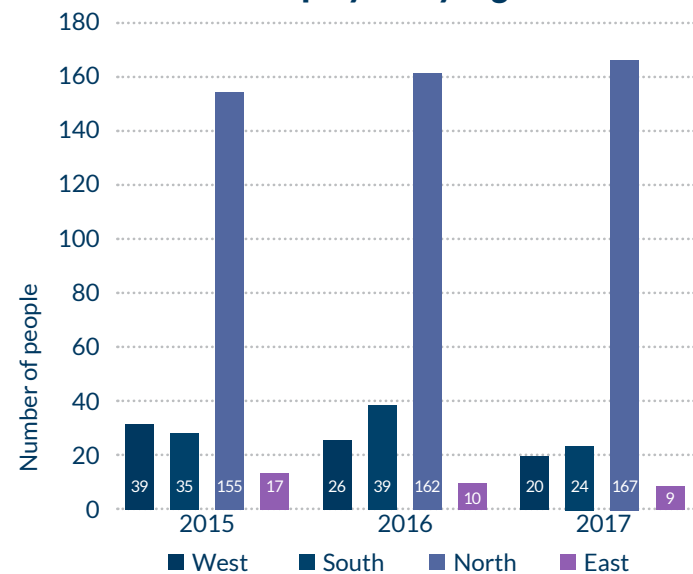
### Employees by gender



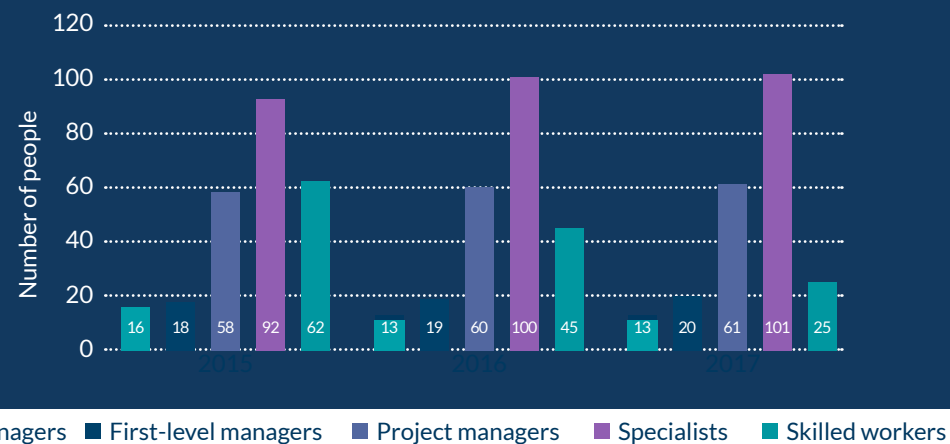
### Employees by age



### Employees by region



### Employees by position



## Development of competencies

As a centre of excellence in the field of real estate, RKAS aims at providing the best development and maintenance service through contemporary and innovative knowledge. RKAS pays special attention to improving legal, construction-related, financial, and development and maintenance related competence necessary for organising the real estate activities by providing its employees with training and advancement opportunities.

Training courses are organised and selected on the basis of company goals, the development and performance appraisals held twice a year, as well as the requests and needs of employees. Appraisals are held with all employees, excl. skilled workers on sites to be taken over. New employees have to undergo mandatory induction training. The organisational culture supports life-long learning of employees, facilitating and supporting participation in professional training and taking professional examinations, in-service training, independent learning and acquisition of higher education.

During the reporting period, RKAS employees were issued 71 professional certificates, including the following:

- Profession of certified heating, ventilation and cooling engineer, Level 7 (Estonian Association of Civil Engineers);
- Construction manager, Level 6 (Estonian Association of Construction Entrepreneurs);
- Civil engineer IV (Estonian Association of Construction Entrepreneurs);
- Energy auditor V (Estonian Society of Heating and Ventilation Engineers);
- Electrical engineer of consumer electrical installations, Level 6 (Estonian Society for Electrical Power Engineering);
- Real estate manager, Levels 4-6 (Estonian Property Management Association);
- Property maintenance manager, Level 6 (Estonian Property Management Association);
- Property upkeep foreman, Levels 3-5 (Estonian Property Management Association);
- Cleaning manager, Levels 4-5 (Puhastusekspert OÜ);
- Cleaner-instructor, Level 4 (Puhastusekspert OÜ);
- Technician of security systems, Level 5 (Estonian Association of Security Enterprises);
- Designer of security systems, Level 6 (Estonian Association of Security Enterprises);
- Security Manager, Level 5 (Estonian Association of Security Enterprises);
- Authorised energy efficiency specialist, Level 8 (Estonian Society of Heating and Ventilation Engineers).

The development programme for managers “RKAS manager – creator and carrier of leader competence” that started in 2015 ended in 2017. Development programme ended with 360-degree assessment of managers and creating personal development and action plans. In the course of the programme, managers participated in va-

rious management training for total of 152 hours. Employee feedback to the managers who completed the training was positive and the managers were also positive about the programme.

The number of employee training hours in 2017 totalled 11,172. Training costs amounted to 111,705 euros in 2017. In 2016, the number of training hours was 15,382 and training costs amounted to 163,000 euros.

This year continued the internal training programme of RKAS, created in order to support an increase in employee competence and to offer them the opportunity to keep up to date with the most important development trends in construction and related sectors. Among others, the training plan involves courses on nearly zero buildings and radon, energy audit methodology Total Concept and BIM trainings.



# ENVIRONMENT

## Energy consumption and energy efficiency

One of the priorities of RKAS consists in reduced energy consumption and increased energy efficiency. We have highlighted these topics in our strategy and set measurable objectives in daily action plans.

We direct energy consumption and efficiency by using guidelines and actual activities ranging from optimisation, development, construction and administration of real estate to maintenance and sales of the assets in the portfolio.

RKAS holds the certificate of environmental management system corresponding to ISO 14001:2015 standard, which proves that the company operates in compliance with the requirements specified in the standard.

## Company's energy and water consumption

RKAS monitors energy and water consumption of managed buildings on a monthly basis and registers the data in management information system. The department of environmental and technical support analyses data and develops measures for stabilising and reducing consumption.

Consumption within the organisation stands for consumption of energy and water affected by RKAS employees on a daily basis, both in the buildings we use and the buildings we own. Energy consumption within RKAS constitutes ca 0.3% of the energy consumption outside the organisation. Considering very low energy consumption within the organisation, the figures below do not display that consumption separately, but show total con-

sumption within and outside the organisation.

Consumption outside the organisation stands for consumption of energy and water by our real estate portfolio, affected directly by our customers and cooperation partners, whose activities we can direct only through increased awareness.

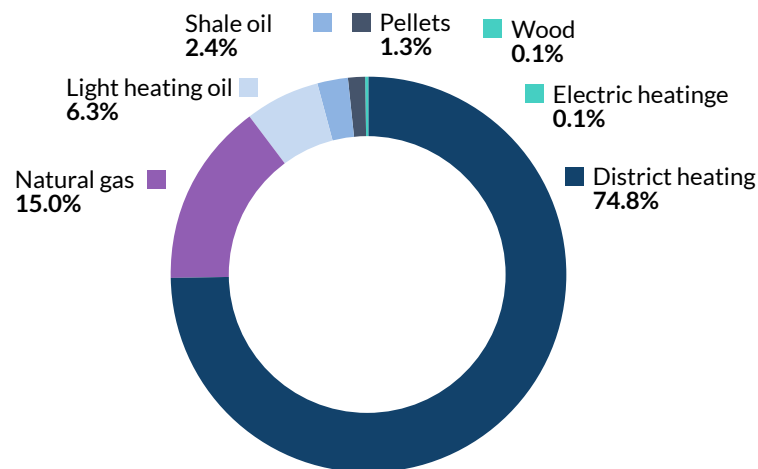
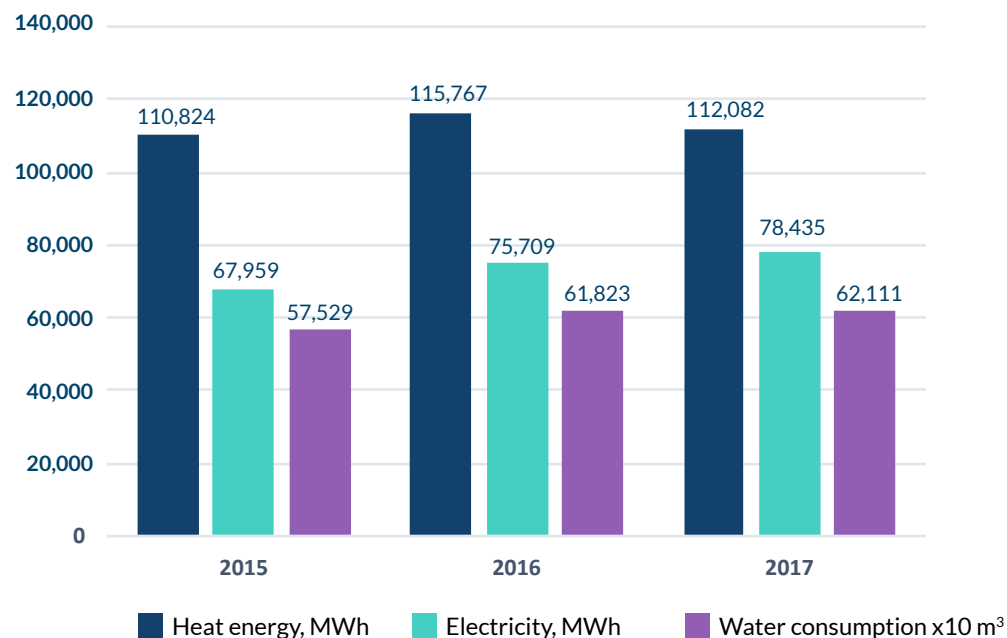
The diagram below shows energy and water use indicators of the RKAS management and service portfolio within the last three years compared to portfolio increase. The portfolio has increased quicker than energy and water consumption, which indicates positive result of contributions made to energy efficiency.

## Heat energy

RKAS portfolio uses mainly district heating to supply heat to buildings. Overview of the types of fuel used for producing heat in 2017 are shown on the figure below. RKAS does not keep accounts of the share of renewable energy in the total heat circulating the district heating system, because the heating provider does not give relevant information. Distribution of locally produced heat by different energy sources (incl. renewable sources such as pellets, wood) is shown on the figure below.

## Electricity

In 2017, all electricity for RKAS energy portfolio was purchased at market price. RKAS does not keep accounts of the quantity of electricity produced from renewable energy sources.



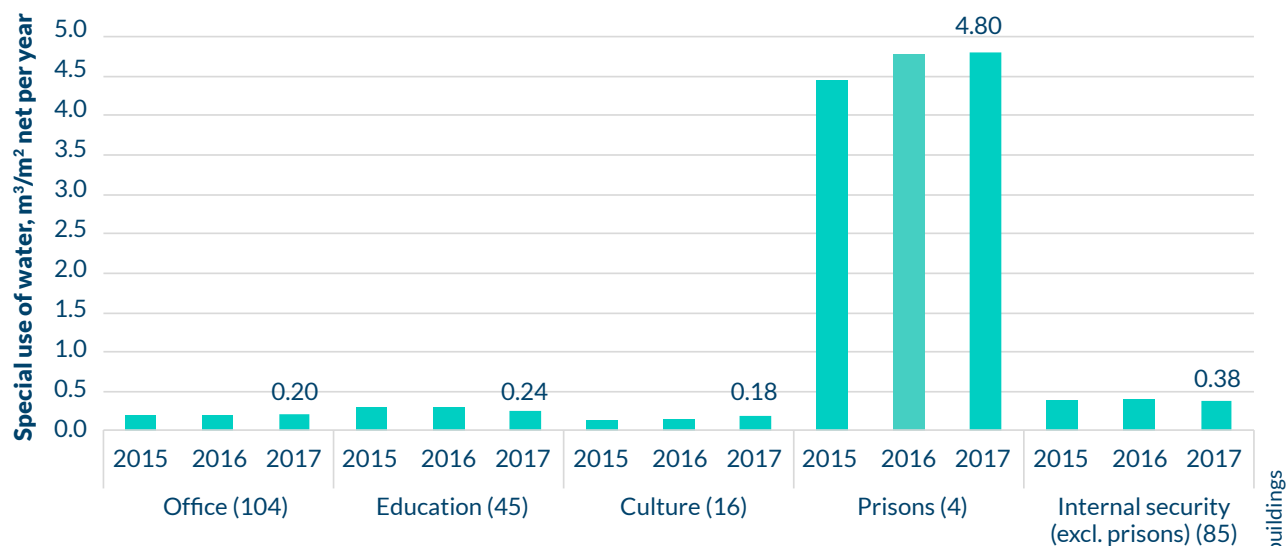
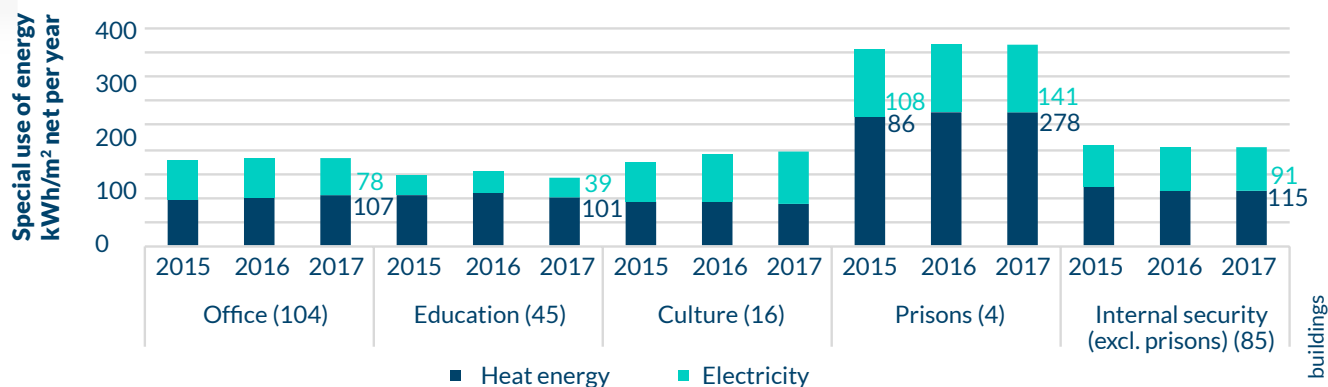
## Quantities of supplied energy and water broken down by immovable properties with different intended use

The administrative and service portfolio of RKAS contains immovable properties and buildings with different profile and intended use, which can be divided into five groups: office, internal security (except for prisons), prisons, education and cultural buildings. Intensity of energy and water consumption is characterised with special use, dynamics of which is shown on the diagrams below.

The portfolio in question has increased over the years. The special use of energy has generally decreased, except for a few exemptions, where energy use has increased primarily due to intense use or low energy efficiency of relevant registered immovables. High use of energy stands out in case of prisons, which are essentially special buildings, as they are subject to additional requirements (e.g. very intense outdoor lighting) and these registered immovables also accommodate production facilities, where the prisoners can work (prison industry).

We monitor energy use regularly on a monthly basis and carry out various repairs to improve energy efficiency to stabilise energy and water use.

Consistent work helps to reduce overconsumption of energy and improve the quality of indoor climate. For early detection of water emergencies, automatic notification is enabled in building automation systems.





**TAX AND CUSTOMS BOARD X-RAY INSPECTION HALL IN PÄRNU**

## Energy efficiency projects

For us, the energy efficiency of buildings consists in energy use in balance with ensuring indoor climate upon purposeful use of the building. Essentially, energy efficiency is the quality indicator of energy consumption that allows comparing buildings and plan improvements within available resources.

### Energy savings of KUMU

The energy savings activities of the Art Museum of Estonia were mapped in 2014 and the measure that enabled the best economic efficiency – the installation of a heat pump system for recovering the heat emitted in the drying process – was chosen and started operation in August 2015.

Indoor climate of KUMU is thoroughly controlled in order to maintain the desired indoor temperature and the relative humidity of indoor air. Depending on the ambient air parameters, the building must be humidified (mainly in winter, when the

absolute humidity of ambient air is low) or dried (mainly in summer, when the humidity of ambient air is high). Cooling is used to dry ambient air and when the suitable humidity is achieved, the ambient air must be heated to guarantee suitable air in the room. This means that KUMU constantly needs cooling and heating, and the most practical solution to this is a heat pump.

In 2016, additional automation tuning works were performed, resulting in further reduction of heat energy consumption in 2017. Compared to 2015, annual heat consumption has decreased by ca 60% and electricity consumption has remained on the 2015 level.

		2015	2016	2017
KUMU	Heat, MWh	3,272	1,746	1,285
	Electricity, MWh	4,709	4,953	4,673

### EFFECT4buildings – energy service development and implementation wide-scale energy saving measures

In autumn 2017, we started Interreg Europe project EFFECT4buildings, the purpose of which is to increase the amount of energy efficiency measures implemented by the public sector in the Baltic region.

The project is supportive in nature and it analyses market barriers and differences on a regional basis to increase the competitiveness and awareness of the region.

Project outcome consists in guidelines on various financial models supporting energy efficiency of buildings, such as various models for calculating payback period, possible energy service applications, environmentally sound rental models and economic models for simultaneous production and consumption of energy.

Significant observations of the project will be revealed in 2018.



**TAX AND CUSTOMS BOARD X-RAY INSPECTION HALL IN LUHAMAA**

## Distribution of energy-performance labels

Energy-performance label provides an overview of the energy efficiency and intensity of use of a building. Therefore, energy-performance label class is an indication of the condition of the buildings. RKAS consistently maps the data and uses them to plan repair works. The distribution of energy-performance labels of buildings in RKAS management portfolio is shown on the diagram on the right.

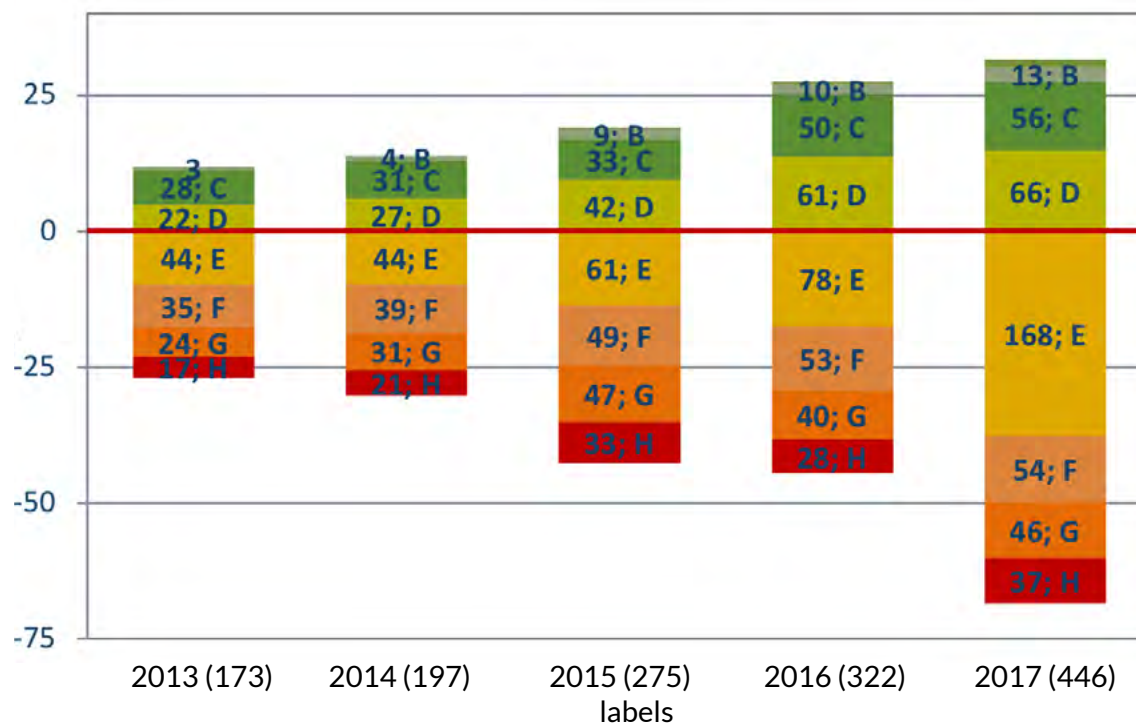
Compared to the previous year, the number of labels has increased because of increased takeover of assets, as well as due to issue of energy-performance labels to existing buildings. Energy-performance label is present in more than 95% of buildings in management portfolio that require the presence of energy-performance label.

Pursuant to valid legislation, the minimum requirement for a new building is energy-performance label class C. RKAS aims at adherence to the new requirement that enters in force on 01.01.2019, pursuant to

which all new buildings must have at least energy-performance label class A to be issued building permit, if the building is to be used or owned by state and local government. RKAS has set a target that all new developed buildings that are expected to be completed after 31.12.2018, shall have energy-performance label class A.

The target is fixed in RKAS guidelines “Technical requirements for non-residential buildings 2017” (<http://rkas.ee/parim-praktika/tehnilised-nouded-mitteeluhoonetele>).

**Distribution of energy-performance labels of management portfolio based on minimum requirements for energy efficiency in percentage**





**JOINT BUILDING FOR MINISTRIES IN TALLINN**

# GOVERNANCE

## Management of the organisation

The Republic of Estonia is the 100% shareholder of RKAS and the share capital of the company as at 31.12.2017 was 218,334,400 euros. The shares are managed by the Ministry of Finance.

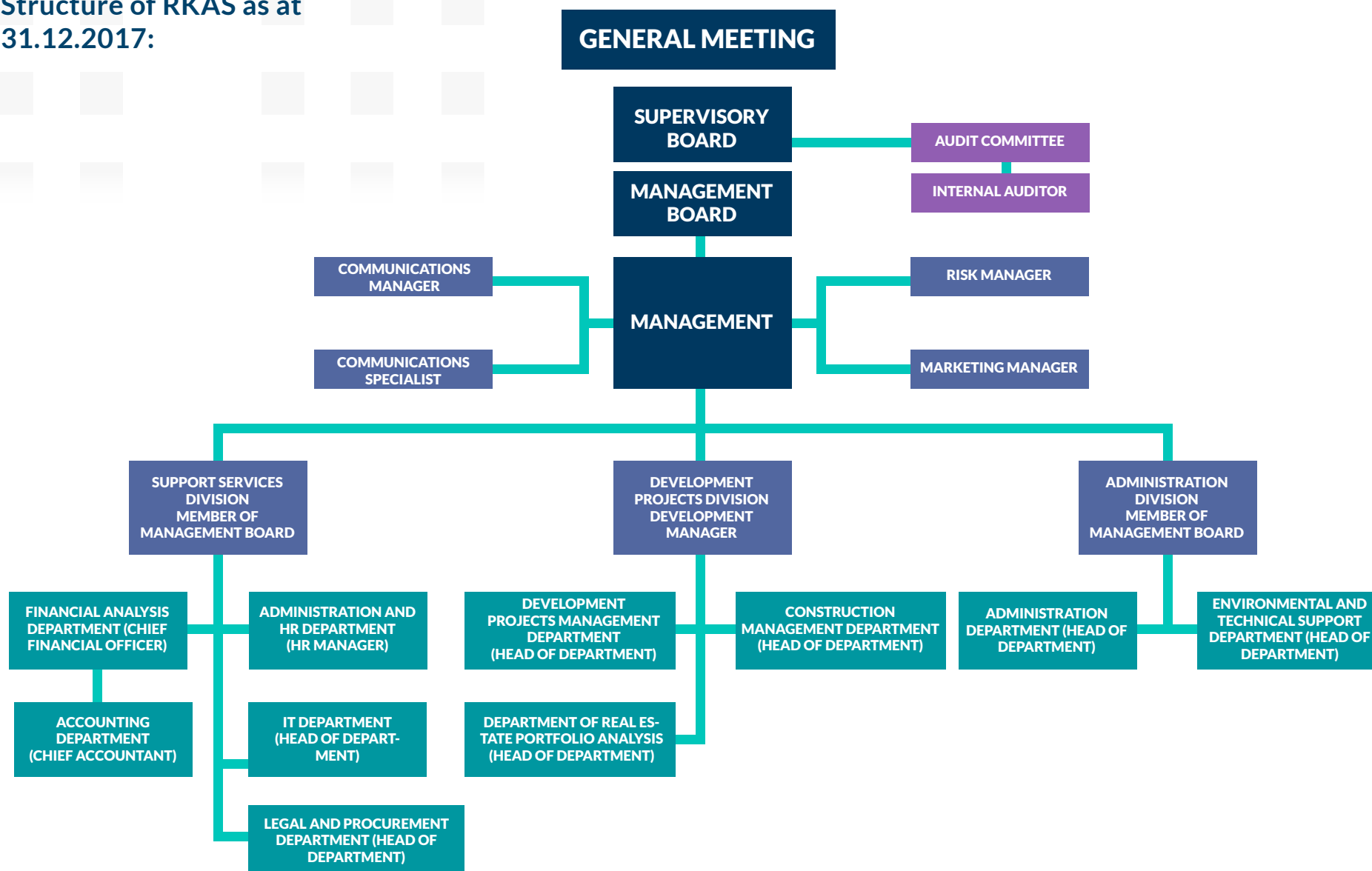
The work organisation of the management bodies of RKAS and the objectives of its activity are mostly established in the articles of association and other documents regulating the activities of the company. As a state company, RKAS has to organise its activities in compliance with the requirements of both the State Assets Act and the Commercial Code. The RKAS group also includes the subsidiary OÜ Hooldus Pluss, which provides maintenance services.

## Report on Good Practice of Company Management

Pursuant to clause 88 (1) 10) of the State Assets Act and Article of Association 10.3.3. of Riigi Kinnisvara AS (RKAS), RKAS as state-owned company is under obligation to implement, in its management practices, the good practice of company management (GPCM) and to describe the observance of such practice in a management report which is included in the annual report.

As a rule, RKAS adheres to the principles of GPCM. RKAS is 100% state-owned company and the Government of the Republic has appointed the Ministry of Finance as the person exercising the right of a founder. This leads to certain specifics and exceptions in group management on the level of general meeting and supervisory body, which is also indicated in the report.

Structure of RKAS as at  
31.12.2017:



## General meeting

General meeting is the highest management body of RKAS. Annual general meeting is held once a year within four months of the end of the financial year of RKAS. General meeting is competent to decide on the issues specified in subsection 298 (1) of the Commercial Code and other issues provided by law.

The management board shall decide and organise the calling the general meeting pursuant to law. The supervisory board shall confirm the agenda of the general meeting. The resolutions of the general meeting shall be published on RKAS webpage within five business days after adopting the resolution, in accordance with law.

RKAS does not adhere to the following GPCM clauses related to organising the general meeting:

1.2.1 – the notice on calling the general meeting is sent to shareholders and/or published in a national newspaper and simultaneously made available on the issuer's website;

1.2.3 – the management board shall, simultaneously with meeting the requirements for calling the general meetings prescribed by law, publish on the issuer's website significant information regarding the agenda, submitted to or in other way made available to the management board;

1.2.4 – within reasonable time before the general meeting, the supervisory board shall publish on the issuer's website its proposals regarding the items on the agenda;

1.3.1 – the chairman of the supervisory board or member of management board is not elected the chairman of the general meeting;

1.3.3 – the issuer shall, upon presence of relevant technical means and provided that it would not be too expensive, enable watching and participation in the general meeting by means of communication (e.g. Internet).

In 2017, the general meeting adopted 28 resolutions, which are published at [www.rkas.ee](http://www.rkas.ee).

## Management board and management

The management board is the managing body of RKAS, which represents and manages the company. Pursuant to the articles of association, the management board may have one to five members. Members of the management board are elected pursuant to the Commercial Code for a specified term of up to three years. In 2017, the management board included Urmas Somelar (member of the management board until 22.06.2017), Piia Kallas, Tanel Tiits and Kati Kusmin (member of the management board since 04.12.2017). At the moment of preparing the report, the management board of RKAS has three members.

The management is the managing body of the public limited company, which represents and manages the company in everyday activities. Pursuant to the management regulations, the management is appointed by the management board based on the proposal of the chairman of the board. In 2017, the management included Urmas Somelar (member until 22.06.2017), Tanel Tiits, Piia Kallas, HR Manager Marjut Engelbrecht

(member until 08.08.2017), Development Director Timo Aarmaa, Financial Director Andrus Ait and the Head of the Legal and Procurement Department Tõnis Rebbas. Besides them, the management included three persons with permanent right of representation: Communications Manager, Risk Manager and Strategy Manager.

During 2017, management held 137 meetings (the decisions in competence of the management were adopted at the management meeting, there were no separate meetings of the management board held). At the moment of preparing the report, the management statute no longer exists: the managing body is the board of management which operates based on approved operating procedure.

The duties and remuneration of the members of management are defined in the contract of service. Pursuant to the resolution of the supervisory board of RKAS, maximum limit of additional fees paid to the members of the management for performance during one financial year is four times the avera-

ge monthly fee paid to the member of the management previous financial year. Upon removal of the member of management on the initiative of the supervisory board prior to the expiry of the term of office of the member of management RKAS shall pay the member of the management lump-sum benefit to the extent of management member's remuneration of three months valid at the time of removal.

In 2017, the calculation of remuneration for the members of the management include also the fee granted by the supervisory board for performance in 2016 as follows: Urmas Somelar 53,347 euros (member of the management board until 22.06.2017; includes the fee paid for application of prohibition on competition upon leaving), Piia Kallas 68,457 euros, Tanel Tiits 60,049 euros and Kati Kusmin 7,674 euros (member of the management board since 04.12.2017).

## Supervisory board

The Government of the Republic has formed an appointment committee for making pro-

posals related to appointment of the members of supervisory board of companies with state holding. That committee shall, in view of the specific nature of the company, make the person responsible for the holding in the company proposals regarding the election and removal of the member of the supervisory board, including the candidate for the chairman of the supervisory board, as well as the size of the composition of the supervisory board, duration of office of and the rate of remuneration paid to the members. Owner's interests are protected in the company through the members of the supervisory board who are representatives of the ministry of the person responsible for the holding in the company (the Ministry of Finance). The supervisory board plans the activities of RKAS, organises its management and supervises the activities of the management board. The supervisory board notifies the general meeting of the results of a review. The supervisory board gives orders to the management board for the organisation of the management of the company. The supervisory board decides on the development strategy and investment policy of the company, the con-

clusion of transactions with immovables and the adoption of the investment and annual budget prepared by the management board. Pursuant to the articles of association, the supervisory board has five to seven members. The members of the supervisory board are appointed and removed by the general meeting. The member of the supervisory board is elected for the term of up to three years. The chairman of the supervisory board shall organise the activities of the supervisory board. Meetings of the supervisory board are held according to the work plan approved at the beginning of the reporting period, but no less frequently than once every three months. There were 15 supervisory board meetings held in 2017. Since 12.06.2017, based on the resolution of sole shareholder, the monthly remuneration of the chairman of supervisory board is 1,000 euros and the monthly remuneration of the member of the supervisory board is 500 euros. The remuneration of the member of the supervisory board is paid on a monthly basis, minus taxes prescribed by law. There are no severance payment or other paid benefits prescribed for the members of the supervisory board.

In 2017, the supervisory board members included Kalev Lillo (member of the supervisory board until 22.01.2017), Teet Reedi (member of the supervisory board until 12.06.2017), Olle Koop (member of the supervisory board until 12.06.2017), Tarmo Porgand (chairman of the supervisory board until 12.06.2017; member of the supervisory board 12.06.–27.09.2017), Aivo Adamson (member of the supervisory board 12.–27.06.2017), Tõnis Rüütel (member of the supervisory board until 12.06.2017), Sulev Luiga (member of the supervisory board 12.06.–28.09.2017; chairman of the supervisory board since 28.09.2017), Tõnu Toompark (member of the supervisory board since 12.06.2017), Marianne Paas (member of the supervisory board since 27.09.2017), Kaie Karniol (member of the supervisory board 22.01.–12.06.2017; since 27.09.2017) and Marek Pohla (member of the supervisory board 12.06.2017–27.02.2018).

Overview of remuneration paid to the members of supervisory board in 2017:

Tarmo Porgand 3,865 euros, Kalev Lillo 251 euros, Teet Reedi 1,912 euros, Tõnis Rüütel 1,912 euros, Olle Koop 1,912 euros, Aivo Ad-

amson 317 euros, Sulev Luiga 5,317 euros, Tõnu Toompark 3,317 euros, Marek Pohla 3,317 euros, Kaie Karniol 3,660 euros, Marianne Paas 2,000 euros.

## Audit committee

The task of the audit committee consists in advising the supervisory board in issues related to supervision. The committee exercises supervision of accounting, preparation and approval of budget and reporting, financial risk management, process of annual accounts and auditing, functionality of internal control system and the legality of their activity.

The audit committee has three members. A committee member is appointed for three years, but the supervisory board may decide to remove the committee member before the expiry of its term of office. Audit committee meetings are held not less than once in three months, nine meetings were held in 2017. In performance of its duties, the committee cooperates with the supervisory board, management board, internal auditors, auditors, and external experts if necessary.

Audit committee member who is not the

member of the supervisory board, will receive 75% of the monthly remuneration appointed to the member of the supervisory board of Riigi Kinnisvara AS. The chairman of the audit committee, who is not a member of the supervisory board, will receive 100% of the monthly remuneration appointed to the member of the supervisory board of Riigi Kinnisvara AS.

For the month when audit committee meeting takes place, the audit committee member who is the member of supervisory committee will receive additional remuneration 88 euros and chairman of the committee 133 euros.

In 2017, the committee included Guido Viik (chairman until 29.12.2017), Tarmo Porgand (member until 28.09.2017), Taavi Saat (chairman since 30.12.2017), Aet Tummeleht (member until 28.09.2017), Marianne Paas (member since 28.09.2017) and Kaie Karniol (member since 28.09.2017).

In 2017, audit committee members received remuneration as follows: Guido Viik 4,978 euros, Tarmo Porgand 440 euros, Taavi Saat 3,734 euros, Aet Tummeleht 2,609 euros, Marianne Paas 176 euros and Kaie Karniol 176 euros.

### **Cooperation of the management board and supervisory board**

The management board and supervisory board shall ensure full cooperation to ensure the best protection of the interests of the company. A joint ordinary meeting of the management board and supervisory board shall take place at least once a quarter, where the management board shall notify the supervisory board of significant facts in the business activities of the company, discuss the achievement of short-term and long-term goals and risks that may affect that.

### **Publication of information**

RKAS webpage [www.rkas.ee](http://www.rkas.ee) provides access to data and information subject to publication pursuant to legislation. Webpage provides access to annual reports, economic performance, economic indicators, overview of main activity, structure, brief strategy, news and notices and other information necessary for the general public. The information on the website (incl. news and notices) are constantly updated.

### **Financial reporting and auditing**

Financial reports of the company are prepared in accordance with the Estonian financial reporting standard. Principal requirements of the Estonian financial reporting standard are established in the Accounting Act of the Republic of Estonia, which is supplemented by the public sector financial accounting and reporting guidelines. The public sector financial accounting and reporting guidelines is based on the Estonian financial reporting standard.

The company shall select an auditor in consideration of auditor's independence, competence, reliability and auditing cost. Audit service is ordered in accordance with the Public Procurement Act. The annual report 2017 prepared by the management board is audited by audit company AS PricewaterhouseCoopers.

The management board of RKAS shall publish annual report and also quarterly interim reports. The members of the management board and supervisory board shall forward signed annual report to the general meeting for approval.



## Risk management

The purpose of RKAS risk management is to understand, assess and manage operational risks in order to ensure success, achieve set goals and reduce potential setbacks. Although risks hinder achievement of set goals, they are natural part of daily work of RKAS – they cannot always be avoided, but they can be managed. Risk management process generates information about risks and risk management measures. Collected information is considered and if necessary, the activities are adjusted or strategy is changed. Risk management ensures performance of RKAS customer duties and sustainability of business operation, and increase in profitability and value of the company for its shareholders. Risk assessment involves primarily the assessment of the impact on and occurrence of a risk in RKAS business operations.

Keywords in risk management in 2017 were the following.

- **Owner initiated specific control**

From May to September 2017, AS Deloitte Audit and Law Office Deloitte Legal OÜ carried out a specific control focusing on the organisation of sales of properties by RKAS and its 100% subsidiary Erika Neli AS during 2012–2016. Within the framework of specific control, assessment was given to the transfer process of seven objects and the activities of RKAS in adherence to legal instruments and established internal procedures.

The specific control did not detect any offences or transactions referring to a conflict of interest, however, it gave recommendations for improving the sales processes of RKAS. Based on these recommendations, RKAS renewed entire sales process and related internal procedures in 2017.

- **Procurements of external and internal auditor**

In connection with the arrival of the term of contract, new procurements were carried

out in 2017 to find partners for provision of external and internal audit service. AS PricewaterhouseCoopers is the new external auditor and PricewaterhouseCoopers Advisors AS internal auditor in 2017–2020.

- **Procurement of the operation of hotline**

Due to the arrival of the term of contract, a procurement was carried out to find new independent auditor for operating the hotline launched in RKAS in 2015 for the subsequent two years. Based on the results of the procurement we will continue cooperation with Ernst & Young Baltic AS.

The hotline, e-mail or website hint forms are available to employees of the company, cooperation partners and third parties. The information submitted in that manner will reach only an independent external auditor (Ernst & Young Baltic AS), who guarantees confidentiality and ensures the total anonymity of the person notifying, analyses the information and forwards a summary of

the hint to RKAS without reference to the source of the information.

- **Organisation of RKAS processes**

During the year, we organised processes throughout RKAS, incl. established new principles for preparing process descriptions and visualisation of processes.

- **Information security**

As a result of the analysis of the impact of crypto viruses that hit Estonia in 2016 and 2017, RKAS changed the processes of data handling and backup data. At the same time, all service level agreements between all owners of IT services and IT Department were renewed to ensure the quality of IT services.

- **Coherent action plans**

In 2017, entire company applied coherent methodology for preparation and monitoring of action plans based on strategy for 2017–2020. We continued risk assessment of ongoing projects based on the risk assessment framework Quick, Simple, Operative and Efficient System or KLOTS (Kiire,

Lihtne, Operatiivne ja Tõhus Süsteem) to ensure timely identification and management of operational risks.

KLOTS is prepared for all projects. It has to assess financial risks, management risks and operational risks. Risks of these three levels are in turn divided into risk universe that also contains risks related to security and occupational safety, market risks, quality risks and other external and internal risks of an organisation. The assessment involves impact (criticality) and probability (frequency) of risk, appointment of a person responsible for the risk and necessary hedge.

### **Prevention of corruption**

RKAS observes the principle of zero tolerance with regard to any form of corruption. Our activities are based on honesty and transparency, and we consider it important that all our employees comply with the same ethical principles.

In order to assure zero tolerance, RKAS established an ethical code of employees in

2014, specifying the principle of equal treatment, legal compliance, sense of responsibility, diligence, accuracy and prohibition on using any methods to distort competition when performing work duties. In 2015, we applied hotlines that allow anonymous submission of information regarding events that do not comply with good business practice and generally accepted moral standards. Based on mapping of corruption risks carried out at the end of 2016, the supervisory board established new principles for the prevention of corruption and a procedure for the prevention of conflicts of interest at RKAS to specify general principles set out in the code of ethics and determine particular tasks of every employee in the event of conflict of interest, incl. the terms for accepting gifts and refusing services. In-house training on the prevention of corruption was carried out in all RKAS subunits to introduce new principles.

In 2017, a new procedure for declaring personal interest entered into force, pursuant to which all employees of RKAS and its subsidiary OÜ Hooldus Pluss engaged in the or-

ganisation or preparation of public procurements will submit once a year a declaration of personal interest, comprising information on the holdings of the employees and persons related to the employees in companies, their membership in the management bodies of companies or other legal persons, their membership in professional associations, information on valid registration of economic activities and other data that could potentially cause conflict of interest.

In addition to the information presented in the declaration of interest, RKAS is subject to permanent auditing, which involves the assessment of possible risks of fraud, including situations of conflict of interest. There were no potential conflict of interests or activities related to suspected corruption ascertained among the employees of RKAS in 2017.



# GRI CONTENT INDEX

## Structure of Annual Report

This report is prepared based on GRI Sustainability Reporting Standards of Global Reporting Initiative (GRI) and it corresponds to Core level. According to the Core level of GRI Standards, this report recognises Universal Standards and Topic-Specific Standards in three areas – economy, environment and society.

RKAS is preparing an annual sustainability report for the fifth year in a row. The report covers the period from 01.01.2017 to 31.12.2017. The previous annual report was prepared based on G4 guidelines and principles of GRI and it covered the period from 01.01.2016 to 31.12.2016.

## Assessment of importance

### Methodology

When preparing the report for previous period (01.01.2016–31.12.2016), the assessment of importance was carried out in two dimensions: the impact on the business operations of RKAS and the impact on interested parties (previously stakeholders) of RKAS. The report was prepared in consideration of both the business operations of RKAS and the expectations of interested parties with regard to the contents of the report. The process resulted in establishing the list of reported topics with indicators to be published. During this period, the important topics were identified based on the topics and indicators published in 2016, and assessed based on their relevance and ongoing importance. At the same time, the importance of topics not discussed in the reports of earlier periods were assessed. As a result of the assessment

of importance, a few changes were made in the list of published topics and indicators.

### Interested parties

Pursuant to the definition of RKAS, interested parties are organisations and individuals reasonably affected by the activities of RKAS and whose activities may reasonably affect the ability of RKAS to implement strategies and achieve goals. Based on that, identified significant interested parties include:

- 1. The owner (represented by the Ministry of Finance) – sets objectives (owner's expectations) and exercises supervision over activities;**
- 2. Customers, including:**
  - a. Decision-makers – ministers, chancellors; vice-chancellors, heads of state agencies;**
  - b. Administrators – representatives of contractual partners receiving the service;**

**c. End-users – persons using the property and service, i.e. employees and officials operating in the building;**

**3. Employees – employees of the organisation;**

**4. Community – research facilities, professional associations, local residents, media;**

**5. Service providers (partners) – service providers with regard to development, construction, administration and upkeep of real estate.**

RKAS involves interested parties by regular work meetings, focussed satisfaction surveys and media coverage. Satisfaction surveys focus on the analysis of the situation of customers and employees and involve interested parties in further discussion. Regular meetings with customers, owner, service providers and cooperation partners ensure efficient workflow. Employees are involved through work meetings and corporate briefing days, operative information is submitted by electronic means. Communities and general public is informed

by electronic means of the company and through media. Where necessary, additional meetings and seminars with interested parties will be held.

### **Assessment results**

Assessment of importance of business activities of RKAS and interested parties was prepared based on topics that were assessed important in 2016. Meanwhile, the list of 27 topics used as a basis for assessment during the previous period was reviewed in order to identify additional topics that were not addressed in the report of 2016, but are important in terms of business activities of RKAS and/or interested parties this year.

After reviewing the topics, five of them were addressed in the report, see below.

1. Investments, real estate valuation and improvements
2. Energy consumption and efficiency
3. Economic performance
4. Procurement activities

### **5. Quality and competence of labour**

The topics assessed as important have been brought into compliance with the GRI Standards and are recognised in the in the GRI content index under the indicators of Topic-specific Standards.

Composition of important topics has been supplemented with additional organisation-specific indicators which are not contained in GRI standard, but are measurable performance indicators for RKAS. In connection with replacing GRI G4 guidelines with GRI Standards, the coding of RKAS-specific indicators has been adapted accordingly.

# GRI Content Index

The structure of Annual Report of RKAS corresponds to Core level of GRI Standards.

GRI content index

Reporting

UNIVERSAL STANDARDS		
STRATEGY AND ANALYSIS		
GRI 102-14	Statement from the Chairman of the Board	p 5
ORGANISATIONAL PROFILE		
GRI 102-1	Name of the organisation	Riigi Kinnisvara AS
GRI 102-2	Primary brands, products, and/or services	Ch. "Service portfolio" p 22
GRI 102-3	Location of the organisation's headquarters	Tallinn, Estonia
GRI 102-4	Number and list of countries, where the organisation operates	Estonia
GRI 102-5	The nature of ownership and legal form	p 2, 50
GRI 102-6	Markets served	Estonia
GRI 102-7	The scale of the reporting organisation and scope of activities	p 14, 22, 50
GRI 102-8	Information on employees by employment contract, and other workers	Ch. "Employees" p 36
GRI 102-41	Percentage of collective bargaining agreements in total number of employees	0
GRI 102-9	Organisation's supply chain	Ch. "Service portfolio" p 22
GRI 102-10	Significant changes during the reporting period regarding the organisation and its supply chain	No significant changes
GRI 102-11	Precautionary principles	p 44
GRI 102-12	External initiatives	ISO 9001:2015; ISO 14001:2015
GRI 102-13	Membership of associations	p 35
IDENTIFIED MATERIAL TOPICS AND BOUNDARIES		
GRI 102-45	Overview of entities included in the consolidated financial statements or equivalent documents of the organisation	p 50
GRI 102-46	Topics discussed in report and their boundaries	p 60
GRI 102-47	List of material topics	p 61
GRI 103-1	An explanation of the impact of material topics on organisation's business operation	p 61
GRI 102-48	The effect of any restatements of information given in previous reports, and the reason for such restatements	No such changes
GRI 102-49	Significant changes from previous reporting periods in the scope, boundaries and measuring methods of report	p 60

ENGAGEMENT OF INTERESTED PARTIES		
GRI 102-40	List of interested parties engaged by the organisation	p 60
GRI 102-42	The basis for identifying and selecting interested parties with whom to engage	p 60
GRI 102-43	Approach to engagement of interested parties, incl. frequency of the engagement by en-gagement type and by group of interested parties	p 61
G4-102-44	Key topics and concerns that have been raised through engagement of interested parties	p 27, 30
REPORT PROFILE		
GRI 102-50	Reporting period for the information provided	1.1.2017–31.12.2017
GRI 102-51	Date of most recent report	The most recent annual report was disclosed for period 1.1.2016–31.12.2016 on 09.08.2017
GRI 102-52	Reporting cycle	Annual
GRI 102-53	Contact point for questions regarding the report and its contents	info@rkas.ee
GRI 102-55	GRI content index	Core level, GRI content index p 62
GRI 102-56	Policy and current practice with regard to seeking external assurance for the report	Report has not been audited
GRI 102-54	Claims of reporting in accordance with the GRI Standards	The report is in accordance with the GRI Standards “Core” level
GOVERNANCE		
GRI 102-18	Governance structure of the organisation	Ch. “Organisational management” p 50
ETHICS		
GRI 102-16	Organisation’s mission and values, good practice and code of ethics	p 10, 12, 58
TOPIC-SPECIFIC STANDARDS		
TOPICS ASSESSED BY RKAS: ECONOMIC PERFORMANCE, INVESTMENTS, REAL ESTATE VALUATION AND IMPROVEMENTS, PROCUREMENTS		
ECONOMIC INDICATORS		
Topic: Economic performance		
GRI 103-2	Information on management approach	Ch. “Economic performance” p 14
GRI 201-1	Direct economic value generated and distributed	p 14
Topic: Indirect economic impacts		
GRI 203-1	Infrastructure investments and services supported	Ch. “Investments, real es-tate valuation and im-provements” p 28
Topic: Procurement		
GRI 103-2	Information on management approach	Ch. “Procurement activities” p 17
GRI-201-RKAS-1	Contested procurements	p 18

	Topic: Investments, real estate valuation and improvements	
GRI 103-2	Information on management approach	Ch. "Investments, real estate valuation and improvements" p 28, Ch. "Organisation of real estate development service" p 28
GRI-201-RKAS-2	Meeting deadlines of investment projects	p 29
GRI-201-RKAS-3	Adherence to budgets of investment projects	p 29
GRI-201-RKAS-4	Volume of repair works	p 29
TOPICS ASSESSED BY RKAS: ENERGY CONSUMPTION AND EFFICIENCY		
	ENVIRONMENTAL SUSTAINABILITY	
	Topic: Energy	
GRI 103-2	Information on management approach	Ch. "Energy consumption and efficiency" p 42
GRI 302-1	Energy consumption within the organisation	p 42
GRI 302-2	Energy consumption outside the organisation	p 42
GRI 302-3	Energy consumption intensity	p 44
GRI 302-4	Reduction of energy consumption	Ch. "Energy efficiency projects" p 46
	Topic: Water	
GRI 103-2	Information on management approach	Ch. "Energy and water consumption of the company" p 42
GRI-301-RKAS-1	Water consumption per premise and building type	p 44
	SOCIAL	
TOPICS ASSESSED BY RKAS: QUALITY AND COMPETENCE OF LABOUR		
	LABOUR PRACTICES AND DECENT WORK	
	Topic: Training and education	
GRI 103-2	Information on management approach	Ch. "Development of competence" p 37
GRI 404-2	Skill-building and lifelong learning programmes to support continued professional competitiveness of employees and help them cope with ending career	p 37

# ANNUAL ACCOUNTS

## Consolidated balance sheet

(in thousands of euros)

	31.12.2017	31.12.2016	Note no.
Assets			
Current assets			
Cash	35,628	14,803	
Receivables and prepayments	9,715	6,488	2
Inventories	14,962	12,756	5
<b>Total current assets</b>	<b>60,305</b>	<b>34,047</b>	
Fixed assets			
Receivables and prepayments	20,801	36,242	2, 9
Investment properties	7,859	9,014	6
Tangible assets	490,555	428,677	7
Intangible assets	1,441	926	8
<b>Total fixed assets</b>	<b>520,656</b>	<b>474,859</b>	
<b>Total assets</b>	<b>580,961</b>	<b>508,906</b>	

	31.12.2017	31.12.2016	Note no.
Liabilities and owner's equity			
Liabilities			
Current liabilities			
Loan liabilities	51,428	5,522	11
Debts and prepayments	25,659	24,646	12
Provisions	730	0	13
<b>Total current liabilities</b>	<b>77,817</b>	<b>30,168</b>	
Long-term liabilities			
Loan liabilities	95,453	97,895	
Debts and prepayments	32,631	33,846	
Target financing	0	35	
<b>Total long-term liabilities</b>	<b>128,084</b>	<b>131,776</b>	
<b>Total liabilities</b>	<b>205,901</b>	<b>161,944</b>	
Owner's equity			
Owner's equity of shareholders or partners of parent undertaking			
Share capital in nominal value	218,334	207,426	14
Non-registered share capital	1,056	0	
Share premium	1	1	
Legal reserve	4,452	3,782	
Retained profit (loss)	135,242	122,368	
Profit (loss) for financial year	15,975	13,385	
<b>Total owner's equity of shareholders or partners of parent undertaking</b>	<b>375,060</b>	<b>346,962</b>	
<b>Total owner's equity</b>	<b>375,060</b>	<b>346,962</b>	
<b>Total liabilities and owner's equity</b>	<b>580,961</b>	<b>508,906</b>	

# Consolidated income statement

(in thousands of euros)

	2017	2016	Note no.
Sales revenue	106,246	90,174	15
Cost of products (goods, services) sold	-82,282	-67,597	16
<b>Gross profit (loss)</b>		<b>22,577</b>	
Marketing costs	-1,172	-1,624	17
General administrative expenses	-4,222	-3,859	18
Other operating revenue	132	48	
Other operating charges	-873	-797	
<b>Total operating profit (loss)</b>	<b>17,829</b>	<b>16,345</b>	
Other financial income and expenses	-1,854	-2,960	20
<b>Profit (loss) before income tax</b>	<b>15,975</b>	<b>13,385</b>	
<b>Profit (loss) for financial year</b>	<b>15,975</b>	<b>13,385</b>	
Including:			
Share of profit (loss) of shareholders/partners of parent undertaking	15,975	13,385	

# Consolidated cash flow statement

(in thousands of euros)

	2017	2016	Lisa nr
Cash flow from operating activities			
Operating profit (loss)	17,829	16,345	
Adjustments			
Depreciation and impairment of fixed assets	18,342	11,721	6,7,8
Other adjustments	730	0	13
<b>Total adjustments</b>	<b>19,072</b>	<b>11,721</b>	
Change in operating claims and prepayments	12,372	2,814	
Change in inventories	6,983	4,260	
Change in operating liabilities and prepayments	-1,947	4,204	
<b>Total cash flow from operating activities</b>	<b>54,309</b>	<b>39,344</b>	
Cash flows from investing activities			
Paid upon acquisition of tangible and intangible assets	-74,573	55,683	
Received from target financing	-35	17	
Interest received	2	112	
<b>Total cash flow from investing activities</b>	<b>-74,606</b>	<b>-55,554</b>	
Cash flows from financial activities			
Loans received	48,500	0	11
Repayments of loans received	-5,462	-5,744	11
Interest paid	-1,916	-3,027	20
<b>Total cash flows from financial activities</b>	<b>41,122</b>	<b>-8,771</b>	
<b>Total cash flows</b>	<b>20,825</b>	<b>-24,981</b>	
Cash and cash equivalents at the beginning of the period	14,803	39,784	
<b>Change in cash and cash equivalents</b>	<b>20,825</b>	<b>-24,981</b>	
Cash and cash equivalents at the end of the period	35,628	14,803	

# Consolidated statement of changes in owner's equity

(in thousands of euros)

	Total owner's equity of shareholders or partners of parent undertaking					
	Share capital in nominal value	Non-registered share capital	Share premium	Legal reserve	Retained profit (loss)	Total
<b>31.12.2015</b>	188,459	2,179	0	2,998	57,726	251,362
Profit (loss) for financial year	0	0	0	0	13,385	13,385
Share capital issued	18,967	-2,179	1	0	0	16,789
Change in reserve	0	0	0	784	-784	0
Other changes in owner's equity	0	0	0	0	65,426	65,426
<b>31.12.2016</b>	207,426	0	1	3,782	135,753	346,962
Profit (loss) for financial year	0	0	0	0	15,975	15,975
Share capital issued	10,908	1,056	0	0	0	11,964
Change in reserve	0	0	0	670	-670	0
Other changes in owner's equity	0	0	0	0	159	159
<b>31.12.2017</b>	218,334	1,056	1	4,452	151,217	375,060

Additional information concerning the entries of owner's equity is specified in Note no. 14 of the Annual Accounts.

# NOTES TO ANNUAL ACCOUNTS

## Note 1

### Accounting principles

#### General information

These consolidated annual accounts 2017 of Riigi Kinnisvara AS (abbr. RKAS or Group) have been prepared in compliance with Estonian financial reporting standard and by using the acquisition cost principle, except in the cases described in the principles below. Main requirements of the Estonian financial reporting standard are prescribed in the Accounting Act of the Republic of Estonia and supplemented by the public sector financial accounting and reporting guidelines. The public sector financial accounting and reporting guidelines are based on the Estonian financial reporting standard.

Consolidated annual accounts have been prepared in thousands of euros, unless indicated otherwise.

#### Preparation of consolidated report

Consolidated accounts contain line-by-line consolidated financial indicators of the subsidiary under control of parent undertaking. All in-group receivables and payables, and unrealised profit and loss from transactions between the companies of the group are fully eliminated in the annual accounts.

Subsidiary is a company under control of parent undertaking. Subsidiary is considered to be under control of parent undertaking, if the group, either directly or indirectly, has more than 50% of the voting shares of the subsidiary or is in other way capable of controlling the activities and financial policy of the subsidiary.

Subsidiary is consolidated from the date of establishment of control until the date of ending the control by the group.

Pursuant to the Accounting Act of the Republic of Estonia, the notes to consolidated annual accounts shall disclose the separate initial unconsolidated reports of the consolidating unit (parent undertaking). Preparation of initial reports of parent undertaking follows the same accounting policies that apply to preparation of consolidated annual accounts, except for investments in subsidiaries and associated undertakings, which are presented at acquisition cost in consolidated report (minus write-downs where necessary).

## Financial assets

The financial assets of the group include cash and cash equivalents, trade receivables and other receivables.

Cash and cash equivalents, trade receivables and other receivables, except for receivables acquired for the purpose of resale, are recorded at adjusted acquisition cost. Adjusted acquisition cost of short-term receivables is generally equal to their nominal value (minus repayments and potential write-downs), and thus the short-term receivables are presented on the balance sheet as likely receivable amounts.

For calculating the adjusted acquisition cost of long-term financial assets, the financial assets are at first recorded at fair value, and during subsequent periods recorded by using effective interest method.

## Trade receivables

Short-term receivables generated in the course of ordinary business activities of the group are presented as trade receivables. Trade receivables are presented at adjusted acquisition cost (i.e. nominal value minus repayments and potential write-downs).

Write-downs of claims are recorded if there is objective evidence that not all amounts receivable shall be received in according to initial contractual terms. The circumstances that indicate potential impairment of claims include bankruptcy or substantial financial difficulties of the debtor and failure to comply with payment dates. Impairment of individually significant receivables (i.e. need for write-down) is valued separately for every purchaser, based on net present value of the amounts likely to be received in future. In case of individually insignificant receivables, where the impairment is not accounted for, the approximation method is used. Based on previous experience, the receivables that are overdue by more than 90 days are considered

unlikely (i.e. write-down) to the extent of 50%, and the receivables that are overdue by more than 180 days without any likelihood of receiving the money are considered unlikely to the extent of 100%. Receivables are deemed unlikely earlier, if there are other events indicating that the value covered by receivable is lower than book value of the claim.

The write-down amount of unlikely receivables is the difference between the book value of these receivables and present value of future cash flows, by using effective interest method. Book value of claims is reduced by the write-down amount of unlikely receivables and loss from write-down is recorded in the income statement as miscellaneous operating expenses. If a receivable is deemed uncollectible, then the receivable and relevant write-down will be removed from the balance sheet. Upon receipt of previously written down unlikely receivables, they are recorded as reduction in unlikely receivables.



### **Impairment of financial assets**

On each balance sheet day, an assessment is made whether there are signs regarding the impairment of financial asset or group of financial assets recorded by using adjusted acquisition cost or acquisition cost method. If such signs are present, the financial assets recorded at adjusted acquisition value shall be written down to the present value of payments likely to be received from financial asset in future (discounted by fixed effective rate upon first recording of given financial asset) and financial assets recorded at acquisition value shall be written down to the amount that could reasonably be received upon sales of particular financial asset as at the balance sheet date. Write-downs from impairment are recorded in income statement as expense.

### **Cash**

Cash and cash equivalents presented on the balance sheet include bank balance and the balance of short-term bank deposits.

Cash equivalents indicated in the cash flow statement are high-liquidity, risk-free and short-term investments, that can be quickly realised.

Cash flows from operating activities are prepared by using indirect method. Cash flows from investing and financial activities are presented as gross accruals and payments of the reporting period.

### **Transactions recorded in a foreign currency and financial assets and liabilities in foreign currency**

All other currencies besides functional currency euro (euro is the functional currency of parent undertaking and subsidiary) are considered foreign currency. Presentation of transactions in foreign currency is based on official exchange rates of European Central Bank on the transaction date. Assets and liabilities in foreign currency (receivables and loans paid in money) are converted to functional currency on the basis of the official exchange rates of the European Central Bank as at the balance sheet date. Profit and loss on translation of foreign currencies are recorded in the income statement of the reporting period.

## Inventories

Goods purchased for resale and raw materials are registered at acquisition cost, consisting of purchase price, non-refundable taxes and directly acquisition-related transportation costs and other direct costs minus discounts.

Registered immovables delivered as non-monetary contribution to share capital, and subject to sale, are recorded under inventories. They are registered at their usual value indicated in assessment reports, plus transaction costs.

Inventories are valued considering which is lower, the acquisition cost or net realisation cost. Net realisation cost is estimated sales price, minus estimated expenses necessary for bringing the product in condition ready for sale, marketing and closing the sale. Individual evaluation method is used for accounting of inventories.

## Investment properties

Investment properties include real estate (land or a building) maintained by the group (as an owner or leased under finance lease) for the purpose of gaining income from rent or to increase market value, and they are not used in the economic activities of the group.

For the purposes of the public sector financial accounting and reporting guidelines, investment properties only include such land or building or part of a building leased to public sector for the purpose of gaining income from rent or to increase market value, and not used in the main activity of any of the public sector entity. Buildings and premises used by the public sector entities are recorded as tangible assets.

Investment properties are at first registered on the balance sheet at acquisition cost, containing the transaction fees directly related to the acquisition. Later on, pursuant to the public sector financial accounting and reporting guidelines, the investment properties will be recorded at acquisition cost minus accu-

mulated depreciation and potential write-downs resulting from reduction in value.

Investment properties are depreciated by linear method. Component accounting is not used and assets and its parts are subject to common depreciation rate. The depreciation rate applied to investment properties of the group is 4%. Land is not depreciated.

Future expenses are added to the acquisition cost of the investment properties if it is likely that the group will gain economic benefit in future and the acquisition cost of expenses can be measured on a reliable basis. Other future expenses (such as repair, maintenance) are recorded as expenses of the reporting period. Upon replacement of any component of the object of investment property, the acquisition cost of the new component shall be added to the acquisition cost of the object and the carrying amount of the component replaced shall be removed from balance sheet.

Investment property shall no longer be recorded on the balance sheet upon retirement

or disposal of the object, unless the property is likely to generate economic benefit. The profit or loss resulting from discontinuation of recording the investment property is recorded in income statement of the period when recording ended as revenue from sales of inventories.

Only if the purpose of using the property changes so that the object formerly at the disposal of private sector transfers to the disposal of public sector, the asset is reclassified as fixed asset. As of the date of change, the object shall be subject to accounting principles applicable to the group of assets where it has been added.

### **Shares in subsidiaries and associated undertakings**

Associated undertaking is an undertaking under significant influence, but not under control of the group. Generally, significant influence is deemed to exist if the group has 20% to 50% of voting shares of the undertaking. Investments in associated undertakings are recorded on consolidated balance sheet by equity method. According to that method, the

investment is at first registered at its acquisition cost, which is later on adjusted by investor's share in changes in the owner's equity of the investment object (both changes in profit/loss of the associated undertaking, and other owner's equity entries) and by eliminating or depreciation of the difference in book value and fair value calculated by purchase analysis of the assets, liabilities and conditional liabilities of the investment object.

If the share of group recorded in the loss of the associated undertaking by equity method exceeds the book value of the associated undertaking, the book value of the investment will be reduced to zero. Further losses are recorded off-balance sheet.

### **Tangible and intangible assets**

Tangible assets are assets with useful life more than one year and cost over 5,000 euros. Assets with useful life more than one year, but acquisition cost less than 5,000 euros are charged off at 100% when taken into use. Assets with lower value cost are recorded off-balance sheet.

Tangible assets are first recorded at acqui-

sition cost, consisting of purchase price and directly acquisition-related expenses. Loan interest expenses are not capitalised at acquisition cost of fixed assets.

Later on, tangible assets are recorded on the balance sheet at acquisition value, after deducting accumulated depreciation and potential write-downs resulting from decrease in value.

Later expenditure related to registered tangible asset (e.g. replacement of certain parts of an asset) will be added to the book value of assets after meeting the following criteria:

- (a) It is likely that it will provide the group with future financial gain, and
- (b) their acquisition cost can be measured on reliable basis.

Replaced parts are written off the balance sheet. All other expenses are recorded as period costs for the period when they incurred.

Tangible assets are depreciated by linear method. Depreciation rate is calculated separately for each group of fixed asset, depending on its useful life.

Land is not depreciated.

Depreciation shall be calculated as of the moment of taking the asset into use for the purpose intended by the management and it shall be no longer depreciated when carrying amount exceeds book value, the asset is finally removed from use, or upon reclassification into fixed assets to be resold.

Intangible asset is only registered after meeting the following criteria:

- asset is under control of the group;
- the group is likely to receive revenue from using the asset;
- acquisition cost of the asset can be measured on a reliable basis.

Registered immovables used on the basis of the contract for right of superficies

In addition to the registered immovables owned by the group, the tangible assets include fixed assets used based on the contract for right of superficies. Group renovated the buildings on the registered immovables used based on the contract for right of superficies and records them as fixed assets until the ex-

piry of the contract. Accounting principle is identical to the accounting principle used by the group for tangible assets.

Registered payments for a right of superficies  
Payments for a right of superficies are registered at discounted value, because the payment obligation becomes due at the expiry of the contract. Value of the assets will increase linearly, until the due date of the right of superficies.

Intangible assets are at first registered at acquisition cost, consisting of purchase price and directly acquisition-related expenses. Later on, intangible assets are recorded on the balance sheet at acquisition value, after deducting accumulated depreciation and potential write-downs resulting from decrease in value.

Impairment of assets in case of fixed assets required for provision of public service  
According to the public sector financial accounting and reporting guidelines, the value of assets is not tested and the impairment of assets to cover value is not recorded in case

of fixed assets required for provision of public service, unless the impairment of asset is due to its deterioration or its discontinued use in part or in full for any other reason.

Impairment of assets, except for fixed assets required for provision of public service

On each balance sheet day, an assessment is made whether there are signs regarding the impairment of assets. If there are signs indicating impairment of an asset below its book value, an impairment test shall be performed to find the cover value of the asset. If the cover value test cannot be performed for a single asset, the impairment test shall be performed with the smallest asset group, where that asset belongs to (cash-generating unit).

Cover value equals to the higher net sales price of asset minus transaction fees and value in use. Value in use is the present value of cash flows likely to be received from use of asset and from the sales thereof, using expected profitability of investments with similar risk level as discount rate.

Assets that have been written down once shall be assessed on the subsequent balance sheet date to see whether the cover value of the asset has increased. If the impairment test shows that the cover value of asset or asset group (cash-generating unit) has exceeded book value, the former write-down is reversed and the book value of the asset shall be increased to the amount that would have been achieved in view of normal depreciation during the period. Reversal of write-down is recorded in the income statement of the reporting year as reduction of fixed asset write-down expense.

#### Useful life by fixed asset group (years)

Fixed asset group	Useful life
Buildings and structures	25 years
Furnishings	5-10 years
Data processing equipment	3 years
Intangible assets	2-10 years

#### Lease

Financial lease includes lease contract, where all significant risks and benefits related to the ownership of assets are transferred to the lessee, except for lease contracts between entities belonging to common consolidation group indicated in public sector financial accounting and reporting guidelines, which are always recoded as operating lease. All other lease transactions are recorded as operating lease.

##### Group as lessee

Financial lease is recorded on the balance sheet as an asset and a liability at fair value or as net present value of minimum lease payments, whichever is the lowest. Lease payments are divided into financial expense (interest cost) and reduction of liability. Financial costs are divided over the lease period so that interest rate would be the same liability at every moment.

Assets leased under financial lease are depreciated similar to acquired fixed assets, whereas depreciation period consists in the estimated useful life of the asset or the period of validity of lease relationship, whichever

is the shortest. Direct costs incurred by the lessee with regard to entry into the financial lease contracts are recorded under acquisition cost of leased assets.

Operating lease payments shall be recorded in income statement as linear expenses during the lease period.

##### Group as lessor

Assets leased under financial lease are recorded on the balance sheet as receivable in the amount of net investment made in financial lease (equal to present value of lease payments to be received, plus unguaranteed balance of leased assets at the end of lease period). The lease payments received from the lessee are divided into principal repayments of financial lease and financial income. Financial income is divided over the lease period so that lessor's rate of return would be the same with regard to net investment made in financial lease at every moment. Direct expenses incidental to the entry into lease contracts (commission fees and notary fees) that are incurred by the lessor shall be taken into account when calculating effective interest rate of lease and receivable financial lease,

and shall be recorded as reduction of revenue during the lease period.

Assets leased under operating lease shall be recorded on the balance sheet as usual, similar to other assets recorded on the group's balance sheet. Leased assets are depreciated based on depreciation principles applied in the group to assets of the same type. Operating lease payments shall be recorded as linear expenses during the lease period. First expenses incidental directly to the entry into operating lease contracts shall be recorded on the balance sheet of the lessor as assets (under the same entry as leased assets) and depreciated as costs during the lease period in proportion to recording income from rent.

### **Financial obligations**

All financial obligations (trade creditors, loan obligations, accruals, issued bonds and other short-term and long-term debt) are at first registered at their acquisition cost, which includes all directly acquisition related costs. Later financial obligations are recorded at adjusted acquisition cost.

Adjusted acquisition cost of short-term financial obligations generally equals to their nominal value, and therefore short-term financial obligations are recorded on the balance sheet in the amount payable. Adjusted acquisition cost of long-term financial obligations are at first registered at fair value of the fee received (after deducting transaction costs), and in subsequent periods interest expenses on the obligations are calculated by using effective interest rate.

Financial obligation is classified as short-term, if its due date is within twelve months from the balance sheet date or if the group has no right to postpone the payment of liability for more than 12 months after balance sheet date. Loan obligations, the repayment date of which is within 12 months from balance sheet date, but refinanced as long-term after the balance sheet date and before approval of annual report, shall be recorded as short-term. Additionally, revocable loan liabilities on a balance sheet date due to violation of provisions established in loan contract shall be recorded as short-term.

### **Provisions and potential liabilities**

Provision is recorded on the balance sheet if the group is subject to legal or operation-related obligation arising from a binding event before the balance sheet date, realisation of which is unlikely and the amount of provision can be measured on a reliable basis. Evaluation of provisions is based on management evaluations, experience and the opinions of independent experts if necessary, and they are recorded on the balance sheet in the amount necessary to meet obligations related to provision as at the balance sheet date.

Commitments, guarantees and other obligations that, under certain conditions, may become liability in the future, but are estimated by the management to be more likely not realised than realised, are published as potential liabilities in the Notes to Annual Accounts.

### **Target financing**

Target financing is recorded as revenue if it becomes collectible and potential criteria related to target financing are met. Received

target financing, where the criteria for recording as revenue are not met, the financing will be recorded on the balance sheet as liability. Target financing is registered at fair value of the asset received or to be received. Revenue from target financing is recorded under entry "Other operating revenue".

Mediation of target financing for fixed assets is recorded on an accruals basis. In situations, where RKAS is simultaneously the mediator of target financing and builder of assets, the aid received is recorded under revenues according to the moment when the assets were acquired or built. Mediation of target financing is recorded under expenses on every balance sheet date according to the stage of completion of the asset built.

Upon non-monetary target financing, the received assets are registered on the balance sheet at fair value.

## Revenues

Revenue from sales of assets and goods is recorded at fair value of the payment received

or to be received, considering all discounts and benefits.

The revenues from sales of assets are recorded as of the moment when significant ownership-related risks have been transferred from the seller to the purchaser, sales revenue and transaction-related expenses can be evaluated on reliable basis, and receipt of revenue from a transaction is probable.

The revenues from sales of services are recorded after providing the service, or if the service is provided over a longer period of time, then based on the stage of completion.

The revenues from sales of services provided over a longer period under projects with significant scale are recorded based on stage of completion of the service provided on the balance sheet date, provided that the end result of the transaction comprising the provision of service (i.e. revenues and costs related to the transaction) can be determined on a reliable basis, and receipt of revenue from a transaction is probable. Revenue and profit received from providing the service shall be recorded proportionally in the same periods

as the costs related to providing the service.

The stage of completion of the service provided is determined by using inspection of completed works.

If the end result of the transaction or project comprising the provision of service cannot be determined on a reliable basis, but it is likely that the group can cover at least the costs related to the service, the cost is recorded only to the extent of actual costs related to the performance of the contract. If it is probable that total cost incidental to providing the service would exceed the revenue gained from providing the service, then the estimated loss shall be recorded in full immediately.

Interest income is recorded if the receipt of revenue is probable and the amount of revenue can be measured on a reliable basis. Interest income is recorded by using effective interest rate, except in cases where the receipt of interest is uncertain. In that case, the interest income is calculated on cash basis.

Interest income from financial lease contracts is recorded under sales revenue.

## Taxation

Pursuant to currently valid legislation in Estonia, the profit of the company is not the object of taxation. Instead, income tax is paid on dividends, fringe benefits, gifts, entertaining expenses, non-business payments and transfer price adjustments. The taxation rate of distributed profit is 20/80 on net amount to be paid. Under certain conditions, it is possible to distribute gained dividends without further income tax expense. Corporate income tax due to payment of dividends is recorded as liability and in income statement as income tax expense at the same period when dividends are declared, irrespective of the period for which they are declared or when they are actually paid out. The obligation to pay income tax occurs on the 10th date of the month following the payment of dividends.

Since 2019, it is possible to apply taxation rate 14/86 on dividend payments. Such more favourable tax rate can be used for dividend payments reaching up to average dividend payments of three preceding financial years, taxed with taxation rate 20/80. The year

2019 is the first year for calculating the average dividend payment of three preceding financial years.

Due to the peculiarity of the taxation system, the companies registered in Estonia do not have differences between the taxation-based and book value of assets and thus there are no deferred income tax claims or obligations. Balance sheet does not present potential income tax liability with regard to payment of dividends resulting from profit distribution. Maximum income tax obligation incidental to payment of dividends based on distribution of profit, is provided in the notes to the annual accounts.

## Note 2

### Receivables and prepayments

(in thousands of euros)

	31.12.2017	Distribution by remaining period			Note no.
		Within 12 months	Within 1-5 years	More than 5 years	
Trade receivables	3,966	3,966	0	0	
Accounts receivable	3,972	3,972	0	0	
Unlikely receivables	-6	-6	0	0	
Prepaid and deferred taxes	4,487	4,487	0	0	3
Other receivables	44	44	0	0	
Accrued income	44	44	0	0	
Prepayments	93	93	0	0	
Expenditure to be charged	54	54	0	0	
Other prepayments	39	39	0	0	
Short-term financial lease	1,125	1,125	0	0	9
Long-term financial lease	20,801	0	4,478	16,323	9
<b>Total receivables and prepayments</b>	<b>30,516</b>	<b>9,715</b>	<b>4,478</b>	<b>16,323</b>	

31.12.2016

Distribution by remaining period

Note no.

		Within 12 months	Within 1-5 years	More than 5 years	
Trade receivables	2,949	2,949	0	0	
Accounts receivable	2,954	2,954	0	0	
Unlikely receivables	-5	-5	0	0	
Prepaid and deferred taxes	1,512	1,512	0	0	3
Other receivables	46	46	0	0	
Accrued income	46	46	0	0	
Prepayments	125	125	0	0	
Expenditure to be charged	34	34	0	0	
Other prepayments	91	91	0	0	
Short-term financial lease	1,856	1,856	0	0	9
Long-term financial lease	36,242	0	7,412	28,830	9
<b>Total receivables and prepayments</b>	<b>42,730</b>	<b>6,488</b>	<b>7,412</b>	<b>28,830</b>	

Decrease in financial lease compared to the end of,2016 was due to purchasing of several financial lease objects by local governments in,2017.

## Note 3

### Prepaid taxes and taxes payable

(in thousands of euros)

	31.12.2017		31.12.2016	
	Prepayment	Taxes payable	Prepayment	Taxes payable
Corporate income tax	0	7	0	5
Value added tax	930	39	517	33
Personal income tax	0	172	0	176
Social tax	0	317	0	331
Mandatory funded pension	0	17	0	19
Unemployment insurance premium	0	21	0	22
Land tax	0	-1	0	-1
Prepaid account balance	3,557		995	
<b>Total prepaid taxes and taxes payable</b>	<b>4,487</b>	<b>572</b>	<b>1,512</b>	<b>585</b>

See also Annex 2 and 12

Tax authority has the right to check the tax accounting of the group within up to 5 years after submitting the tax return and, upon detection of errors, prescribe additional tax amount, interest and penalty. According to the estimation of the management of the group, there are no circumstances, based on which the tax authority could order the group to pay significant additional tax amount.

## Note 4

### Shares in subsidiaries

(in thousands of euros)

#### Shares in subsidiaries, general information

Registry code of subsidiary	Name of subsidiary	Country of location	Main activity	Holding (%)	
				31.12.2016	31.12.2017
10963751	Hooldus Pluss OÜ	Estonia	Servicing and construction of real estate	100	100

#### Shares in subsidiaries, detailed information

Name of subsidiary	31.12.2016	Acquisition	Sales	Dividends	Profit (loss) by equity method	Other changes	31.12.2017
Hooldus Pluss OÜ	3	0	0	0	0	0	3
<b>Total shares in subsidiaries at the end of previous period</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>

## Note 5 Inventories

(in thousands of euros)

	31.12.2017	31.12.2016
Goods for resale	14,962	12,756
Total inventories	14,962	12,756

In 2017, there were write-downs for 55 thousand euros (713 thousand in 2016) due to decrease in net realisation cost of registered immovable held for sale recorded as inventories.

## Note 6

### Investment properties

(in thousands of euros)

#### Acquisition cost method

	Land	Buildings	Total
<b>31.12.2016</b>			
Acquisition cost	2,847	7,660	10,507
Accumulated depreciation	-415	-1,078	-1,493
<b>Carrying amount</b>	<b>2,432</b>	<b>6,582</b>	<b>9,014</b>
Depreciation cost	0	-285	-285
Re-classification	0	-1,320	-1,320
Other changes	0	450	450
<b>31.12.2017</b>			
Acquisition cost	2,847	6,750	9,597
Accumulated depreciation	-415	-1,323	-1,738
<b>Carrying amount</b>	<b>2,432</b>	<b>5,427</b>	<b>7,859</b>

In 2017, investment properties for 450 thousand euros were added as non-monetary contribution to share capital (2,887 in 2016). Additions to share capital are recorded under "Other changes".

As RKAS does not divide its real estate portfolio into investment properties and fixed assets in its economic activities, there is no separate accounting of the revenue gained from investment properties and costs directly related to administration. The said costs are included in the costs of products sold.

Like on 31.12.2016, there were no investment properties pledged as security of loan obligations as at 31.12.2017.

## Note 7

### Tangible assets

(in thousands of euros)

	Land	Buildings	Comput- ers and computer systems	Machinery and equipment	Other tangible assets	Unfinished projects	Prepay- ments	Unfinished projects and pre- payments	Total
<b>31.12.2015</b>									
Acquisition cost	35,163	252,589	547	547	6,475	87,990	990	88,980	383,754
Accumulated depreciation	0	-64,297	-396	-396	-3,223	0	0	0	-67,916
<b>Carrying amount</b>	<b>35,163</b>	<b>188,292</b>	<b>151</b>	<b>151</b>	<b>3,252</b>	<b>87,990</b>	<b>990</b>	<b>88,980</b>	<b>315,838</b>
Purchases and improvements	0	0	12	12	12	48,708	79	48,787	48,811
Depreciation cost	0	-10,550	-73	-73	-455	0	0	0	-11,078
Write-downs from impairment	0	-240	0	0	0	0	0	0	-240
Reclassification	-742	79,622	0	0	611	-80,551	0	-80,551	-1,060
Reclassification from unfinished projects	61	79,863	0	0	611	-80,535	0	-80,535	0
Reclassifications as investment properties	139	693	0	0	0	0	0	0	832
Reclassification as inventories	-942	-934	0	0	0	-16	0	-16	-1,892
Other changes	4,996	71,410	0	0	0	0	0	0	76,406
<b>31.12.2016</b>									

	Land	Buildings	Computers and computer systems	Machinery and equipment	Other tangible assets	Unfinished projects	Prepayments	Unfinished projects and prepayments	Total
<b>31.12.2016</b>									
Acquisition cost	39,417	402,816	559	559	7,099	56,147	1,069	57,216	507,107
Accumulated depreciation	0	-74,282	-469	-469	-3,679	0	0	0	-78,430
<b>Carrying amount</b>	<b>39,417</b>	<b>328,534</b>	<b>90</b>	<b>90</b>	<b>3,420</b>	<b>56,147</b>	<b>1,069</b>	<b>57,216</b>	<b>428,677</b>
Purchases and improvements	0	0	0	0	0	75,317	83	75,400	75,400
Purchase of new buildings, new construction, improvements						74,825	83	74,908	74,908
Other purchases and improvements			0	0	0	492	0	492	492
Depreciation cost	0	-16,873	-58	-58	-834	0	0		-17,765
Reclassification	-2,428	30,234	0	0	5,797	-37,225	-277	-37,502	-3,899
Reclassification from unfinished projects	222	31,837	0	0	5,797	-37,202	-1	-37,203	653
Reclassification as inventories	-2,650	-1,603	0	0	0	-23	-276	-299	-4,552
Other reclassification	0	0	0	0	0	0	0	0	0
Other changes	949	7,195	0	0	0	-2	0	-2	8,142
<b>31.12.2017</b>									
Acquisition cost	37,938	437,760	559	559	12,896	94,237	875	95,112	584,265
Accumulated depreciation	0	-88,670	-527	-527	-4,513	0	0	0	-93,710
<b>Carrying amount</b>	<b>37,938</b>	<b>349,090</b>	<b>32</b>	<b>32</b>	<b>8,383</b>	<b>94,237</b>	<b>875</b>	<b>95,112</b>	<b>490,555</b>

The largest of unfinished projects are the construction of Tallinn Prison with current acquisition cost of 67 million euros and development project at Lubja 4 for 18 million euros.

## Note 8

### Intangible assets

(in thousands of euros)

	Computer software	Unfinished projects and prepayments	Total
<b>31.12.2015</b>			
Acquisition cost	959	367	1,326
Accumulated depreciation	-781	0	-781
<b>Carrying amount</b>	178	367	545
Purchases and improvements	34	426	460
Depreciation cost	-79	0	-79
Other changes	707	-707	0
<b>31.12.2016</b>			
Acquisition cost	1,700	86	1,786
Accumulated depreciation	-860	0	-860
<b>Carrying amount</b>	840	86	926
Purchases and improvements	0	752	752
Depreciation cost	-237	0	-237
Other changes	356	-356	0
<b>31.12.2017</b>			
Acquisition cost	2,056	482	2,538
Accumulated depreciation	-1,097	0	-1,097
<b>Carrying amount</b>	959	482	1,441

## Note 9

### Financial lease

(in thousands of euros)

#### Reporting entity as lessor

	31.12.2017	Distribution by remaining period			Interest rate	Maturity
		within 12 months	within 1-5 years	more than 5 years		
LG schools (option to purchase)	21,647	1,091	4,342	16,214	0.51 - 3.80%	08.2025-01.2039
Other with option to purchase	279	34	136	109	0.51%	01.2026
<b>Total financial lease liabilities</b>	<b>21,926</b>	<b>1,125</b>	<b>4,478</b>	<b>16,323</b>		

	31.12.2016	Distribution by remaining period			Interest rate	Maturity
		within 12 months	within 1-5 years	more than 5 years		
LG schools (option to purchase)	37,785	1,822	7,277	28,686	0.62 - 4.40%	08.2025-01.2039
Other with option to purchase	313	34	135	144	0.62%	01.2026
<b>Total financial lease liabilities</b>	<b>38,098</b>	<b>1,856</b>	<b>7,412</b>	<b>28,830</b>		

See Note 2.

#### Reporting entity as lessee

	31.12.2017	Distribution by remaining period		
		within 12 months	within 1-5 years	more than 5 years
<b>Total financial lease liabilities</b>	<b>507</b>	<b>45</b>	<b>104</b>	<b>358</b>

	31.12.2016	Distribution by remaining period		
		within 12 months	within 1-5 years	more than 5 years
<b>Total financial lease liabilities</b>	<b>80</b>	<b>59</b>	<b>21</b>	<b>0</b>

## Note 10

### Operating lease

(in thousands of euros)

#### Reporting entity as lessor

	2017	2016
Operating lease revenue	61,013	50,384
Carrying amount of assets leased or rented		
Property investments	6,220	8,074
Other assets	380,355	301,734
<b>Total</b>	<b>386,575</b>	<b>309,808</b>

Operating lease contracts, where tenants have option to purchase the property, has annual lease revenue of 752 thousand euros (759 thousand euros in 2016) and asset's carrying amount as at the end of the reporting years is 2,998 thousand euros (3,081 thousand euros in 2016).

Majority of contracts have a clause that rent can be adjusted once a year based on consumer price index.

Investment properties with carrying amount of 1,639 thousand euros (1,772 thousand euros in 2016) do not earn revenue, because they are not leased and are waiting for new business solutions.

A for investment properties see Note no. 7.

#### Reporting entity as lessee

	2017	2016
Operating lease expense	6,254	5,379

In 2017, majority of leased assets consisted in buildings constructed by and leased from private sector, which are then subleased to the customers of the group.

In 2017, the lease revenue from the said buildings amounted to 6,804 thousand euros and lease expense 5,933 thousand euros (revenue of 5,401 thousand euros and expense of 5,197 thousand euros in 2016).

## Note 11

### Loan liabilities

(in thousands of euros)

	31.12.2017	Distribution by remaining period		
		within 12 months	within 1-5 years	more than 5 years
Long-term loans				
<b>Total long-term loans</b>	47,824	1,333	6,083	40,408
Long-term bonds				
<b>Total long-term bonds</b>	98,550	50,050	0	48,500
<b>Total financial lease liabilities</b>	507	45	104	358
<b>Total loan liabilities</b>	<b>146,881</b>	<b>51,428</b>	<b>6,187</b>	<b>89,266</b>
	31.12.2016	Distribution by remaining period		
		within 12 months	within 1-5 years	more than 5 years
Long-term loans				
<b>Total long-term loans</b>	49,437	1,613	5,775	42,049
Long-term bonds				
<b>Total long-term bonds</b>	53,900	3,850	50,050	0
<b>Total financial lease liabilities</b>	80	59	21	0
<b>Total loan liabilities</b>	<b>103,417</b>	<b>5,522</b>	<b>55,846</b>	<b>42,049</b>

The interest rate of long-term bank loans and bonds is based on Euribor for either six or twelve months or fixed ISDAFIX2 EUR-ISDA-EURIBOR ten years swap rate, plus margin 0.22-1.00% a year. Interest rate of 6 months of long-term bank loan due 2038 is 0.069%. Repayment dates are between 2018 and 2038 (incl. long-term loan balance as at 31.12.2017 in the sum of 47,825 thousand euros maturing in 2038 and long-term bonds maturing 2027). Underlying currency is EUR.

Financing for redemption of bond is planned through refinancing and partially through sales of schools. See Note 27. Loan obligations is guaranteed by combined mortgage established on registered immovables owned by the group and recorded as tangible asset with book value 38,609 thousand euros.

Liability arising from bonds is guaranteed by pledge agreement, pursuant to which all monetary claims to the objects specified in the agreement are in favour of the subscriber. Interest rate on bonds was 0.262-1.61% (0.406-1.066% in 2016) per year. Estimated size of claim as at the end of the reporting year is 79,859 thousand euros (115,630 thousand euros in 2016).

## Note 12

### Debts and prepayments

(in thousands of euros)

	31.12.2017	Distribution by remaining period		
		within 12 months	within 1-5 years	more than 5 years
Trade creditors	17,815	17,815	0	0
Employee-related liabilities	567	567	0	0
Taxes payable	572	572	0	0
Other payables	27	27	0	0
Interest payable	17	17	0	0
Other accruals	10	10	0	0
Prepayments received	39,309	6,678	4,832	27,799
Deferred income	35,406	2,775	4,832	27,799
Other prepayments received	3,903	3,903	0	0
<b>Total debts and prepayments</b>	<b>58,290</b>	<b>25,659</b>	<b>4,832</b>	<b>27,799</b>

	31.12.2016	Distribution by remaining period		
		within 12 months	within 1-5 years	more than 5 years
Trade creditors	13,139	13,139	0	0
Employee-related liabilities	547	547	0	0
Taxes payable	585	585	0	0
Other payables	80	80	0	0
Interest payable	78	78	0	0
Other accruals	2	2	0	0
Prepayments received	44,141	10,295	4,898	28,948
Deferred income	37,254	3,408	4,898	28,948
Other prepayments received	6,887	6,887	0	0
<b>Total debts and prepayments</b>	<b>58,492</b>	<b>24,646</b>	<b>4,898</b>	<b>28,948</b>

Prepayments received include securities in the sum of 654 thousand euros received by RKAS (2,667 thousand euros in 2016), construction related prepayments 2,775 thousand euros (3,937 thousand euros in 2016) and deferred income for contractual repair obligations 3,249 thousand euros (4,220 thousand euros in 2016). The said obligations are non-interest bearing.

Long-term prepayment received includes lease prepaid by the Ministry of Education and Research for the Emajõe Training Centre of Maarjamaa Educational College in the sum of 5,056 thousand euros (5,431 thousand in 2016) and prepaid lease for the Estonian National Museum in the sum of 25,388 thousand euros (27,805 thousand euros in 2016).

Prepayments received include the sales of the right of superficies of property at Suur-Ameerika 1 in the sum of 1,525 thousand euros (1,753 thousand in 2016), which will be cut-off as revenue during 50 years.

## Note 13

### Contingent liabilities and assets

(in thousands of euros)

#### Contingent investment liabilities

As at 31.12.2017, RKAS had investment liabilities (liabilities that are substantially necessary to be performed) in the total sum of ca 127 million euros (185.3 million euros in 2016). The largest of the said investment liabilities are (in millions of euros):

- New Tallinn Prison 26.0
- Common building of Pärnu Police and Rescue Board 21.9
- Development at Lubja 4 Tallinn 16.9
- Victims of Communism Memorial 6.6
- Establishment of the European School 4.1
- Knighthood building/ SITKE 8.3
- Rescue building in Kihnu 1.7

The greatest volume of investment liabilities are linked to the Ministry of Justice, with intended investments in the buildings under its governance in the amount of up to 46.1 million euros since 2018, followed by the Ministry of Interior with 29.3 million euros and the Ministry of Education and Research with 4.2 million euros. Additionally, the estimated repairs-related investment arising from existing lease contracts is ca 6-7 million euros per year.

Certain investment liabilities will be realised assumedly at the following pace (millions euros):

2018 –	73.6
2019 –	25.6
2020 –	13.8
2021 –	6.9
2022 –	7.1

In the longer perspective, one third of investments will be financed from own funds and two third of investments from external funds. Furthermore, Riigi Kinnisvara AS is involved in the government sector in national accounts and new investments require the consent of the general meeting. Necessary authorisation has been granted for the above investments.

The provision recorded on the balance sheet arises from the following lawsuit:

Dispute regarding the construction of Vaeküla School: OÜ Elinord Ehitus, Facio Ehituse OÜ, Facio Eesti OÜ and OÜ Räga vs. RKAS

a) The trustee in bankruptcy of OÜ Elinord Ehitus (bankrupt) filed action against Riigi Kinnisvara AS in the claim of compensation for damage and receipt of payment (action value 566,095.45 euros);

b) Riigi Kinnisvara AS action against RIITO Ehituse AS in the claim of compensation for damage (counteraction value 1,103,686.46 euros).

On 09.10.2017, RKAS received court judgment, whereby the court satisfied in part the action of Elinord against RKAS and unfortunately refused to satisfy counteraction by RKAS. For information purposes – Elinord principal claim consisted in 960,670.94 euros (bank guarantee ordered by RKAS in the sum of 339,421 euros, fines for late payment related to failure to return the bank guarantee in the sum of 484,182.63 euros and claim for damage arising from the construction contract in the sum of 137,067.31 euros). In total, RKAS was ordered to pay principal claim of 476,488.31

euros or almost half of the sum claimed by Elinord. Pursuant to the court judgment, principal claim is supplemented by fines for late payment (as at the date of making the judgment) in total sum of 253,366.23 euros and RIITO procedural fees. The procedural costs of Elinord were ordered to be paid by Elinord.

On 06.11.2017 an appeal was filed, requesting to:

1. Satisfy the appeal.

2. Revoke the judgment of Harju County Court of 6 October 2017 in civil matter no. 2-11-27140, whereby

2.1. The statement of claim against Riigi Kinnisvara AS filed by the trustee in bankruptcy of OÜ Elinord Ehitus (bankrupt) was satisfied in part,

2.2. Riigi Kinnisvara AS counteraction against RIITO Ehituse AS was refused to be satisfied,

2.3. measures for securing an action in favour of Riigi Kinnisvara AS applied under ruling of 21 February 2012 of Harju County Court in civil matter 2-12-7368 were revoked,

2.4. Riigi Kinnisvara AS was ordered to pay its own procedural costs in action filed by the trustee in bankruptcy of OÜ Elinord Ehitus (bankrupt) against Riigi Kinnisvara AS and

2.5. Riigi Kinnisvara AS was ordered to pay procedural costs in counteraction of Riigi Kinnisvara AS against RIITO Ehituse AS and own procedural costs of Riigi Kinnisvara AS.

3. Make a new judgment to refuse to satisfy the action filed by the trustee in bankruptcy of OÜ Elinord Ehitus (bankrupt) and satisfy Riigi Kinnisvara AS counteraction against RIITO Ehituse AS.

4. Determine the distribution of procedural costs in appeal procedure. Order the trustee in bankruptcy of OÜ Elinord Ehitus (bankrupt) to pay all procedural costs for the action. Order RIITO Ehituse AS to pay all procedural costs for the counteraction of Riigi Kinnisvara AS.

5. Order the trustee in bankruptcy of OÜ Elinord Ehitus (bankrupt) and RIITO Ehituse AS to pay fine for late payment of procedural costs to be compensated in favour of Riigi Kinnisvara AS to the extent specified in the second sentence of subsection 113 (1) of the Law of Obligations Act after the enforcement of the resolution determining the amount of procedural cost until execution.

On 23.11.2017, the Circuit Court accepted the appeal. The date of court hearing at Tallinn Circuit Court is scheduled for 24.05.2018.

## Note 14

### Share capital

(in thousands of euros)

	31.12.2017	31.12.2016
Share capital	218,334	207,426
Number of shares (pcs)	2,183,344	2,074,261
Nominal value of shares	100	100

In 2017 occurred the following changes:

- 109,083 new shares, all issued in 2017, were entered into the books and registered in Commercial Register.
- 10,558 issued shares were entered into the books as unregistered share capital.

For issued and registered shares were made non-monetary contributions consisting in registered immovables for 11,965 thousand euros.

In 2016 occurred the following changes:

- 186,675 new shares were registered in Commercial Register, of which 167,884 shares were issued in 2016 and 21,791 shares were issued in 2015.

Non-monetary contributions made consisted in registered immovables for more than 16,788 thousand euros.

The registered immovables received as non-monetary contribution shall be entered on the balance sheet of the parent undertaking after

making relevant registration entries in the land register.

Retained profits of RKAS (in view of legal requirement to transfer 1/20 of net profit of reporting year to legal reserve) as at 31 December 2017 was 150,418 thousand euros (135,753 thousand euros in 2016). Payment of dividends to the owners involves income tax expense 20/80 on net amount of paid dividends. Thus, it is possible to pay to owners 120,334 thousand euros (108,067 in 2016) from retained profit existing as at the balance sheet date, and the payment of dividends would involve income tax in the sum of 30,084 thousand euros (27,017 thousand euros in 2016).

## Note 15

### Sales revenue

(in thousands of euros)

	2017	2016
Sales revenue broken down by geographical area		
Sales to EU countries		
Estonia	106,246	90,174
<b>Total sales to EU countries</b>	<b>106,246</b>	<b>90,174</b>
<b>Total sales revenue</b>	<b>106,246</b>	<b>90,174</b>
Sales revenue broken down by field of activity		
Income from rent and mediated services	94,458	81,364
Development services	3,236	1,573
Sales of inventories	8,275	6,866
Interest revenue from financial lease contracts	277	371
<b>Total sales revenue</b>	<b>106,246</b>	<b>90,174</b>

## Note 16

### Cost of sold products (goods, services)

(in thousands of euros)

	2017	2016
Real estate purchased for resale		3,686
Expenses related to management activities:		
Management service	229	237
Utility services	4,382	4,166
Upkeep	9,994	8,379
Construction and repair works	7,727	7,255
Owner's duties	385	287
Electricity	12,181	12,552
Heating (thermal energy)	5,446	5,054
Water supply and sewerage	1,776	1,773
Support services	1,449	1,252
Rental cost	5,933	5,202
Depreciation of managed objects	17,931	11,509
Wages and social tax	4,321	4,463
Capitalised labour costs	-101	-187
Other expenses	184	234
Expenses of development services:		
Expenses of development projects	2,785	1,268
Wages and social tax	490	439
Other expenses	30	28
<b>Total cost of sold products (goods, services)</b>	<b>82,282</b>	<b>67,597</b>

## Note 17

### Marketing expenses

(in thousands of euros)

	2017	2016
Bought-in services	163	425
Wages and social tax	1,716	2,033
Capitalised labour costs	-769	-926
Other expenses	62	92
<b>Total marketing expenses</b>	<b>1,172</b>	<b>1,624</b>

## Note 18

### General administration expenses

(in thousands of euros)

	2017	2016
Wages and social tax	2,354	2,334
Depreciation of office fixed assets	356	212
Rent and other office expenses	449	453
IT costs		186
Other staff costs	162	164
Other costs	623	510
<b>Total general administrative expenses</b>	<b>4,222</b>	<b>3,859</b>

## Note 19

### Staff costs

(in thousands of euros)

	2017	2016
Wages and salaries	6,828	7,096
Social taxes	2,222	2,320
<b>Total staff costs</b>	<b>9,050</b>	<b>9,416</b>
Full-time equivalent of average number of employees	263	304

Wages and salaries contain remuneration in the sum of 6,660 thousand euros (6,948 thousand euros in 2016) and fringe benefits 168 thousand euros (148 thousand euros in 2016).

## Note 20

### Other financial income and expenses

(in thousands of euros)

	2017	2016
Financial revenue	2	59
Interest revenue	-1,856	-3,019
<b>Total other financial revenue and expenses</b>	<b>-1,854</b>	<b>-2,960</b>

## Note 21

### Related parties

(in thousands of euros)

#### Balance with related parties by groups

	31.12.2017		31.12.2016	
	Receivables	Liabilities	Receivables	Liabilities
Executive and top management and significant private shareholders and undertakings under their dominant or significant control	9	1,708	104	29

#### Purchases and sales

	2017		2016	
	Purchases	Sales	Purchases	Sales
Executive and top management and significant private shareholders and undertakings under their dominant or significant control	11,707	1,875	273	1,381



#### Remuneration and other significant benefits calculated for executive and top management

	2017	2016
Calculated remuneration	315	324

Transactions with related parties include transactions with shareholder and its consolidation group, members of the supervisory board and management board, employees, their close family members and companies where they have significant holding. Executive and top management includes members of the management board and supervisory board of parent undertaking and subsidiary.

Pursuant to the Guideline 15 issued by Estonian Accounting Standards Board, the report of Riigi Kinnisvara AS as a state accounting entity does not disclose transactions with other state accounting entities, local government units and persons in public law, unless so required in the legislation or rules governing the activities of relevant entity.

The members of the management board of Riigi Kinnisvara AS are entitled to severance payment if the member of the management board is removed on the initiative of the supervisory board before expiry of office of the member of management board. As at 31.12.2017, potential severance payment was 64 thousand euros (62 thousand euros as at 31.12.2016).

Similar to 2016, no write-downs have been formed regarding the claims against related parties in 2017.

## Note 22

### Events after the report date

Based on the owner's decisions on non-monetary contribution made in share capital in 2018, the share capital of RKAS in Commercial Register has increased by 4,621 thousand euros at the time of preparing the report. Thus, the share capital of the group has increased to 222,955 thousand euros.

At the time of preparing the report, the company has issued, but not yet registered in Commercial Register shares with value of 3,931 thousand euros.

Registered immovable received by non-monetary contribution are qualified pursuant to their purpose both as tangible assets, investment properties and inventories.

## Note 23

### Unconsolidated balance sheet

(in thousands of euros)

	31.12.2017	31.12.2016
Assets		
Current assets		
Cash	34,882	14,159
Receivables and prepayments	9,712	6,486
Inventories	14,962	12,756
<b>Total current assets</b>	<b>59,556</b>	<b>33,401</b>
Fixed assets		
Investment in subsidiaries and associated undertakings	3	3
Receivables and prepayments	20,801	36,242
Investment properties	7,859	9,014
Tangible assets	490,556	428,677
Intangible assets	1,440	926
<b>Total fixed assets</b>	<b>520,659</b>	<b>474,862</b>
<b>Total assets</b>	<b>580,215</b>	<b>508,263</b>

31.12.2017 31.12.2016

Liabilities and owner's equity

Liabilities

Current liabilities

Loan liabilities

51,428

5,522

Debts and prepayments

25,809

25,274

Provisions

730

0

**Total current liabilities**

**77,967**

**30,796**

Long-term liabilities

Loan liabilities

95,453

97,896

Debt and prepayments

32,607

33,317

Target financing

0

35

**Total long-term liabilities**

**128,060**

**131,248**

**Total liabilities**

**206,027**

**162,044**

Owner's equity

Share capital in nominal value

218,334

207,426

Unregistered share capital

1,056

0

Share premium

1

0

Legal reserve

4,451

3,782

Retained profit (loss)

134,501

121,800

Profit (loss) for financial year

15,845

13,211

**Total owner's equity**

**374,188**

**346,219**

**Total liabilities and owner's equity**

**580,215**

**508,263**

## Note 24

### Unconsolidated income statement

(in thousands of euros)

	2017	2016
Sales revenue	106,257	90,188
Cost of sold products (goods, services)	-82,456	-67,815
<b>Gross profit (loss)</b>	<b>23,801</b>	<b>22,373</b>
Marketing expenses	-1,172	-1,623
General administrative expenses	-4,210	-3,850
Other operating revenue	153	68
Other operating expenses	-873	-797
<b>Total operating profit (loss)</b>	<b>17,699</b>	<b>16,171</b>
Other financial income and expenses	-1,854	-2,960
<b>Profit (loss) before income tax</b>	<b>15,845</b>	<b>13,211</b>
<b>Net profit (loss) for financial year</b>	<b>15,845</b>	<b>13,211</b>

## Note 25

### Unconsolidated cash flow statement

(in thousands of euros)

	2017	2016
Cash flow from operating activities		
Operating profit (loss)	17,699	16,171
Adjustments		
Depreciation and impairment of fixed assets	18,342	11,721
Other adjustments	730	0
<b>Total adjustments</b>	<b>19,072</b>	<b>11,721</b>
Change in operating claims and prepayments	12,374	2,817
Change in inventories	6,983	4,260
Change in operating liabilities and prepayments	-1,917	4,055
<b>Total cash flow from operating activities</b>	<b>54,211</b>	<b>39,024</b>
Cash flow from investing activities		
Paid upon acquisition of tangible and intangible assets	-74,573	-55,683
Received from target financing	-35	17
Interest received	2	112
<b>Total cash flow from investing activities</b>	<b>-74,609</b>	<b>-55,554</b>
Cash flows from financial activities		
Loans received	48,500	0
Repayments of loans received	-5,463	-5,744
Interest paid	-1,916	-3,027
<b>Total cash flows from financial activities</b>	<b>41,121</b>	<b>-8,771</b>
<b>Total cash flows</b>	<b>20,723</b>	<b>-25,301</b>
Cash and cash equivalents at the beginning of the period	14,159	39,460
<b>Change in cash and cash equivalents</b>	<b>20,723</b>	<b>-25,301</b>
Cash and cash equivalents at the end of the period	34,882	14,159

## Note 26

### Unconsolidated statement of changes in owner's equity

(in thousands of euros)

	Share capital in nominal value	Unregistered share capital	Share premium	Legal reserve	Retained profit (loss)	<b>Total</b>
<b>31.12.2015</b>	188,459	2,179	0	2,998	57,159	250,795
Net profit (loss) for financial year	0	0	0	0	13,211	13,211
Issued share capital	18,967	-2,179	0	0	0	16,788
Change in reserve	0	0	0	784	-784	0
Other changes in owner's equity	0	0	0	0	65,425	65,425
<b>31.12.2016</b>	207,426	0	0	3,782	135,011	346,219
Net profit (loss) for financial year	0	0	0	0	15,845	15,845
Issued share capital	10,908	1,056	1	0	0	11,965
Change in reserve	0	0	0	669	-669	0
Other changes in owner's equity	0	0	0	0	159	159
<b>31.12.2017</b>	218,334	1,056	1	4,451	150,346	374,188



Calculation of adjusted unconsolidated owner's equity:

	<b>31.12.2016</b>	<b>31.12.2017</b>
Unconsolidated owner's equity of parent undertaking	346,415	374,188
Book value of holdings of persons under significant control	-3	-3
Book value of holdings of persons under significant control calculated by equity method	744	874
Adjusted unconsolidated owner's equity	347,156	375,060

## Note 27

### Company's ability to continue as a going concern

Negative working capital as at 31.12.2017 is caused by bonds subject to redemption in December 2018. In 2008 and 2009, Riigi Kinnisvara AS issued bonds in the sum of 77.0 million euros. According to the bond requirements, 35% of bonds are redeemed on a regular basis and 50.05 million euros shall be redeemed upon maturity of bonds in December 2018. These means were mostly used for renovation of school buildings, which the company has leased out based on long-term lease contract. The structure of assets and liabilities of the company is sustainable and redemption of bonds is intended to be financed through refinancing of obligations and in part through sales of schools.



 **Riigi Kinnisvara**