

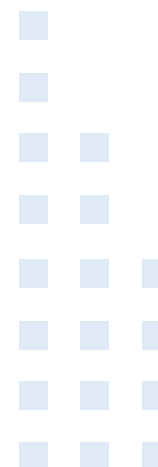
Riigi Kinnisvara

2018

Annual Report

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## Management report

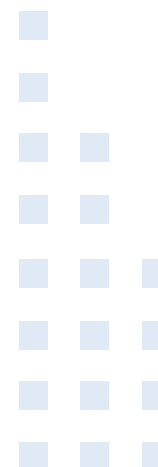


# ADDRESS OF THE CHAIRMAN OF THE MANAGEMENT BOARD

## Dear reader,

Riigi Kinnisvara AS was established in order to support the development of the state by ensuring good quality work environment for people working in state agencies. This allows officials, rescue workers, police, judges, teachers and many others focusing on their main duties, while the team of Riigi Kinnisvara takes care of the support functions related to work environment and real estate.

The year 2018 was very laborious for us. It was a year of major investments and realisation of development projects. New Tallinn courthouse was put into use last summer, Rae detention centre – the biggest investment in the history of Riigi Kinnisvara – and new Tallinn Prison with total cost of approximately 100 million euros were completed by the end of previous year. Educational landscape was improved by addition of contemporary buildings of state gymnasiums in Rapla and Viimsi and the building of the Tallinn European School was completed in summer.





In the beginning of the year, brand new premises were handed over to rescue crews in Vändra and Vastseliina. Landmark projects for entire Estonia included the memorial to victims of communism and officers' monument completed at Maarjamäe in Tallinn in the end of summer. The development of comprehensive solution of Patarei Sea Fortress and its surrounding area continued; the said area also increased value after the completion of the eu-LISA building in summer. Total investments made during the year reached 65 million euros.

Good architecture and innovation received recognition and attention. Vastseliina Rescue Depot was awarded the title of the wooden structure of the year, Viimsi State Gymnasium was awarded the title of the best glued laminated timber building of the year. It was an honour to work with the best architects in Estonia, Postimees awarded the team of architects of the memorial to victims of communism at Maarjamäe, led by Kalle Vellevoog, the title of the person of the year.

We cannot realise our goals alone, so we include various service providers. One of the expectations expressed by the state as the owner of Riigi Kinnisvara AS, states the following:

„To cooperate with the private sector in order to guarantee the best solutions for state agencies in market competition”. In the year ended, we performed approximately 900 procurement proceedings, procuring works and services from the private sector in total value of approximately 94 million euros, partly for the company's own needs and partly by providing procurement service for our customers.

We consistently try to develop our principles and standards in the manner that would make them understandable for all cooperation partners. That way we ensure transparent and well-organised cooperation. We are perhaps not the easiest cooperation partner because of our strict requirements, but based on feedback, our cooperation has high quality and we are a desired partner.

We consistently work to share our experience and expectations in order to further improve our cooperation and to give new partners courage to start cooperation.

The activities performed last year have improved the predisposition our customers have towards us. This provides a good basis for moving on. Our customers trust us more and more each day and are generally satisfied with the services, but they expect us to be even more proactive and give advice in various real estate issues.

The quality of the result is largely set in place at the very beginning of an activity or project. Good quality of terms of reference is a prerequisite for quality design, which in turn contributes to quality construction and end result. If the design phase takes into account the future management processes of the building, it may have a significant impact on the expenses during entire life of the building. For customers, we look like our cooperation partners, which means that cooperation and mutual understanding are of critical importance, both in terms of property development and management services.

As for management services, 2018 was the year of laying the foundation. We prepared an extremely voluminous project for providing management services in cooperation with the Ministry of Education and Research, in the framework of which we started providing services based on management contract in various educational institutions with total area of ca 380,000 square meters in January 2019. While our former estimated annual capacity of adding new premises to our services portfolio was approximately 200,000 square meters, we have almost doubled that amount with new cooperation agreement.

Laying groundwork also included a large-scale analytical project implemented last year. Namely, we prepared management plans for property under the governance of nine ministries. This provides a good basis for long-term planning of investment properties, assessment of the needs for repair, optimisation of used area and more efficient management of operating expenses of real estate.

In the end of the year, we also looked at our own team: how do we assess our activities, what is already good and what needs improvement. I am glad to see that during last year we have taken a positive step in this area too – satisfaction with work and commitment of our employees and our team has increased.





As the head of the company, I am particularly pleased about the latter. Such development indicates that as a team, we are emotionally attached to the company, and ready to contribute and support each other.

All of us have their personal goals for this year. I hope that achieving these goals will help each person working at Riigi Kinnisvara to answer to the question of why I work in this particular company, why and how does it help me grow as a person, and whether my work has a meaning and what is it, how can I help my colleagues and company to achieve their goals and how can I support customers in implementing their objectives.

We have sometimes been accused of being too profit-oriented and that the main goal should be customer satisfaction. In reality, neither of them can be the goal or, to be more exact, not just one or the other. Our goal is to provide the state with the best and most efficient real estate environment and ensure its sustainability.

It is the long-term perspective and the view of the state as a whole that we must keep an eye on when making both daily and long-term decisions.

I wish that we would continue our path with wit and perseverance! I hope that within a year, we will take another step towards improved cooperation and better result.

**Kati Kusmin**

Chairman of the Management Board



## 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 % shares in the ownership of the Republic of Estonia and governed by the Ministry of Finance.

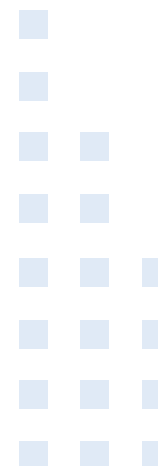
RKAS operates as national centre of excellence in the field of real estate. Main customers include state agencies and public service providers, to whom the company provides property management, development, procurement and project management services.

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

Company employs 223 people across Estonia, representative offices are located in Tallinn, Tartu, Pärnu and Jõhvi.

In 2018, RKAS carried out 896 procurement proceedings with total value of 94 million euros, which makes us one of the major procurement organisers in the country.

As of the end of 2018, the company owned and managed 1,399 buildings with closed net area of 1.33 million square metres on a total of 902 registered immovables. Annual investment in real estate development totalled 65 million euros.



# Key performance indicators in 2018

## Finances

Sales revenue (million €)	107
Operating profit (million €)	18
Net profit (million €)	17
Level of investments (million €)	65
Volume of assets (million €)	609

## Employees

Number of employees as of the end of the year (persons)	223
Voluntary turnover (%)	14

## Asset Portfolio

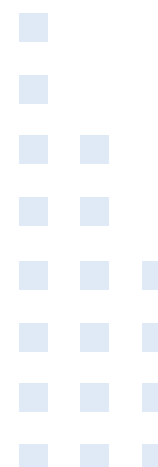
Number of immovable properties (pcs)	788
Total area of registered immovables (m <sup>2</sup> )	6,828,177
Closed net area of buildings in portfolio (m <sup>2</sup> )	1,102,130
Vacancy rates in management portfolio (%)	11
Number of lease contracts (pcs)	882

## Procurements

Total number of public procurements (pcs)	896
Total volume of public procurements (million €)	94
including the number of public procurements subject to publication in the register of public procurements (pcs)	171
including the volume of public procurements subject to publication in the register of public procurements (million €)	79

## Sales

Number of sold objects (pcs)	75
Revenue from sold objects (million €)	7





# Significant events



## JANUARY

- Completion of Vändra Rescue Depot.
- RKAS organised accessibility round table with state agencies and associations of people with reduced mobility, to discuss, how to improve the accessibility to public buildings.
- RKAS created its Facebook page.



## FEBRUARY

- Completion of restoration of building at I. Grafovi 21 in Narva, combining five state agencies.
- RKAS started collecting monthly customer feedback by using Kantar Emor My Client environment.
- RKAS granted research and development scholarships for autumn semester.



## MARCH

- Completion of Vastseliina Rescue Depot.
- New ISO 9001:2015 and ISO 14001:2015 certificates were issued to RKAS as a result of recertification of quality and environmental management system.



## APRIL

- Cyber security training for RKAS employees.



## MAY

- RKAS and 3D Ekspert OÜ organised seminar "New RKAS requirements for BIM+ ARCHICAD" for cooperation partners.
- Smart Work Association attributed RKAS Remote Work Label.



## JUNE

- RKAS employees participated in football tournament LHV CUP 2018.
- Participation in charity race Rat Race 2018.
- First remote workplaces opened in Haapsalu, Paide and Rapla.



## JULY

- Estonian Property Management Association renewed the three-star certificate of RKAS.
- Completion of new Tallinn courthouse.
- ▶ Completion of eu-LISA main building in Tallinn.



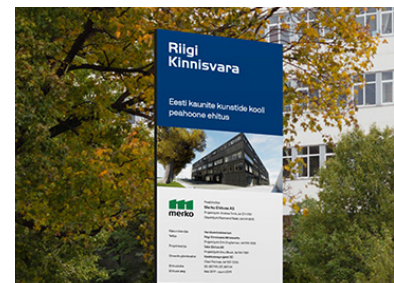
## AUGUST

- RKAS granted research and development scholarships for spring semester.
- Completion of Tallinn European School.
- Completion of the Victims of Communism Memorial and Officers Monument in Tallinn.
- ▶ Completion of Rapla State Gymnasium.



## SEPTEMBER

- ▶ Completion of Viimsi State Gymnasium.
- RKAS organised customer seminar "Security classes of buildings".
- RKAS and Nordecon AS signed a contract for construction of Kohtla-Järve state gymnasium.



## OCTOBER

- ▶ RKAS and Merko Ehitus Eesti AS signed construction contract for Rakvere Vocational Boarding School.
- RKAS ranked among 19 best companies in Sustinere survey of openness and transparency of large-scale companies.

## NOVEMBER

- ▶ Completion of Rae detention centre in Harju county.
- Completion of new Tallinn Prison in Harju county.
- Vastseliina Rescue Depot was awarded the title of the wooden structure of 2018.
- ▶ Viimsi State Gymnasium was awarded the title of the glued laminated timber building of 2018 and people's favourite in the competition of the wooden building of the year.
- Completion of new homepage of RKAS.

## DECEMBER

- ▶ RKAS updated its visual identity.
- Merger of subsidiary Hooldus Pluss OÜ and RKAS.





Viimsi State Gymnasium



# ABOUT THE COMPANY

## Role and business model of RKAS

RKAS provides real estate services for ministries and the subunits in their area of governance.

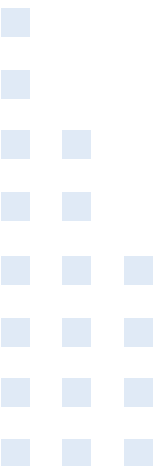
**Main objectives of RKAS at the time of its establishment included:**

- releasing state agencies from the duty of dealing with real estate and allowing them to focus on their main functions,
- centralising real estate competence,
- achieving economies of scale through centralising the activities.

When founding RKAS, it was mentioned that its main objective was not financial profit. Concentration of works related to state real estate in a single company, thus creating prerequisite for increased economic efficiency, is more important than the economic reasons for founding a company.

The strategy of the state's real estate activities foresees that the state governs its real estate through RKAS. It means that state agencies hand built-up immovable properties over to RKAS as non-monetary contribution and then lease necessary buildings, and RKAS will transfer the unnecessary buildings.

Investments are made via RKAS according to a long-term plan and they are paid for by lease payment.

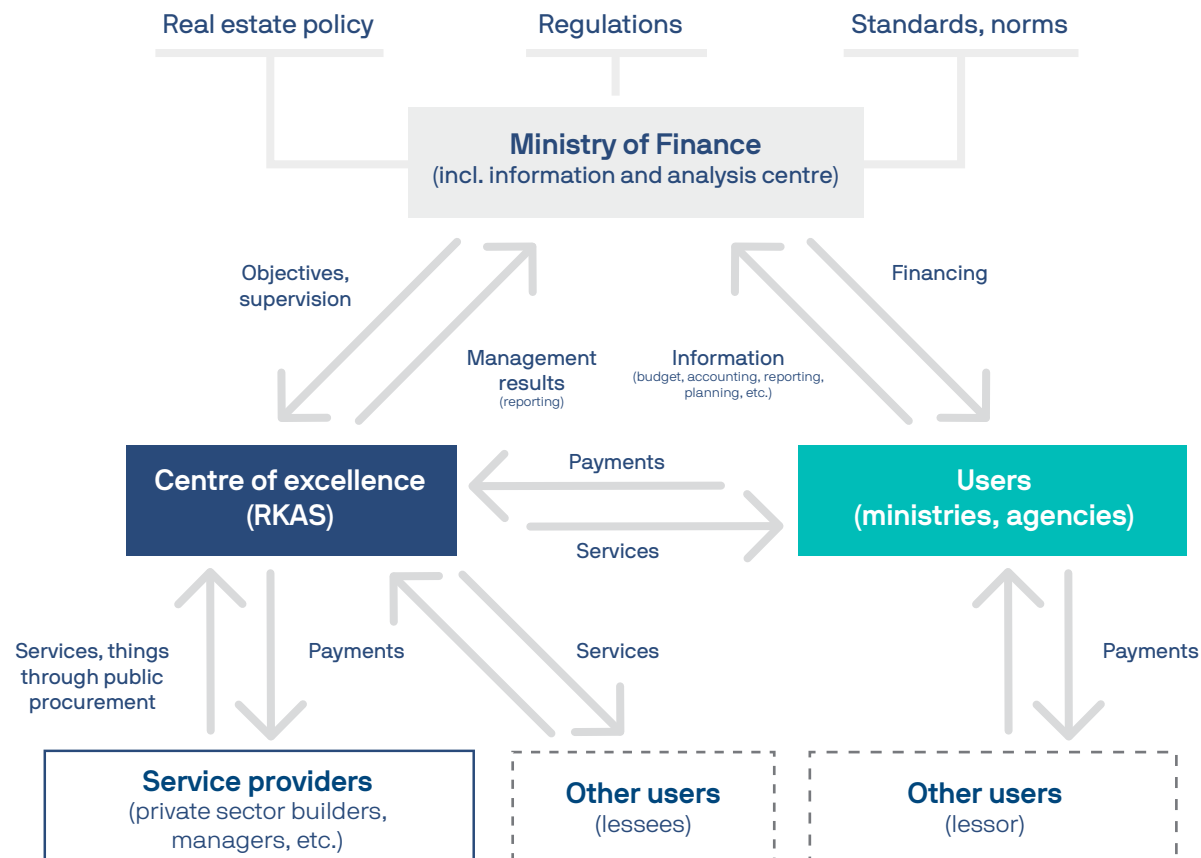


In 2008, due to the requirements imposed by the European Commission and Eurostat, RKAS was included among the units of the general government sector, because the activities of RKAS consists in providing services to state agencies, which constitute main customer base financed from state budget. This change brought along restrictions on investment activities and involvement of foreign capital.

RKAS is a preferred partner of ministries and their subunits in relevant area of governance in terms of development, management and upkeep of real estate, and it employs the experts of the area.

Predominantly, RKAS does not provide development and upkeep services itself, but instead arranges them to be bought in from private sector.

## Functional structure of organisation of state real estate



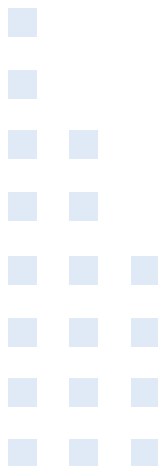


Viimsi State Gymnasium

In April 2018, the Government of the Republic decided to grant state agencies and RKAS more discretion in order to review the need for investment properties. Until then, the investment and financing decisions were made by the government, the discretion of ministries has been less significant.

According to the new decision, the ministries will have to manage their real estate expenses on their own, in order to increase responsibility for making real estate decisions and increase motivation to save costs. The government decides the volume of investment properties by the areas of governance and the minister responsible will decide more detailed use of resources. An exception consists in new strategic investments, which will be decided by the government.

In 2018, under the leadership of RKAS, real estate management plans well prepared for nine ministries regarding the agencies in their governance areas. The purpose was to get an overview of the condition of and expenses related to the assets used by state in order to use it in the process of state budget strategy when making decisions regarding real estate. In order to implement the priority needs of governance areas arising from the real estate management plans and to realise investments, the government allocated to RKAS 18.6 million euros per year for the period of four years, to the extent to which RKAS can name and execute suitable objects based on the evaluation criteria agreed with relevant governance area.







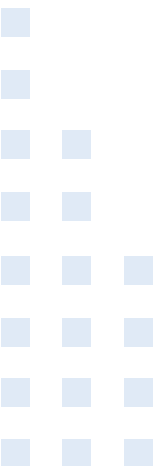
# Strategy

## 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.

1. 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.
2. 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.
3. 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.

<sup>1</sup>Available in full at: [https://www.rahendusministeerium.ee/sites/default/files/RiigRiigi\\_kinnisvararegister/riigi\\_kinnisvarategevuse\\_strateegia\\_2007.pdf](https://www.rahendusministeerium.ee/sites/default/files/RiigRiigi_kinnisvararegister/riigi_kinnisvarategevuse_strateegia_2007.pdf)



4. 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.

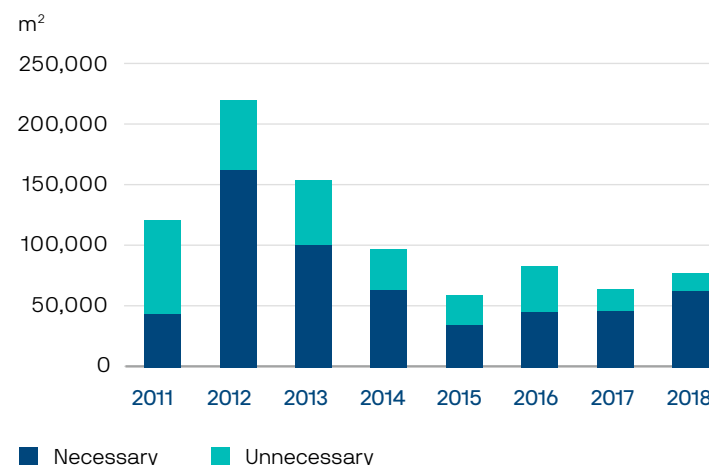
In 2016, the sole shareholder set the following strategic goals for RKAS.

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.

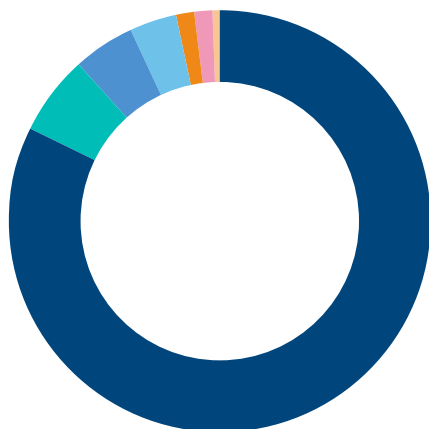
The general strategy of the state's real estate activities foresees a transition from decentralized management of real estate to a comprehensive management system that allows for more effective development and organization of the real estate environment. The objective of comprehensive real estate management 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 organized the sale of property that is not required.

It has been agreed on the government level that RKAS will not take over the buildings of Estonian foreign embassies under the governance of the Ministry of Foreign Affairs and necessary real estate in use and under the governance of the Ministry of Defence, unnecessary real estate will be transferred by the Ministry of Defence to RKAS. 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.

### Net area of Closed buildings delivered to RKAS (m<sup>2</sup>)



## Area of buildings in state ownership not delivered to RKAS



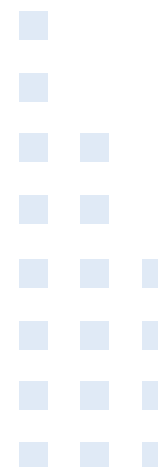
82.5%	■	Ministry of Education and Research
5.9%	■	Ministry of Economic Affairs and Communications
4.9%	■	Ministry of Culture
3.5%	■	Ministry of Internal Affairs
1.4%	■	Ministry of Foreign Affairs
1.4%	■	Ministry of Rural Affairs <sup>1</sup>
0.4%	■	Ministry of the Environment

## Real estate in state ownership by governance at the end of 2018

Administrator of real estate	Area of registered real estate, m <sup>2</sup>
Ministry of Internal Affairs	22,595
Ministry of Rural Affairs	8,675
Ministry of Education and Research	527,159*
Ministry of Culture	31,094
Ministry of the Environment	2,735
Ministry of Foreign Affairs	8,950
Ministry of Economic Affairs and Communication	37,975
<b>Total</b>	<b>639,183</b>

\* As of 01.01.2019, the Ministry of Education and Research delivered 377,789 m<sup>2</sup> of this area to be administered by RKAS, in order to rearrange the school network at first.

After deducting the area of the Ministry of Education and Research covered by administrative contract from the real estate in state ownership not delivered to RKAS, then the total area not delivered as planned constitutes only a little more than 261,000 square metres.





## 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 excellence for 2017–2020 is phrased as follows.

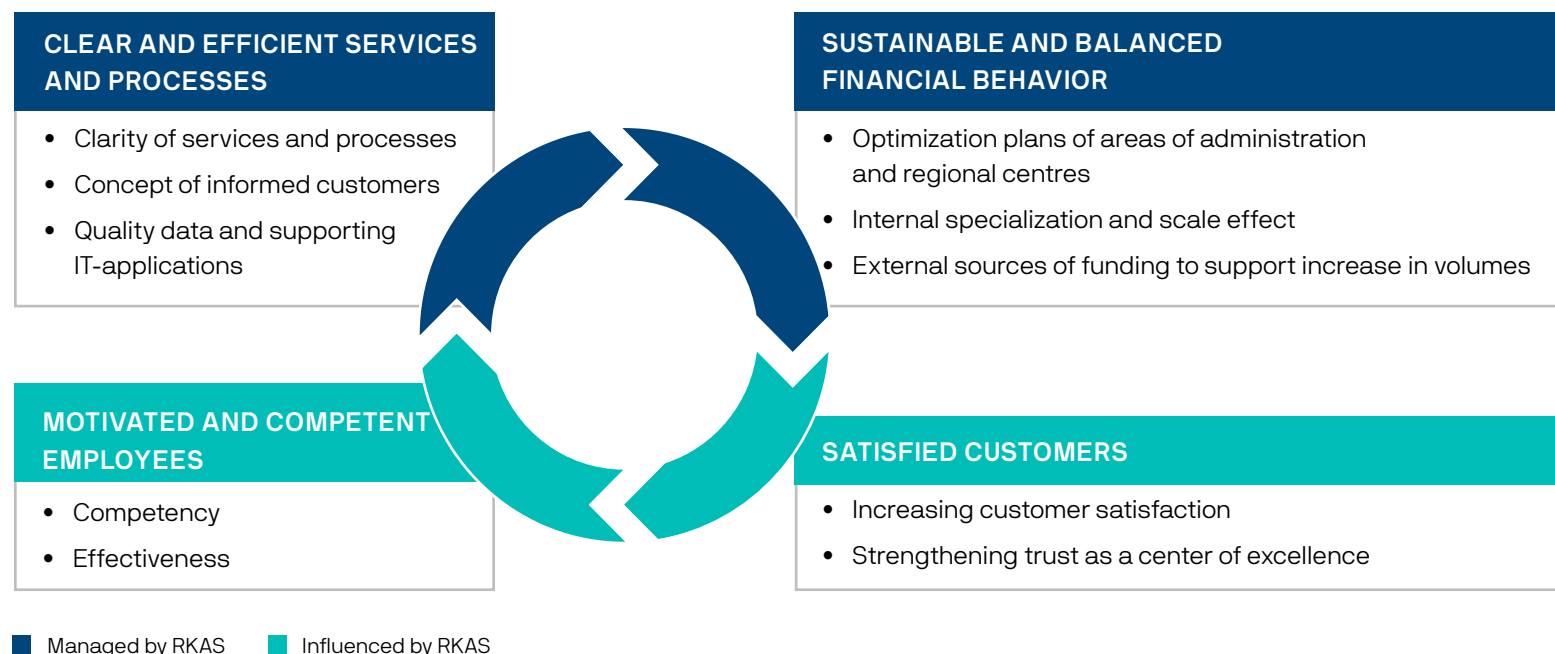
- To maintain and save more on maintenance due to the scale effect with continuing centralization and efficient organization of work.
- To maintain and develop competencies for the optimization of the real estate used by the state by both area of administration and geographic location.

- to complete describing leased premises as the core services 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, including by considering the present-day aspects of energy efficiency, environmental sustainability and user-friendliness.

## 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.

## Strategic priorities of RKAS 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 years 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 optimization, 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 both 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 board of RKAS alongside the budget for the next budgetary year, including the numeric values indicating whether the annual goal is deemed to have been achieved or exceeded.



## Mission

We support the development of the state by ensuring good quality of work environment for people working for the benefit of the citizens.



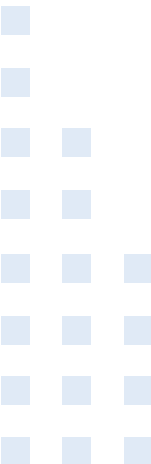
## Vision

The strongest real estate company in Estonia with top professionals and employees proud of their work and company, their colleagues and joint achievements, and customers who serve as the best advertisers and ambassadors of the company.



## Values

We are aware that the majority of our activities and decisions are under constant public scrutiny. Our common organizational 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.





Viimsi State Gymnasium

## We are:

### Committed

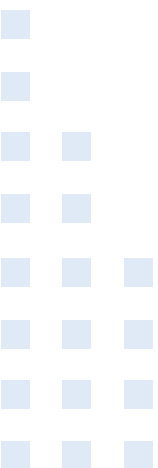
- We focus on the goal and the solution.
- We are thorough, committed and determined.
- We know our area, we are always prepared to share our knowledge and thoughts.
- We want to develop and work hard to achieve this.

### Respectful

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

### True to our words

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







eu-LISAbuilding

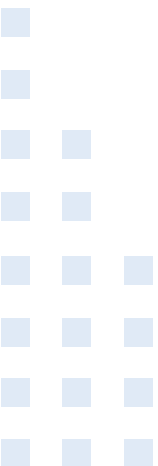


# ECONOMIC ACTIVITIES

## Economic performance

Compared to the same period in 2017, the sales revenue (consolidated data) of Riigi Kinnisvara AS in 2018 increased by 233,000 euros and reached 106,479,000 euros. During 2018, the revenue from sales of unnecessary real estate totalled 6,973,000 euros. The revenue from sales of unnecessary real estate during the same period previous year was 8,274,000 euro.

Rental income in 2018 was 64,650,000 euros, exceeding the result of previous period by 3,636,000 euros. Increase is mostly due to the changes made on the basis of the public sector financing and reporting guidelines that entered into force on 01.01.2017, resulting in transferring all buildings formerly recorded under financial lease and in customer's balance sheet to the fixed assets of RKAS. Rent was formerly calculated based on the cost of land, but since 2018, rent is also calculated on buildings. Additionally, the rental income was increased due to completion of development projects: new Tallinn courthouse, administrative building of Seaplane Harbour, Vastseliina Rescue Depot, Vändra Rescue Depot, Tallinn European School and the Victims of Communism Memorial at Maarjamäe in Tallinn. To the extent of one month, rental income is also affected by new Tallinn Prison put into use in December.



eu-LISA building

The revenue from mediated services in 2018 was 33,435,000 euros, which is 10,000 euros less than in previous period. Decrease results from award of new public contracts and achievement of more favourable price and better procurement conditions. Interest income from financial lease contracts decreased, because local governments realised the repurchase rights of the right of superficies: RKAS renovated school buildings more than ten years ago in the framework of national school investment programme and local governments used them on the basis of long-term lease contract; realisation of repurchase right was prescribed in all program contracts.

In 2018, the cost of products sold was 82,523,000 euros, which increased by 241,000 euros compared to previous period. Sales costs of inventories decreased by 3,809,000 euros in 2018, because book value of assets was lower, while sales profit increased. Expenses of administrative objects increased by 3,386,000 euros, mainly because of assets taken over and addition of completed objects in administrative portfolio. Depreciation of administrative objects increased by 2,407,000 euros, which was in proportion to the volume of assets of objects owned and completed.

In 2018, the company earned operating profit 17,968,000 euros (17,828,000 euros in 2017). Operating profit margin was 16.9%, remaining on the same level as previous year.

Financial costs in 2018 were 1,105,000 euros, decreasing by 750,000 euros compared to previous period. Lower costs were achieved by changes in the interest of valid contracts and refinancing of liabilities.

Net profit in 2018 was 16,864,000 euros (15,975,000 euros in 2017).

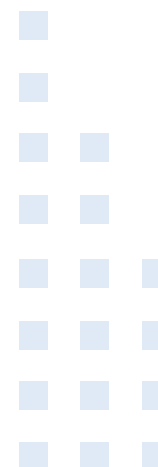
In terms of real estate development, RKAS is focused on the development of office premises and special buildings (e.g. depot buildings, schoolhouses, etc.). In 2018, investment amounted to 65,038,000 euros (77,245,000 euros in 2017). The largest investments consisted in the construction of new Tallinn Prison and Rae detention centre in Rae rural municipality (25,320,000 euros) and courthouse at Lubja 4, Tallinn (16,227,000 euros). Other development objects that were handed over to the users included Vastseliina and Vändra Rescue Depots, administrative building of Seaplane Harbour, the building of Tallinn European School and the Victims of Communism Memorial and Officers Monument in Tallinn.

Compared to 31.12.17, share capital increased by 16,538,000 euros mostly due to addition of objects as non-monetary contributions and it was 235,928,000 euros as at 31.12.18. Increase in owner's equity by 33,075,000 euros resulted from the increase in share capital, but also from the increase of retained profit and profit for the financial year. Owner's equity was 408,135,000 euros as at 31.12.18.

As a significant event, we redeemed bonds due in December 2018 in the sum of 50.05 million euros. For that purpose, we involved foreign capital as a loan in the sum of 40 million euros and the funds received from LGs as a result of realisation of repurchase right of the right of superficies.

As at the end of November 2018, Riigi Kinnisvara AS was merged with its subsidiary Hooldus Pluss OÜ. This resulted in termination of activities of Hooldus Pluss OÜ and Riigi Kinnisvara AS became the legal successor of Hooldus Pluss OÜ.

On an annual basis, the company has maintained set goals and operated within the limits of general government.





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

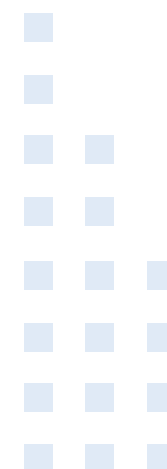
	2018	2017	2016
Net profit margin (net profit/sales revenue)	15.8%	15.0%	14.8%
Operating margin (operating profit/sales revenue)	16.9%	16.8%	18.1%
Return on equity (net income / shareholders' equity)	4.3%	4.4%	4.4%
Equity ratio (equity/assets)	67.0%	64.6%	67.0%
Return on assets (net income / total assets)	2.8%	2.9%	2.9%
Return on real estate portfolio ((operating profit + depreciation) / annual average real estate portfolio)*	8.0%	8.6%	7.7%

\* 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).

## Main performance indicators describing the main activity of the group are given in the table below

### CONSOLIDATED DATA (€ million)

Performance indicator	2018	2017	2016
1. Revenue	106.5	106.2	90.2
2. Operating expenses	0.9	0.7	0.6
3. Wages and benefits of staff	8.2	8.1	8.2
4. Payments to capital providers	1.1	1.9	3.0
5. Investments in the community	0.1	0.0	0.1





eu-LISA building

# Performance of planned development trends in 2018

## Real estate management

We met the greatest challenge and entered into the administrative contract and completed preparations for the provision of service to the agencies under governance of the Ministry of Education and Research (vocational schools, institutes of applied higher education, museum). While the strategy of RKAS foresees estimated annual takeover capacity of up to 200,000 m<sup>2</sup>, this project exceeded the said capacity twice. In the framework of preparations, we mapped the objects in terms of their need for services, repair in near future, and organised procurements for upkeep and technical maintenance. Entire preliminary work was performed before due time and in agreed volume.

## Real estate development

We realised 87% or 65 million euros of the planned investments in 2018. Main reason for not realising all planned investments consists in the shifts in the schedule of works, the greatest impact was caused by delayed design works of Pärnu common building for internal security. The year is characterised by completion of several important investment projects: new Tallinn Prison and Rae detention centre, Tallinn courthouse, the building of Tallinn European School and the Victims of Communism Memorial and Officers Monument at Maarjamäe in Tallinn.





## Sales of unnecessary real estate

Total annual sales of unnecessary real estate was 7 million euros, whereas the profit 3.6 million euros exceeded the target of 0.4 million euros. Total number of objects sold was 75, the object with the largest sales revenue was at the address Raadiku 10 in Tallinn (2.072 million euros).

## Compilation of real estate management plans

The aim in 2018 was to compile real estate management plans for all institutions of the governance areas of nine ministries, covering real estate used by each institution 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. The objective was met by the end of the year.

## State houses project

In 2018, we commenced implementation of the concept of establishing state houses prepared by order of the Ministry of Finance in 2017. The first state house will be completed in early 2019 in Viljandi.

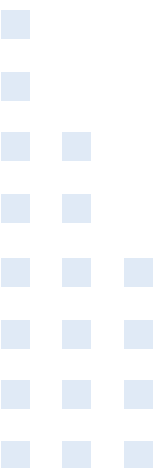


## Overview of economic environment

The situation of Estonian economy has been good in recent years. While in 2015–2016, economic growth was 1.7 and 2.1%, it was 4.9% in 2017. Accelerated growth was due to rapidly improved external environment: buoyant growth was also characteristic of main export partners. Despite good economic tendencies of Estonian main trade partners, the economic growth is expected to slow down in the future. Eesti Pank and the Ministry of Finance estimate 3.6% economic growth for 2018.

Employment rate has been high in the past few years, but there has been no significant increase in productivity. Economic growth is expected to slow down, because there are less people entering the labour market and it is more difficult to compete on export markets. Eesti Pank estimates 3.2% economic growth for 2019 and 2.2–2.3% for 2020–2021.

The Ministry of Finance assumes that on the background of slowdown in external demand, processing industry and export-oriented service sector will contribute more over the few next years. Increase in investment and consumption activity manifests in the growth of construction, trade and other areas that depend mostly on domestic demand. According to Eesti Pank, strong domestic demand alleviates the impact of slowdown in external



demand, but it also has its drawbacks, because economic growth that relies only on domestic demand may bring along overheating of industries oriented towards domestic market, such as construction and service sector.

Labour contribution to economic growth decreases, further economic growth assumes investments and increase in productivity. Various economic forecasts have highlighted the restrictions on economic growth arising from the lack of labour and, in longer perspective, decrease in working age population. Lack of workforce causes increase in wages, but to lesser extent than in previous years. According to Eesti Pank, estimated wage increase for the next few years is ca 6%. Increase in wages in turn contributes to increase in prices, but provided that there will be no sudden increase in oil price, it should be somewhat lower in the future. While CPI was 3.4% in 2018, it is expected to increase by 2.5% by 2019 and by ca 2% in subsequent years.

Increase in the government expenditure will be rapid for a couple of years and remains at the level of post-crisis average, reaching 7%.

Receipt of state tax revenues is expected to be good and government budget will remain close to the structural equilibrium. Increase in expenditure is, among other things, supported by large receipts from the European Union budget. After 2021, the increase in government expenditure depends on the smoothness of the transition to new EU budget period. In March 2019, there will be Riigikogu elections, followed by establishing the budget strategy for the next four years. In view of that, there might be changes in expenditure priorities.

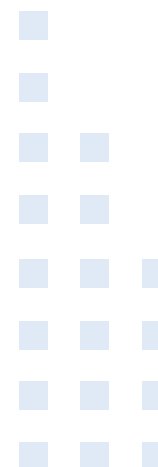
In December, the Council of the European Central Bank decided to retain deposit facility at its former interest rate – 0.40%, i.e. the environment with negative interest will persist. Base interest rates of the Central Bank are assumed to remain at current level in summer of 2019. December forecast of Eesti Pank states that EURIBOR of three months is expected to exceed the zero level no earlier than in 2020. Companies have good opportunities

for financing investments, because according to Eesti Pank, the loan supply of banks operating in Estonia is good. There is a continuing competition on the corporate loan market, despite decrease in the number of providers of big loans. At the same time, competition is expected to tighten in terms of loans offered to small enterprises. Interest rates continue to be favourable, but average interest margin may increase a little.

According to the estimation of the Central Bank, banks are generally rather conservative with regard to housing development and the volume of loans granted for financing development projects is rather modest. The number of new housing is expected to decrease, because the area of new residential buildings that have been granted building permit during the first three quarters of 2018 has constantly decreased compared to the same period last year.

The surveys of the Estonian Institute of Economic Research also indicate relatively good economic situation in Estonia. Economic sentiment indicator that provides generalised result of business and consumer surveys was 103.6 points in December, which, however, is 4.9 points lower than a year ago.

While the seasonally levelized certainty indicator of construction sector was 12.5 points in September 2018, it had dropped to 7.9 by December. However, both indicators exceed long-term average. Reduction in the production output in construction sector within the next three months was expected by 33% of respondents, approximately half of respondents assumed that the output will remain the same. Contracts with construction companies ensured work for the next 5 months (4.3 months in previous year). Utilisation of production capacity was 91% and the greatest factor inhibiting work was lack of labour – that was mentioned by 42% of construction companies (including 67% of housing builders). According to the data of Eesti Pank, there was a slowdown in average wages in construction in the III quarter of 2018, whereas involvement of foreign labour increased. In December, 65% of construction companies estimated that the prices would remain unchanged during the next three months, 24% of companies expected an increase.





Construction price of offices monitored by RKAS based on public procurements increased by 4% compared to the same period previous year, increase in IV quarter of 2018 was 1.2%.

Minimum wage in 2019 is 8% higher than in 2018, i.e. 540 euros per month. In 2017, Estonian Central Federation of Employers and Estonian Central Federation of Trade Unions entered into an agreement, stating that in future, the minimum wage shall be determined

according to the principle that its increase is based on estimated double labour productivity in the year when the minimum wage is negotiated. Increase in minimum wage may, in the long-term, transfer to the prices of labour-intensive property maintenance services (e.g. upkeep).

*Sources used: Ministry of Finance, Eesti Pank, Estonian Institute of Economic Research, Statistics Estonia.*





Administrative building of Seaplane Harbour





Administrative building of Seaplane Harbour

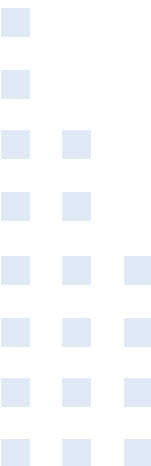
## Development trends in 2019

### Real estate management

As for real estate management, in the framework of administrative contract concluded with the Ministry of Education and Research, there will be approximately 380,000 square meters added to serviceable area in 2019, managed area will increase by ca one third. In the course of preparations of the service last year, 168 buildings were mapped in 25 agencies of the Ministry of Education and Research. Additional portfolio consists mostly in vocational schools, institutes of applied higher education, and museums. Exponential increase in volume and new customers add to the team's responsibility for provision of quality service, as well as ensuring efficient customer communication to win the sympathy and trust of customers.

### Real estate development

The year 2019 stands out by several exciting and responsible projects. Despite slightly smaller volume of investments in own portfolio compared to previous year, there are several significant new service projects. Over a year, we intend to invest approximately 50 million euros in the development of our own asset portfolio. Major development projects include installation of technology in new Tallinn Prison, commencement of construction of joint building of Police and Rescue Board in Pärnu and Sillamäe,



construction works of Grain Seed Centre of the Horticultural Institute in Jõgeva, almost completed construction of rescue depots in Kihnu and Lihula, in Tallinn, construction works will be commenced in Nõmme and Lilleküla rescue depots, and design work of the School of Fine Arts in Tallinn are almost completed and construction is on its way, we perform investments related to the project of establishment of state houses in Viljandi, Rapla, Valga, Jõgeva, Pärnu and Tartu.

In addition to the development of our own real estate, we also provide project management service to our cooperation partners. We continue cooperation with the Ministry of Education and Research in development of state gymnasiums. This autumn, the works will be completed in Kohtla-Järve state gymnasium, design works are performed for Tabasalu, Kuressaare and Laagri gymnasiums, we plan to announce architectural competition for state gymnasiums in Paide, Narva, Rakvere and three state gymnasiums in Tallinn. Also, there will be construction works of the boarding school facilities of Rakvere Vocational School.

In 2019, we provide services such as organising architectural competitions for the Environmental House of the Ministry of the Environment and the complex of Estonian National Public Broadcasting in Tallinn, coordinating the project management of the design of new building of Viljandi Hospital and Health Centre, preparing terms of reference for renovation project of Estonian National Library and wish to commence design work.

## Sales of unnecessary real estate

The functional model of RKAS prescribes sales of real estate unnecessary for state agencies through public offer. The sales target for 2019 is the biggest in the history of RKAS. We plan to realise various unnecessary objects with market value of approximately 20 million euros. Estimated number of sales objects is ca 250, two thirds of which consist in residential premises.

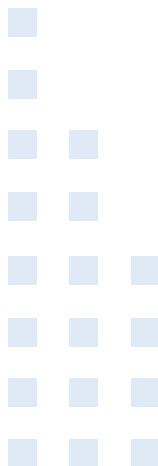
The preparation and realisation of the sales of historical Patarei Sea Fortress in Tallinn will be the most voluminous and complex of the sales processes.

## State houses project

In March last year, the government approved commencement of establishing state houses in the county centres, in order to improve the accessibility to public services and save on real estate expenses. In the framework of the development project of state houses, the total estimated investment for this year is over 3.5 million euros and we intend to commence projects in Rapla, Valga, Jõgeva, Pärnu, Tartu, Jõhvi, Võru and Paide.

Today the average office area used by one employee at the disposal of state agencies located in the county centres is 31 m<sup>2</sup>, we aim to reach 20 m<sup>2</sup> per employee in existing premises and 15 m<sup>2</sup> per employee in new buildings to be erected. Therefore, state houses will ensure optimal spatial planning, flexibility and efficient use of the area, which allows the state optimum use of the property and keep expenses incurred to provide public services under control.

State houses will have contemporary and functional work and service environment to meet both customer convenience and needs of employees. They will have different types of work areas (cabinets, open office, areas of quiet work, groupwork areas, etc.), ergonomic workstations and premises corresponding to the requirements set for the work environment (appropriate lighting, sufficient ventilation and modern communications). Larger conference rooms in the houses will be in joint use and they can be booked centrally, they will be equipped with video conference facilities so that people working in different counties could participate in meetings. It is also possible to use the video conference facilities for servicing the customers.





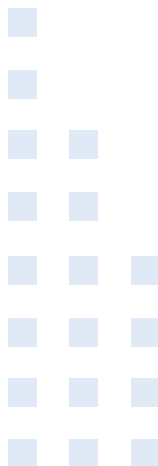


Administrative building of Seaplane Harbour

## Implementation of real estate management plans of governance areas

In 2018, RKAS started mapping the real estate used by institutions in the governance area of nine ministries. In the course of the project we ascertained, among other things, the need for repair and investment in the buildings and the priority and utilisation outlook for governance areas. Based on the input in real estate management plans, a long-term investment plan will be compiled in 2019 and preparation and realisation of investments will be started.

The grounds for this arise from the decision of the government adopted in April last year in the course of the process of state budget strategy to grant RKAS so-called optimisation fund limit 18.6 million euros each year for four years, in order to save on real estate costs and make investments in optimisation of currently used area in view of the priorities specified in real estate management plans. In 2019, besides the investments in state houses under the optimisation fund limit, work will be performed for the development project of Nõmme and Lilleküla rescue depots and other minor investments.







Vastseliina Rescue Depot



# Assetportfolio

## Portfolio division

RKAS real estate 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 beforehand, if necessary.



### Contractual portfolio

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

As at 31. December 2018, RKAS real estate portfolio contained 788 registered immovables with total area of 6,828,177 m<sup>2</sup>. These registered immovables had 1,206 buildings with closed net area of 1,102,130 m<sup>2</sup>.

Contractual portfolio contained 114 registered immovables with total area of 4,306,680 m<sup>2</sup>. These registered immovables had 193 buildings with closed net area of 235,424 m<sup>2</sup>.



Vastseliina Rescue Depot

## General information on the portfolio as at 31.12.2018

Portfolio	Immovable, number	Number of buildings	Closed net area, m <sup>2</sup>	Rental area, m <sup>2</sup>	Rented, area m <sup>2</sup>	Vacancy
Administrative portfolio	475	815	843,796	740,757	660,759	11%
Sales portfolio	252	293	108,056	104,689	16,024	85%
Development portfolio	61	98	150,278	132,806	87,331	34%
<b>Total</b>	<b>788</b>	<b>1,206</b>	<b>1,102,130</b>	<b>978,252</b>	<b>764,114</b>	<b>22%</b>
Contractual portfolio	114	193	235,424	0	0	0%
<b>Total</b>	<b>902</b>	<b>1,399</b>	<b>1,337,554</b>	<b>978,252</b>	<b>764,114</b>	<b>22%</b>

## Monetary view of the portfolio as at 31.12.2018

Portfolio	Acquisition cost, €	Cash flow		NOI*
		Inflow, €	Outflow, €	
Administrative portfolio	470,916,695	84,498,537	-35,290,257	49,208,280
Sales portfolio	22,299,493	323,509	-852,262	-528,753
Development portfolio	31,939,655	2,269,842	-1,123,273	1,146,569
<b>Total</b>	<b>525,155,843</b>	<b>87,091,888</b>	<b>-37,265,792</b>	<b>49,826,096</b>

\*NOI - net operating income

## Changes in RKAS assets portfolio in 2018:

- Preparations for administration of the buildings of the Ministry of Education and Research starting from January 2019, when contractual portfolio will be supplemented by approximately 380,000 square meters;
- the number of immovables dropped from 817 to 788 objects or by 3.5%, which was mainly due to decrease in the number of immovables in administrative portfolio;
- the number of assets in administrative portfolio decreased by 27 registered immovables or by 5.4%, which was mostly due to moving large number of apartments to the sales portfolio and repurchase of the right of superficies for ten school buildings by local governments;
- the size of the development portfolio did not change significantly, it decreased by one registered immovable or by 1.6%;
- sales portfolio also maintained similar size, it decreased by one registered immovable or by 0.4%;
- built-up closed net area in the assets portfolio increased by 2% or 21,338 m<sup>2</sup>;
- total vacancy of the asset portfolio remained at the level of 27–31% since the beginning of the year to December, when it dropped to 22% mostly due to the completion and lease of the new Tallinn Prison. Vacancy of administrative portfolio remained between 6 to 11% throughout the year;
- over the year, the return on assets portfolio moved within the range of 8.4–8.8%, increasing to 9.6% in December.
- Over the year, RKAS received additional 60,776 m<sup>2</sup> of necessary and 14,176 m<sup>2</sup> of unnecessary buildings. Necessary assets were moved to administrative and development portfolio and unnecessary to sales portfolio.

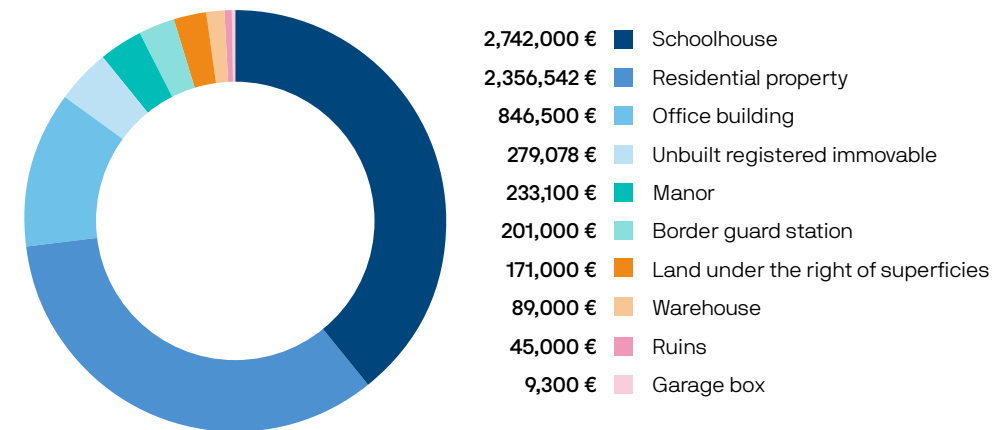


## Sales of unnecessary assets

Sales revenue from the sales of unnecessary assets in 2018 constituted 7.0 million euros and sales profit was 3.6 million euros. The biggest sales transaction at 2.1 million euros was former schoolhouse at Raadiku 10 in Tallinn.

During the year, we sold 75 registered immovables with total area of 649,661 m<sup>2</sup> and total closed net area of buildings 28,045 m<sup>2</sup>.

## Distribution of sold assets based on asset type



## Significant purchase and sales transactions in 2018

Address	Main purpose of use	Closed net area, m <sup>2</sup>	Area of registered immovable, m <sup>2</sup>	Time of transaction	Transaction price, €
Raadiku 10, Tallinn	schoolhouse	8,968	47,193	28.03.2018	2,072,000
Uus 18, Tallinn	office building	312	651	06.07.2018	750,000
Kaare 6/8, Tallinn	residential	674	4,537	16.07.2018	525,000
Keila-Joa Sanatorium Boarding School, Türisalu village, Harku rural municipality	schoolhouse	5,584	60,777	09.04.2018	317,000
Kaelase school, Aasa village, Halinga rural municipality	manor	1,162	26,657	25.06.2018	233,100
Kooli tee 3 and Kooli tee 5, Upa village, Saaremaa rural municipality	schoolhouse	3,372	59,875	23.08.2018	201,000
Vergi station, Vergi village, Haljala rural municipality	former border guard station	160	10,603	16.08.2018	201,000



Vastseliina Rescue Depot

## Serviceportfolio

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

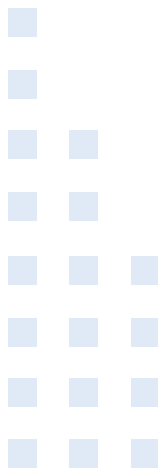
### Real estate management

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).

Main areas, where maintenance services are bought in, include utility, upkeep (incl. interior and exterior upkeep) and security services (incl. technical and manned guard).

Administrative services provided by RKAS continue to focus on timely response of customer enquiries, performance of repair





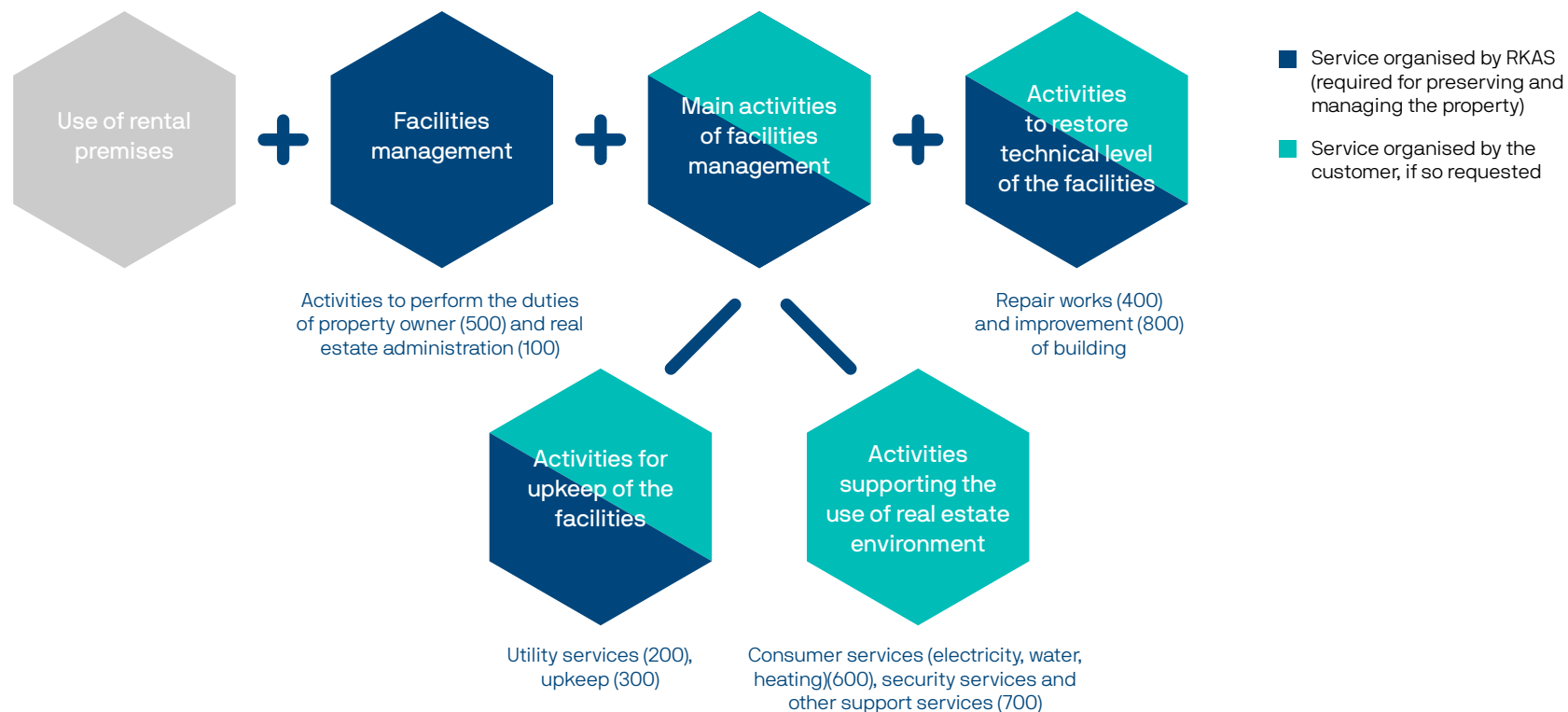
works according to agreement and time plan, and contribution to preventive maintenance to avoid the occurrence of emergencies.

The greatest challenge of the year in property management consisted in taking over institutions of the Ministry of Education and Research (vocational schools, institutions of applied higher education, museums across Estonia) with total (net) area of buildings ca 390,000 m<sup>2</sup> by the end of 2018. Formerly, our estimated annual takeover capacity was ca 200,000 m<sup>2</sup>, and we exceeded it twice.

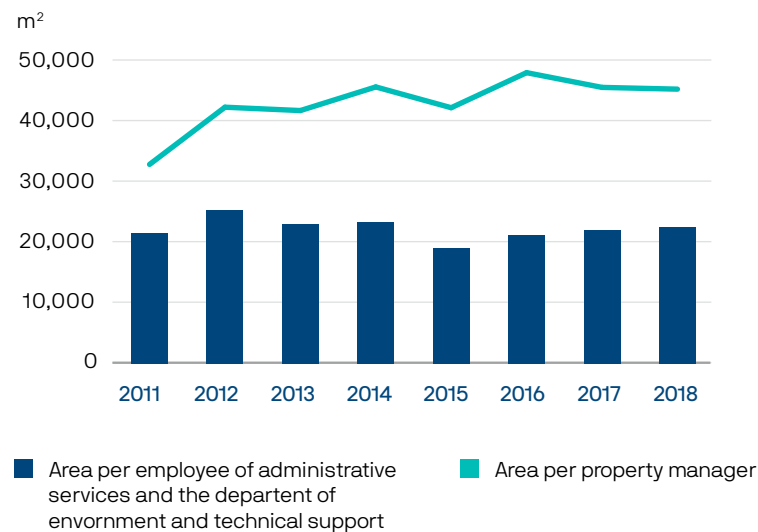
Implementation of the takeover was possible due to well-thought action plan and close communication with the Ministry of Education and Research and schools. Provision of the service starts on 1 January 2019.

As at 30.11.2018, subsidiary OÜ Hooldus Pluss and RKAS were merged, and 13 people transferred to the administration department. A maintenance group for special buildings was established to maintain detention institutions in Tallinn, Tartu and Jõhvi and also the building of the State Chancellery in Tallinn.

### RKAS provides the following property maintenance services



## Administered net area per employee



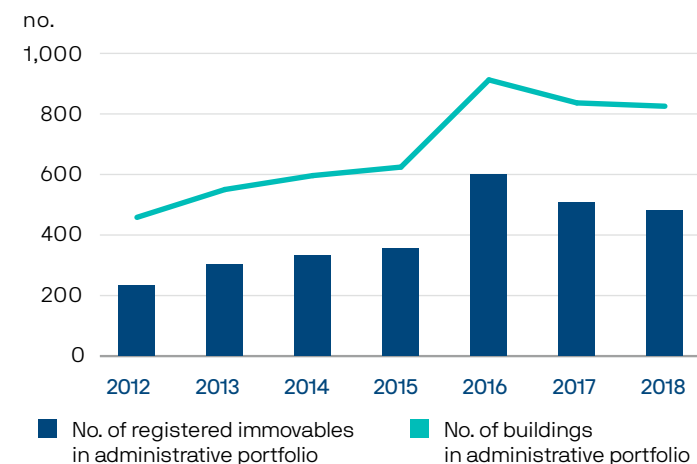
## In 2018, provision of services was started at the new asset portfolio objects completed during the year:

1. Vändra rescue depot, January 2018; 833 m<sup>2</sup>
2. Vastseliina rescue depot, February 2018; 807 m<sup>2</sup>
3. Tallinn courthouse, July 2018; 27,222 m<sup>2</sup>
4. Tallinn Prison and Rae detention centre, December 2018; 65,953 m<sup>2</sup>

## Provision of administration service was started at the following contractual portfolio objects:

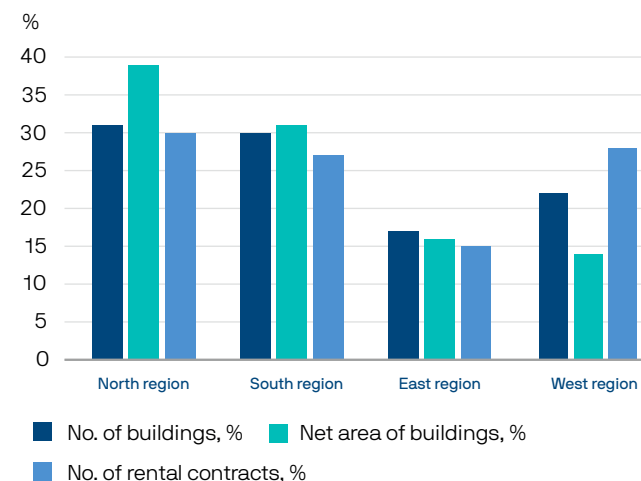
1. eu-Lisa building in Tallinn, July 2018; 3,627 m<sup>2</sup>
2. Victims of Communism Memorial and Officers Monument in Tallinn, August 2018 m<sup>2</sup>; area of registered immovable 29,561 m<sup>2</sup>
3. Rapla state gymnasium, August 2018; 3,484 m<sup>2</sup>
4. Viimsi state gymnasium, September 2018; 4,296 m<sup>2</sup>

## Number of registered immovables and buildings in administrative portfolio\*



\* Includes objects of RKAS administrative portfolio, contractual and public-private partnership (PPP).

## Regional distribution of administrative portfolio





## Real estate development

Investment properties and real estate valuation is mainly focused on the development of office premises and special buildings (e.g. depot buildings and schoolhouses), but also on compilation of detailed plans for property valuation. Development projects are divided into two: investment projects and service projects (project management, consultancy, procurements, etc.), related to real estate belonging to customers. 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.

we create real estate environment required by the state, by developing new buildings or reconstructing existing ones. Real estate development ensures energy efficiency of buildings and effective use of area, which in turn ensures good quality and motivating work or study environment.

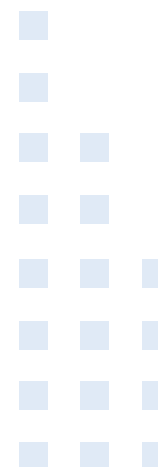
The development process starts by compilation of terms of reference, ascertaining the purpose and needs for future use of the building, which is also the most important responsibility of the entire process. Good commencement of the process in the form of terms of reference lays groundwork for high quality end result. The terms of reference are agreed in cooperation with customer and they form the basis for designing and erecting a building suitable for the customer.

In 2018, RKAS established the positions of spatial solutions project manager. The duty of the project managers is to assist customer in ascertaining, what kind of space the customer needs in order to best support the needs of the institution. This results in terms of reference defined in cooperation with customer necessary for carrying out architectural competition and design work.

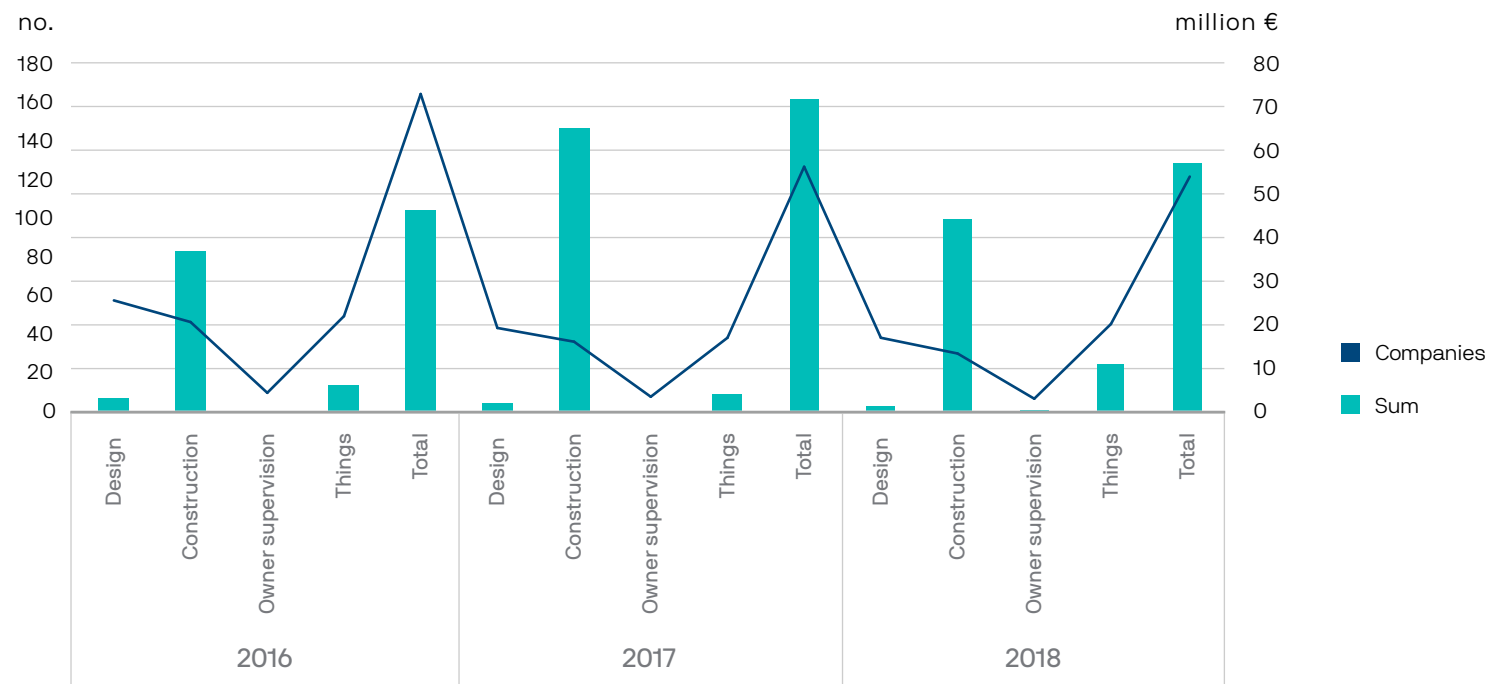
## Investment properties

Several significant real estate development objects were completed in 2018. The largest of them include new Tallinn Prison under the governance of the Ministry of Justice and Rae detention centre governed by the Ministry of Internal Affairs in Rae rural municipality, located on the same registered immovable. This complex represents the largest construction project in the history of RKAS. There are total of 14 buildings on 26 hectares with total closed net area of approximately 66,000 m<sup>2</sup>, construction used 33,000 m<sup>3</sup> of concrete and total investment reached ca 100 million euros.

Under the jurisdiction of the Ministry of Justice, another major object was completed in 2018, namely Tallinn courthouse. The building accommodates Harju County Court, North District Prosecutor's Office and the Centre of Registers and Information Systems. The building has closed net area of 27,222 m<sup>2</sup>, it has seven storeys on the ground and three floors underground. Total investment reached 35 million euros.



## Distribution of real estate development procurements by type of service



## Objects of own asset portfolio completed in 2018:



### Väandra Rescue Depot

Customer:	Rescue Board
Address:	Allikõnnu village, Väandra rural municipality, Pärnumaa
Type of building:	rescue depot
Project start:	January 2015
Time of completion:	January 2018
Closed net area:	833 m <sup>2</sup>
Cost:	1.3 million euros + VAT
Designer:	Sweco Projekt OÜ
Builder:	Pärnu REV AS





### Vastseliina Rescue Depot

<b>Customer:</b>	Rescue Board
<b>Address:</b>	Pritsumaja kinnistu, Vastseliina, Võrumaa
<b>Type of building:</b>	rescue depot
<b>Project start:</b>	January 2015
<b>Time of completion:</b>	March 2018
<b>Closed net area:</b>	807 m <sup>2</sup>
<b>Cost:</b>	1.5 million euros + VAT
<b>Designer:</b>	Kavakava OÜ
<b>Builder:</b>	AS Semuehitus



### Tallinn courthouse

<b>Customer:</b>	Ministry of Justice
<b>Address:</b>	Lubja 4, Tallinn
<b>Type of building:</b>	office building (special)
<b>Project start:</b>	October 2011
<b>Time of completion:</b>	July 2018
<b>Closed net area:</b>	27,222 m <sup>2</sup>
<b>Cost:</b>	34.4 million euros + VAT
<b>Designer:</b>	Novarc Group AS
<b>Builder:</b>	Astlanda Ehitus OÜ, Ehitusfirma Rand ja Tuulberg AS



### Victims of Communism Memorial and Officers Monument

<b>Customer:</b>	Ministry of Justice
<b>Address:</b>	Pirita tee 78, Tallinn
<b>Type of building:</b>	monument
<b>Project start:</b>	October 2015
<b>Time of completion:</b>	August 2018
<b>Closed net area:</b>	900 m <sup>2</sup>
<b>Territory area:</b>	29,561 m <sup>2</sup>
<b>Cost:</b>	7.3 million euros + VAT
<b>Designer:</b>	Arhitektuuribüroo JVR OÜ
<b>Builder:</b>	Consortium Haart Ehitus OÜ, Verston Ehitus OÜ and GRK Infra AS





### Tallinn European School

<b>Customer:</b>	Ministry of Education and Research
<b>Address:</b>	Tehnika tn 18, Tallinn
<b>Type of building:</b>	school
<b>Project start:</b>	July 2016
<b>Time of completion:</b>	August 2018
<b>Closed net area:</b>	7,267 m <sup>2</sup>
<b>Cost:</b>	5.6 million euros + VAT
<b>Designer:</b>	Sweco Projekt AS
<b>Builder:</b>	Ehitus 5 Eco OÜ



### Rae detention centre

<b>Customer:</b>	Ministry of Internal Affairs
<b>Address:</b>	Linnaaru tee 5, Soodevahe village, Rae rural municipality, Harjumaa
<b>Type of building:</b>	detention building
<b>Project start:</b>	January 2008
<b>Time of completion:</b>	November 2018
<b>Closed net area:</b>	8,230 m <sup>2</sup>
<b>Cost:</b>	12.8 million euros + VAT
<b>Designer:</b>	Amhold AS
<b>Builder:</b>	Fund Ehitus OÜ



### Tallinn Prison

<b>Customer:</b>	Ministry of Justice
<b>Address:</b>	Linnaaru tee 5, Soodevahe village, Rae rural municipality, Harjumaa
<b>Type of building:</b>	detention building
<b>Project start:</b>	January 2008
<b>Time of completion:</b>	November 2018
<b>Closed net area:</b>	57,723 m <sup>2</sup>
<b>Cost:</b>	86.3 million euros + VAT
<b>Designer:</b>	Amhold AS
<b>Builder:</b>	Fund Ehitus OÜ



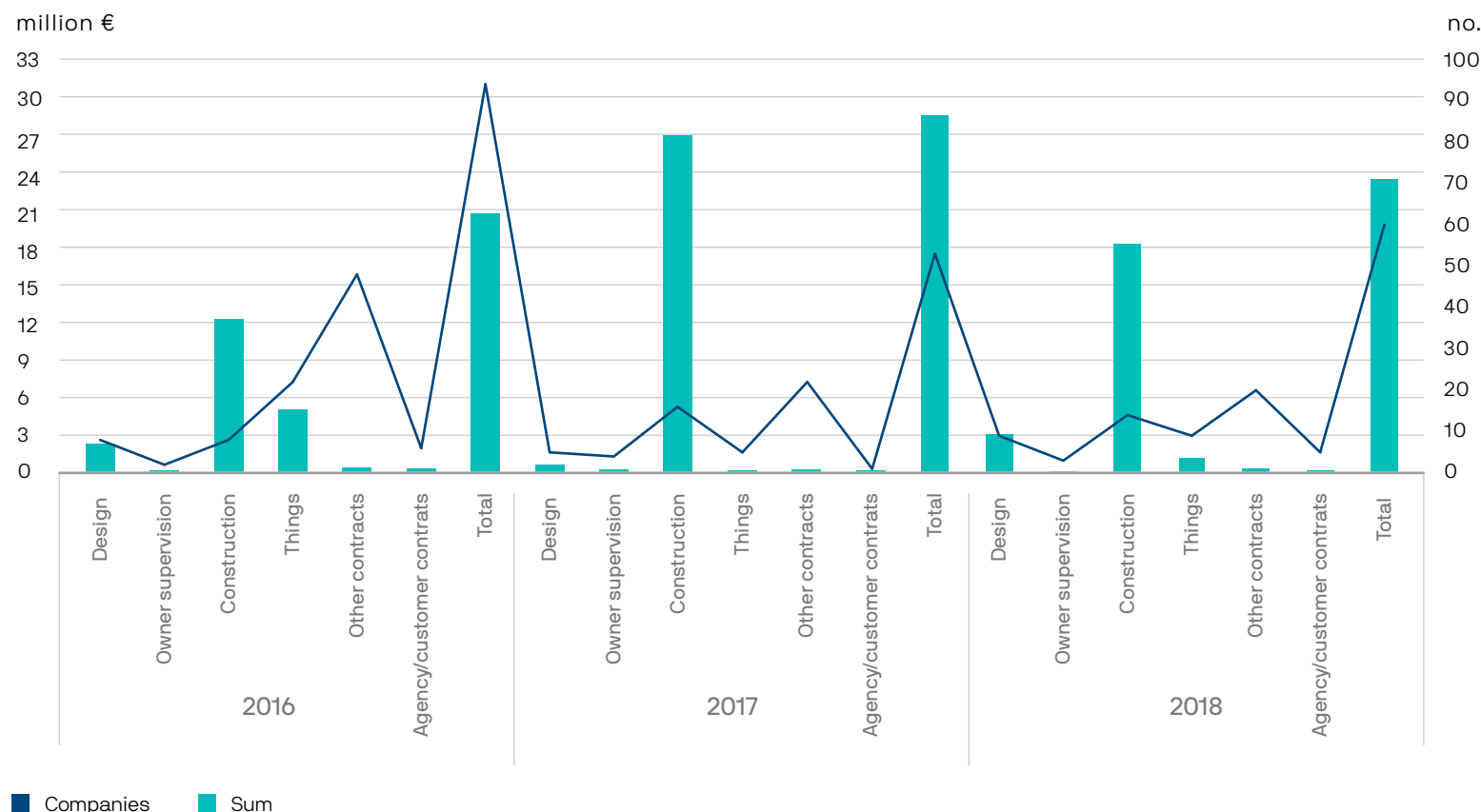
## Real estate development service projects

We also provide the service of managing real estate development projects. Major customer of that service in recent years has been the Ministry of Education and Research, in cooperation with whom we have erected 13 state gymnasiums and there are at least ten new school buildings in the way. Five new gymnasium buildings were completed in 2016–2018: in Valga, Hiiumaa, Põlva, Rapla and Viimsi.

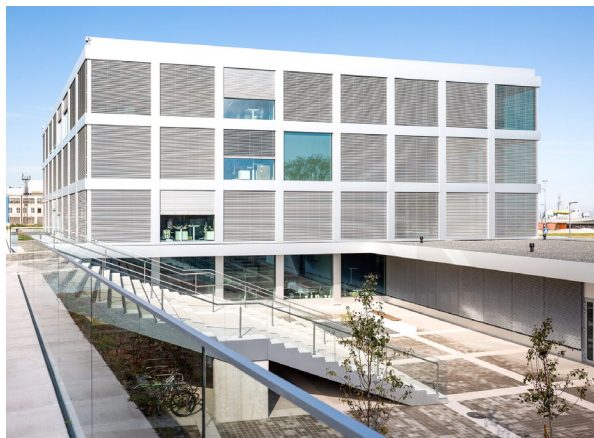
In 2018, we organised service project of architectural competition for Tabasalu state gymnasium and Saaremaa state gymnasium and started the architectural competitions for new buildings of Viljandi Hospital, Environment Building and Estonian National Broadcasting Agency.

Over the past three years, RKAS has provide service contracts for approximately 150 million euros, half or ca 70 million euros of which was invested in 2016. Total investments in 2018 were ca 40 million euros.

## Distribution of service project procurements by type of service



## Objects completed in 2018 as service project:



### eu-LISA

<b>Customer:</b>	Ministry of Internal Affairs/ eu-LISA
<b>Address:</b>	Vesilennuki tn 5/7, Tallinn
<b>Type of building:</b>	office building
<b>Project started:</b>	April 2012
<b>Time of completion:</b>	July 2018
<b>Closed net area:</b>	3,627 m <sup>2</sup>
<b>Cost:</b>	9.3 million euros + VAT
<b>Designer:</b>	DAGOpen OÜ, LÜNK arhitektid OÜ
<b>Builder:</b>	Fund Ehitus OÜ



### Rapla state gymnasium

<b>Customer:</b>	Ministry of Education and Research
<b>Address:</b>	Kooli 8, Rapla
<b>Type of building:</b>	school
<b>Project started:</b>	October 2014
<b>Time of completion:</b>	August 2018
<b>Closed net area:</b>	3,435 m <sup>2</sup>
<b>Cost:</b>	5.9 million euros + VAT
<b>Designer:</b>	Salto Arhitektuuribüroo OÜ
<b>Interior architect:</b>	Pille Lausmäe sisearhitektuuribüroo
<b>Builder:</b>	Ehitus 5 Eco OÜ



### Viimsi state gymnasium

<b>Customer:</b>	Ministry of Education and Research
<b>Address:</b>	Tammepõllu tee 2, Haabneeme, Viimsi rural municipality
<b>Type of building:</b>	school
<b>Project started:</b>	September 2015
<b>Time of completion:</b>	September 2018
<b>Closed net area:</b>	4,283 m <sup>2</sup>
<b>Cost:</b>	6.9 million euros + VAT
<b>Designer:</b>	Novarc Group AS, KAMP Arhitektid OÜ
<b>Builder:</b>	Merko Infra AS





## Process of planning repair works

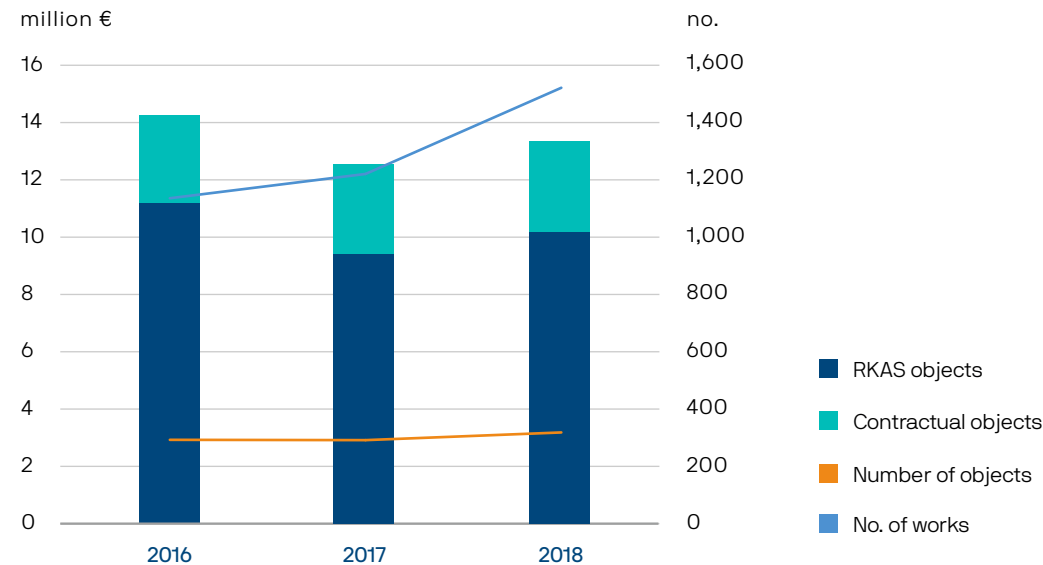


## Organisation of repair works

We invest annually ca 15 million euros in repair works of buildings and preservation of the condition of the buildings. In addition to the objects in RKAS portfolio, we also provide a service for organising repair works to the agencies in relevant governance areas.

By organising repair works, we wish to ensure preservation of the condition of rental premises. When planning repair works, we pay great attention to ensuring the safety of people and set our work priorities based on that.

## Repair works led by RKAS 2016–2018





**Victims of Communism Memorial and Officers Monument**



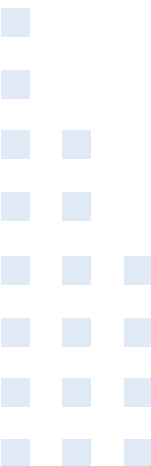
## Procurement activities

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 regulation 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 896 public procurement in 2018, with a total volume of approximately 94 million euros.

Of the types of procurement procedures, those under the threshold of a simplified procurement were organised the most (71.5%), and their cost comprised 10.8% of the total volume of procurements.

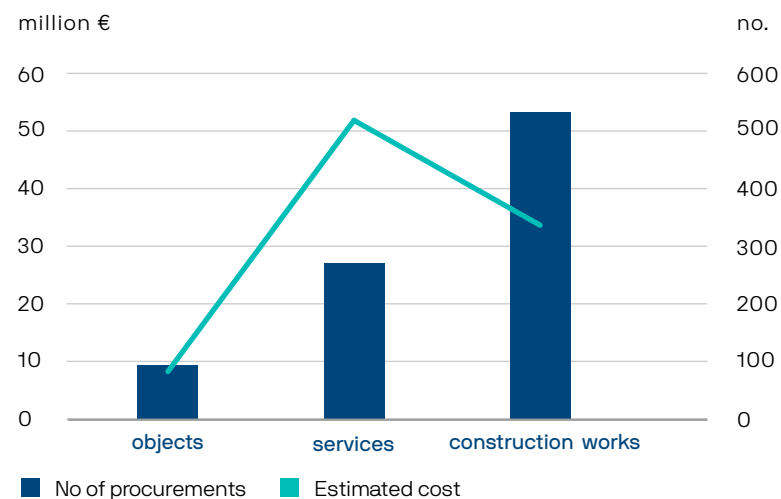
Based on the cost of procurements, the largest part comprised procurements organised within an open procurement procedure in the total amount of approximately 68.3 million euros. Divided by procurement objects, the largest number of procurements were building procurements, which made up 59% of all procurements and 51.9% of the total cost of procurements.



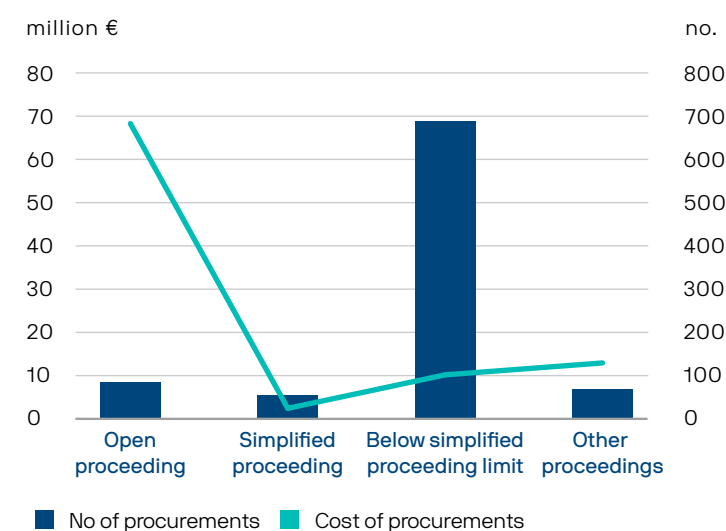
Victims of Communism Memorial and Officers Monument



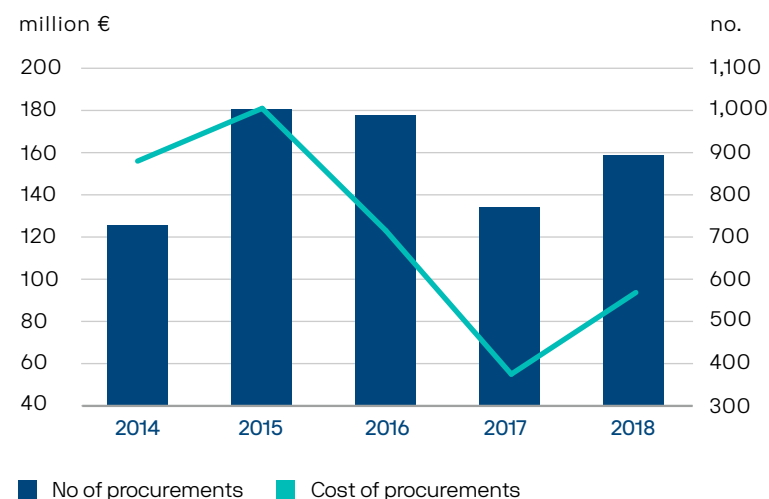
## Procurements in 2018 based on object of procurement and estimated cost



## Procurements in 2018 by type of procedure and estimated cost



## Total number and cost of procurements



RKAS has tuned its procurement process and documentation to such a high quality that in 2018, the tenderers disputed only three procurements, of which only one was satisfied in further proceeding. In comparison, three procurements were disputed in 2017, none of which were satisfied. In 2016, nine procurements were disputed, three of which were satisfied.

## Implementation of the principles of economic advantageousness, environmental, innovation and social principles in procurements

So-called value-based procurements (i.e. procurements based on more than just the lowest value of a tender) continued in 2018 in order to ensure buildings and services of higher quality that take greater account of the needs of the contracting entity. Those value-based public procurements that deserve the most attention were „Concession of catering at Suur-Ameerika 1“, „Construction works of the buildings of Supreme Court“, „Utility service subscription for the object at Lubja 4, Tallinn during 01.06.2018–31.03.2021“ and „Concession of the café at the building at Lubja 4“.

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 principle of economic advantageousness, RKAS also values and implements management of environment, innovation, and social aspects in its procurements. Consideration of the aspects of management of environment is well manifested in the procurements for upkeep services, but there are also good examples from construction (construction works related to Kihnu and Lihula rescue depots).

As for innovation, it is worth mentioning the test procurement for energy monitoring organised within the framework of project „EFFECT4buildings“. Without further details, we note that we expect to apply large-sale innovation principles in the future visions of that project. In terms of social aspect, we would like to highlight public procurement „Concession of catering at Suur-Ameerika 1“, where one of nine different assessment criteria was „employing staff with reduced capacity to work“.

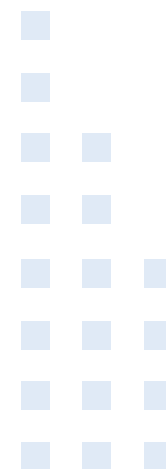
## Joint procurements of energy portfolio

Since the opening of electricity and natural gas markets, RKAS has provided its customers convenient and safe complex service for purchasing energy. We have included in the portfolio 12 ministries and subunits for purchasing electricity and 6 for purchasing natural gas. Our goal is to continue ensuring the transparency of procurement proceedings and favourable conditions for joint energy portfolio.

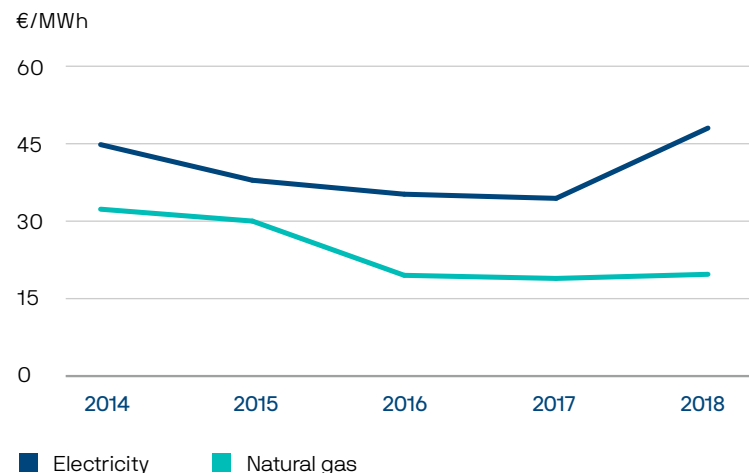
In addition to supplying electricity and natural gas, we have also supported customers with administration of electricity grid contracts.

The diagram below shows prices of electricity and natural gas in public contracts awarded based on framework agreements in 2014–2018. Both for electricity and natural gas, there are functional exchanges that determine the price. Such price will be added grid fees, renewable energy charges and excise.

In 2019, we will organise scheduled new public procurements for conclusion of framework contracts for purchasing electricity and natural gas for the next four years. After that we will organise mini procurements with the partners of the framework agreement in order to find the tenderer offering the best price for particular period.



## Prices of electricity and natural gas in public contracts



## 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 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 artwork 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 the 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.

**In 2018, RKAS organised competitions for the commissioning of a work of art that resulted in completion of four works of art with total value of 254,000 euros:**

- installation “Black sun”, author Urmas Viik, Tallinn courthouse;
- installation “Iceberg”, author Maret Sarapu, eu-LISA;
- mosaic panel “Butterfly”, author Jass Kaselaan, Viimsi Gymnasium;
- painting “Social still-life for advanced class”, author Kaido Ole, Rapla Gymnasium.



In 2018, landmark art competition was carried out for Tallinn European School, the winner of which was conceptual design of outdoor sculpture “Spark” by Taavi Kuningas, Argo Männik and Mihkel Urmet, which will be completed in spring 2019.

Additionally, at the end of 2018, we announced art competition for Rakvere Vocational Boarding School. Artwork is intended to be completed by winter 2019.

#### Number of participants in art competitions:

Tallinn courthouse	17
eu-LISA	22
Viimsi Gymnasium	35
Rapla Gymnasium	56
Tallinn European School	2



Installation “Black sun”, author Urmas Viik



## Customers

### Customer portfolio

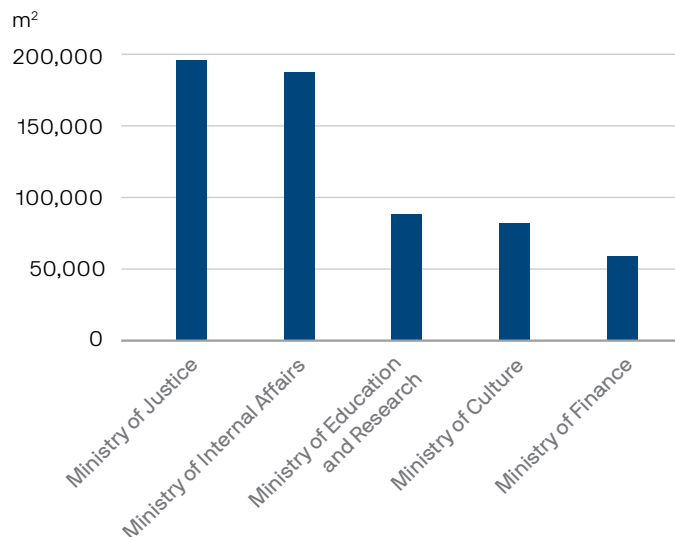
Maintenance of customer relations is the duty of customer relations managers and property managers of RKAS. Customer relations are divided between two levels: customer relations managers take care of the so-called key customer view (i.e. areas of governance in the public sector, state agencies, etc.) 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.

### Major customers in contractual portfolio

Customer	Area of contractual portfolio (m <sup>2</sup> )
Ministry of Education and Research	452,109*
Ministry of Internal Affairs	34,797
Constitutional institutions and State Chancellery	6,617
eu-LISA	5,001
Ministry of Culture	3,785
Tartu City Government	2,476
Ministry of Finance	547

\* Of which 377,789 m<sup>2</sup> in RKAS contractual portfolio since 01.01.2019

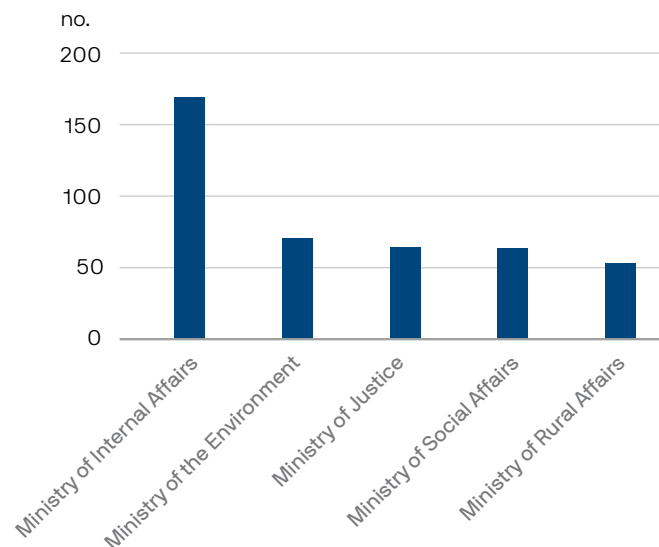
## Major customers by the size of rental premises in 2018



As of December 2018, RKAS manages 957 customer relationships, of which 882 are based on rental contract and 75 based on administration contract. In case of rental contract, RKAS is the owner of the asset and provides customer with agreed upkeep services based on rental contract. In case of administration contract, the customer has given its asset to our care and RKAS ensures its upkeep and compliance with customer's needs.

During 2018, the Ministry of Education and Research delivered to RKAS for administration various buildings (vocational schools, institutions of applied higher education, museum) with net area of 390,704 m². According to the contract, they are provided with

## Major customers by the number of lease contracts in 2018



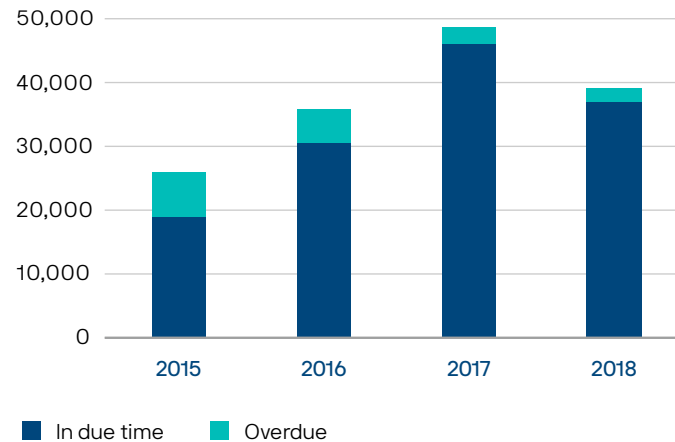
services in the following areas: technical maintenance, administration, mediation of consumer services, repair works (except development). Ownership liability is provided as full service (insurance). When providing the services, RKAS focuses greatly on preventive activities to avoid the occurrence of 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. Customer support hotline is open on business days from 8.00 to 19.00 and electronical requests can be sent 24/7.



## Customer enquiries in due time and overdue

Number of customer enquiries  
no.



In 2018, 39,154 customer enquiries were made in total, on average 107 enquiries and contacts every day. The share of tasks performed in due time has been very high in the last two years – 95% in both years.

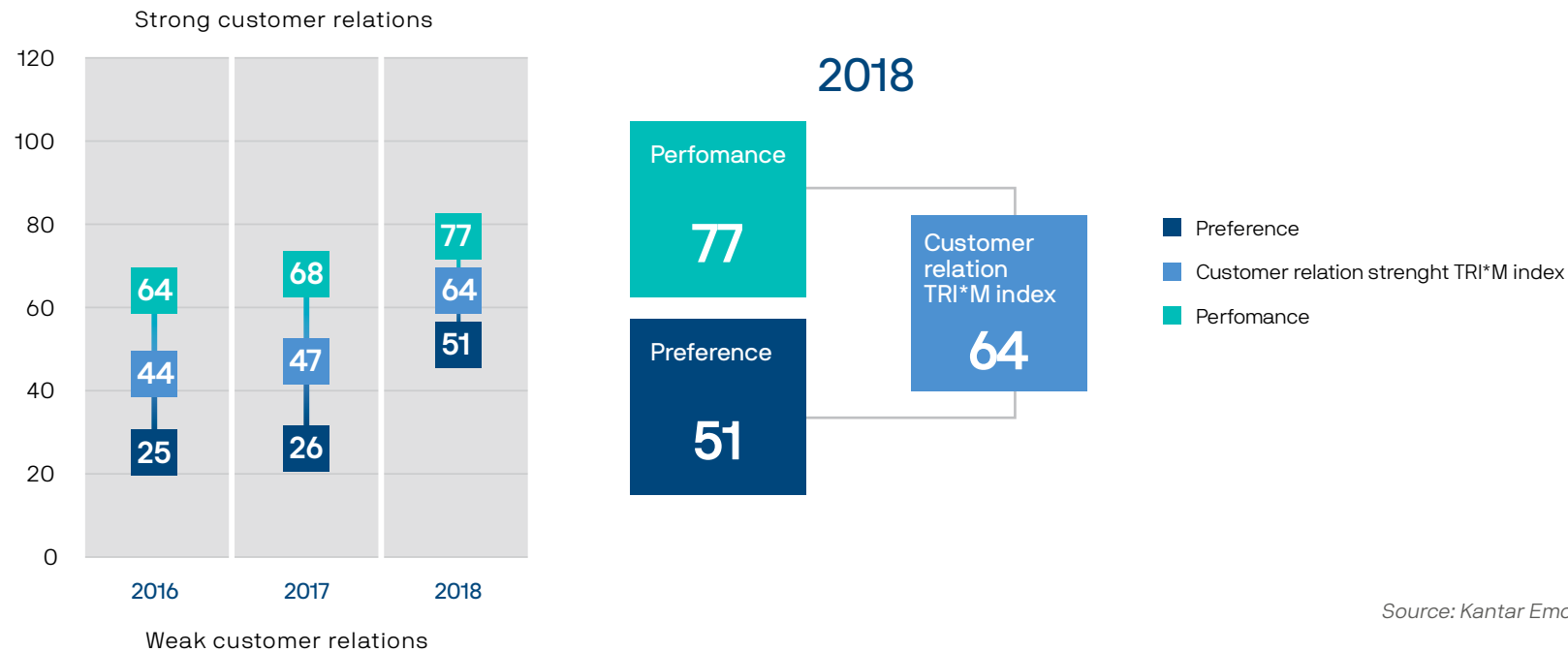
## Customer feedback

RKAS measures the strength of customer relations in cooperation with Kantar Emor since 2011.

In 2018, RKAS carried out customer satisfaction survey. The survey mapped various aspects affecting satisfaction and analysed the impact of these aspects on customer relations. More specifically, it measured general satisfaction with RKAS and satisfaction with services and contact person. Total of 429 invitations to participate in the survey were sent (including 325 customer target groups and 104 decisionmakers' target group). Feedback rate was 47% and 49%, respectively. Survey was carried out by using international survey methodology for analysing customer satisfaction, TRI\*M, which measures the strength of customer relations, considering both rational satisfaction, behavioural loyalty, emotional attachment and surrounding environment.

The results of the survey of 2018 indicate that TRI\*Mi index, consisting of performance and preference, increased significantly compared to 2017, from 47 to 64. There was significant increase in the performance index, which was 77 in 2018. Compared to companies operating in the real estate sector in Europe, RKAS ranks among 30% of top companies.

## RKAS TRI\*M Index 2016–2018



Significant strengths of RKAS based on the survey include competency in the field of real estate and the manner of communicating with both decisionmakers and customers and also helpfulness and communication skills in customer segment.

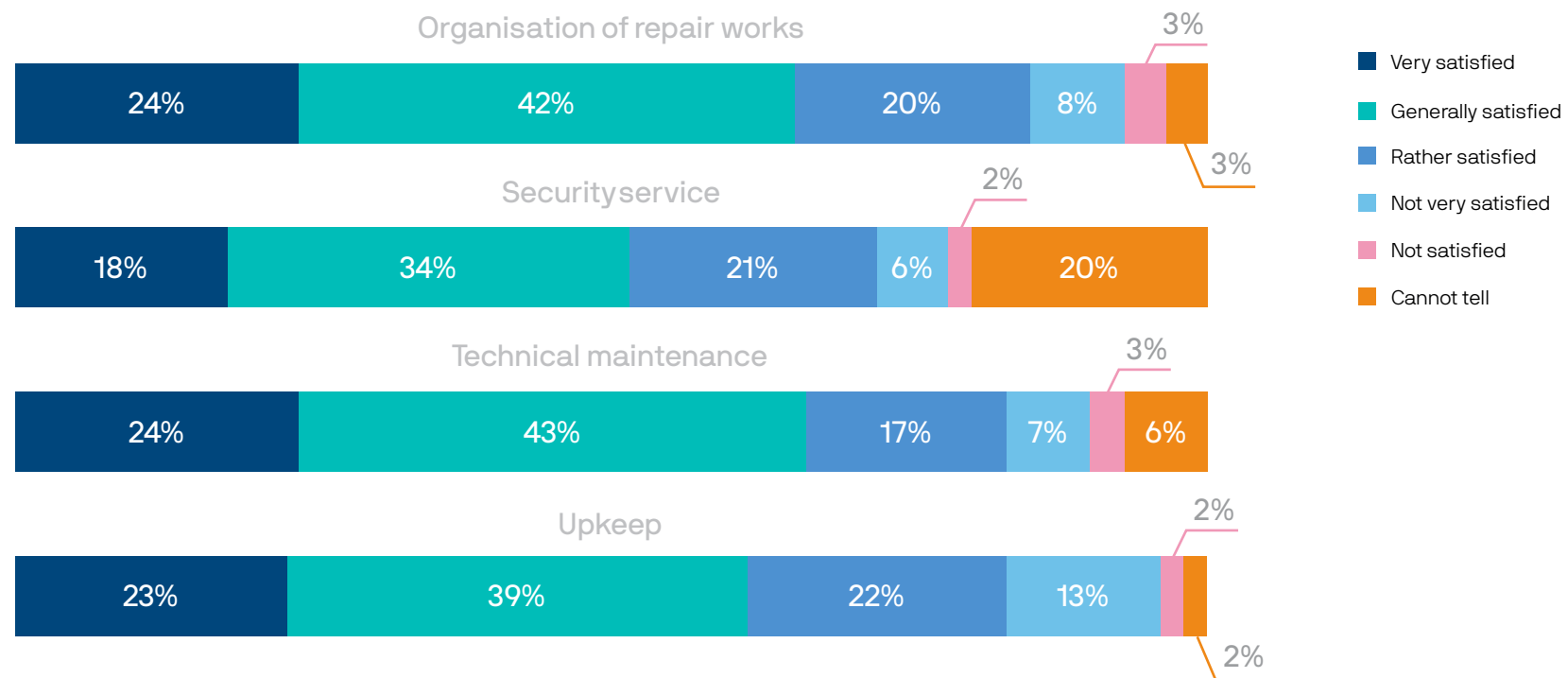
Consultancy regarding real estate and offering suitable real estate solutions requires further development. In terms of strengthening customer relations, more attention should be paid to understanding the needs of the customer's organisation and comprehensibility of service

As for services, respondents were most satisfied with the availability of customer support service. More attention should be paid to real estate development service and performance of repair works.

As for aspects regarding contact person, customers are more satisfied, the greatest positive change concerns manager's competency in real estate sector.

In the beginning of 2018, 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.

## Overall Satisfaction with RKAS Services





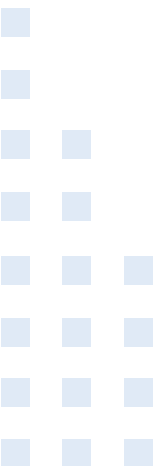


## Suppliers and cooperation partners

RKAS acts as a mediator with regard to things, services and construction works provided to the customer, because we acquire them through public procurement from free market. In order to ensure customer satisfaction, we cooperate with our partners on a daily basis and also exercise supervision over our suppliers and cooperation partners.

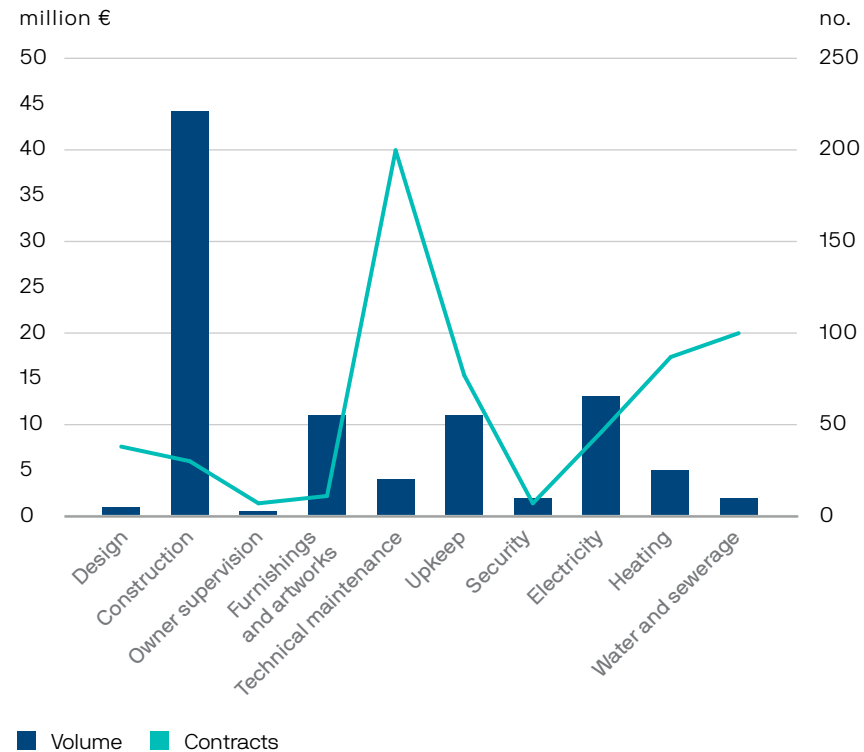
**Our quality requirements are publicly available for everyone:**

- Requirements of development services <https://www.rkas.ee/kasulik-info/tehnilised-nouded-mitteeluhoonetele>
- Requirements for administration services <https://www.rkas.ee/kasulik-info/teenuste-tehnilised-kirjeldused>



## Statistical overview of our suppliers:

### Suppliers in 2018



We are open to expand the cooperation network with new participants in public procurements with the purpose of finding new opportunities for creating value added and prepare value-based offers.



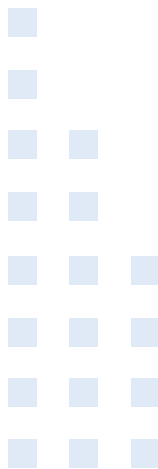


## Employees

The greatest value of RKAS consists in its employees, who are also main success factor in implementing the company strategy and achieving set goals.

As at 31.12.2018, RKAS had 223 employees. The number of group employees has decreased by 43 compared to previous year as a result of merger of subsidiary and replacement of its activities with bought-in services.

Operation of the company is divided between four locations: 162 people work in Tallinn (including 31 in real estate development and construction department, 43 in administration service department, 22 in environmental and technical support department and 9 in the department of real estate portfolio analysis), 27 in Tartu (7 in real estate development and construction department, 17 in administration service department, 3 in environmental and technical support department), 21 in Pärnu (1 in real estate development and construction department, 18 in administration service department, 3 in environmental and technical support department) and 13 in Jõhvi (1 in real estate development and construction department, 11 in administration service department and 1 in environmental and technical support department). Location of employees depends mostly on the location of assets and managed properties and objects, as well as taking over the employment contracts of employees related to administration of assets delivered by governance areas.





In 2018, company hired 29 new employees. Due to merger of RKAS and Hooldus Pluss OÜ, 13 employees were added to the staff of the company in December.

The share of newcomers at the end of 2018 was 13%, which remained almost the same as in 2017 (13.6%). The voluntary turnover of employees increased to 14% in 2018 compared to 10.6% previous year.

The number of full-time employees in 2018 was 214 and 9 persons worked part-time.

In 2018, three 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 Tallinn and the Northern region.

The share of male employees in RKAS is 61% and the share of female employees is 39%. in comparison with the previous year, the share of female employees has decreased by a few percent and the share of male employees has increased.

The company employs two persons with special needs.

In 2018, there were no violations that would refer to discrimination or violation of human rights. One employee submitted an application against RKAS to the labour dispute committee. The claim of the person leaving employment consisted in detecting the nullity of the cancellation of employment contract and claim for compensation for unlawful cancellation. Labour dispute committee rejected the application in full.

RKAS adheres to applicable laws and legislation, it has established procedures for occupational safety and organisation of work environment. We perform risk analysis to find out risk factors regarding work environment, which are then analysed and monitored.

We have elected working environment representatives and established working environment council, consisting of equal number of representatives elected by employer and employees.

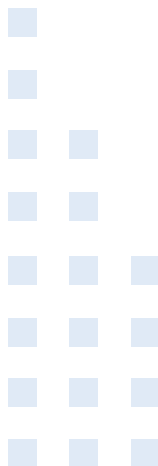
Employees are subject to regular health check-ups. RKAS provides employees with means of work, work clothes and personal protection equipment. There were no occupational accidents in 2018.

## Commitment and satisfaction of employees

One strategic goal of RKAS consists in constant increase in satisfaction and commitment of employees. Just like in previous year, a survey of commitment and satisfaction with work was carried out among the employees in the end of 2018. In order to ensure comparability of data processing and resulting indicators, the survey is performed by Estonian Centre of Applied Research Centar. The results of the survey showed organisation's strengths in direct management, presence of career opportunities, flexible organisation of work and also the role of top manager in the management of the company.

The assessment of employer's reputation by the employees has improved over the year. In 2018, topics regarding community at work and the role of top manager were rated remarkably higher than a year before. The employees pointed out the areas that need attention and improvement such as uneven workload, unclear roles, information movement and management quality in general. Assessment of information movement and workload have become more critical compared to previous year. The survey respondents consisted in 88% of employees.

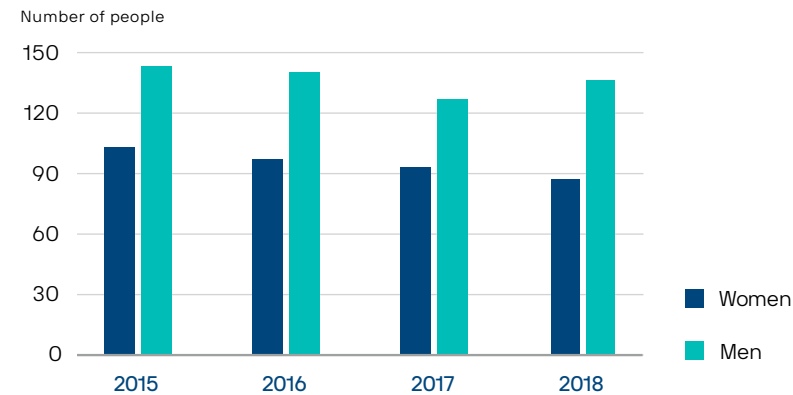
In order to motivate and keep employees, we have established a system for recognition, motivation and joint events for employees, containing e.g. additional off-work days health days, as well as free days and support in case of important events in personal life, sports support and joint events.



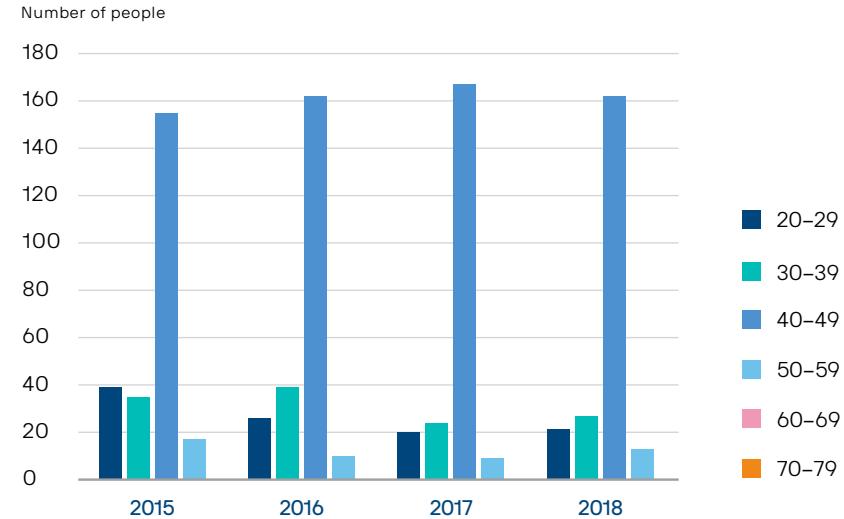

[www.smartwork.ee](http://www.smartwork.ee)

Company provides employees with the opportunity to work from home; this was recognised by Smart Work Association who attributed to RKAS Remote Work Label in 2018.

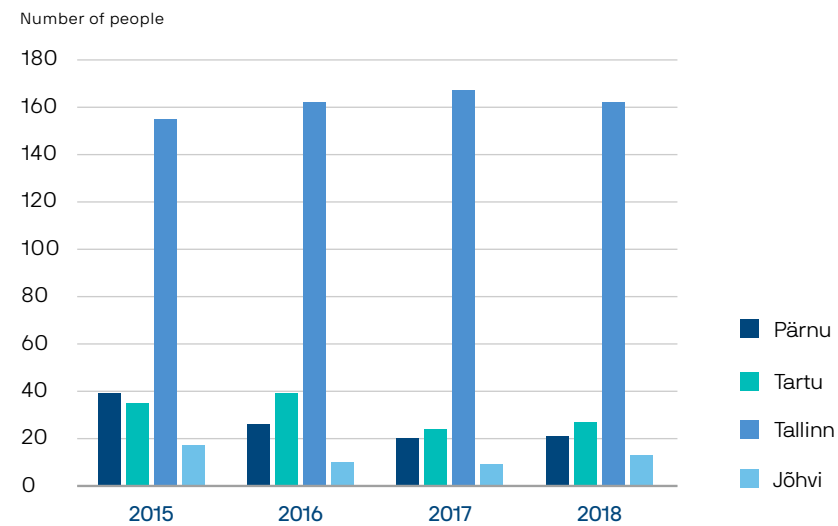
### Employees by gender\*



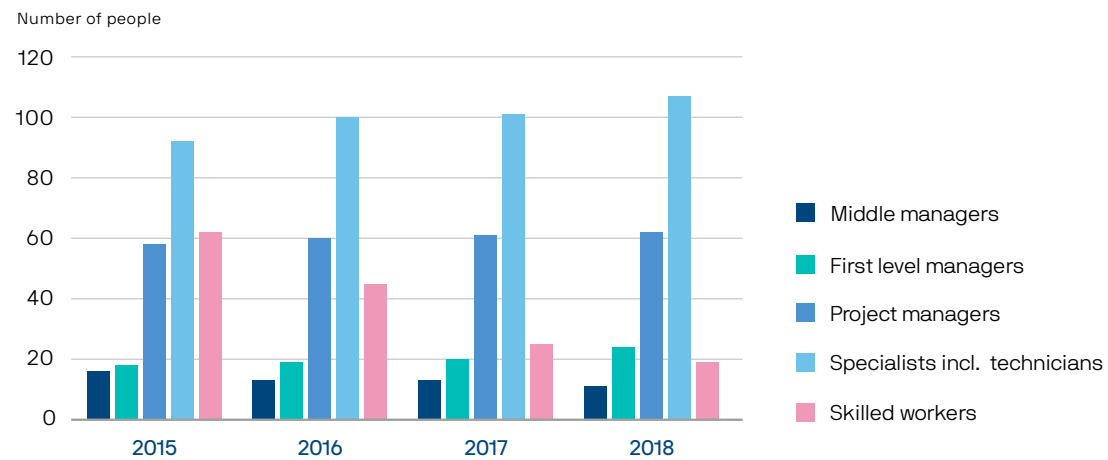
### Employees by age\*



## Employees by location\*

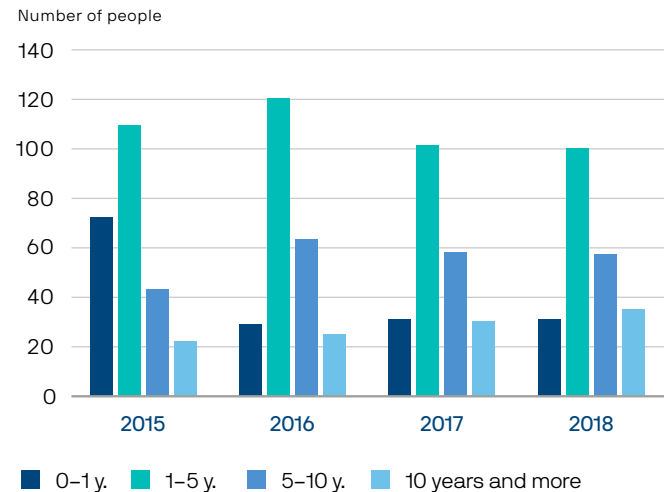


## Employees by position\*





## Employees by length of service\*



## 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. We believe that development of employees has significant role in shaping the commitment of employees and success of RKAS. Educating and training of employees helps to increase the value of both employees and RKAS. Training is organised and selected based on company's goals and employees' preferences. All new employees have to undergo mandatory induction training. Holding of professional certificate, especially in case of project managers and real estate managers, is an important prerequisite when organising public procurements. Several employees have professional certificates in more than one specialty. RKAS also continues to support employees' studies at the institutions of higher education and their participation in lecture cycles relating to their profession.

\* Statistical data include employees of parent undertaking.

During the reporting period, 73 employees were issued professional certificates, including:

Speciality	Number of people
Profession of certified heating, ventilation and cooling engineer, Level 7 (Estonian Association of Civil Engineers)	2
Construction manager, Level 6 (Estonian Association of Construction Entrepreneurs)	3
Construction manager, Level 7 (Estonian Association of Construction Entrepreneurs)	2
Civil engineer, Levels 6-7 (Estonian Association of Construction Entrepreneurs)	7
Electrical engineer of consumer electrical installations, Level 6 (Estonian Society for Electrical Power Engineering)	1
Real estate manager, Levels 4-6 (Estonian Property Management Association)	25
Property administration manager, Level 6 (Estonian Property Management Association)	9
Property maintenance manager, Level 6 (Estonian Property Management Association)	2
Property upkeep foreman, Levels 3-5 (Estonian Property Management Association)	10
Cleaning manager, Levels 4-5 (Puhastusekspert OÜ)	2
Cleaner-instructor, Level 4 (Puhastusekspert OÜ)	1
Technician of security systems, Level 5 (Estonian Association of Security Enterprises)	1
Designer of security systems, Level 6 (Estonian Association of Security Enterprises)	1
Security Manager, Level 5 (Estonian Association of Security Enterprises)	4
Authorised energy efficiency specialist, Level 8 (Estonian Society of Heating and Ventilation Engineers)	1
Spatial environment planner, Level 7 (Estonian Association of Planners)	1
Water supply and sewerage engineer, Level 7 (Estonian Association of Civil Engineers)	1

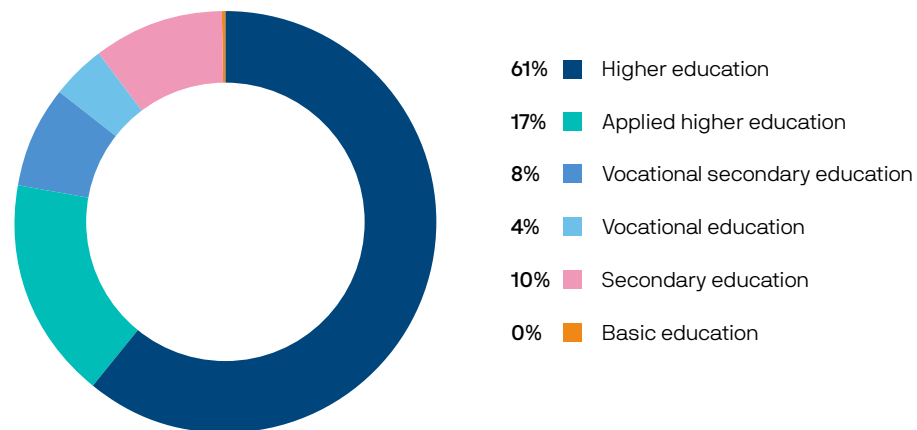
RKAS employees have very high level of education, 78% of employees has either applied higher education, bachelor or master degree; two employees have doctoral degree.

In 2018, training costs totalled 130,369 euros, of which the training of specialist development programme was 42,240 euros.

In 2018, we commenced a development programme intended for specialists „Practical training of improving communication skills” and „Practical training of improving negotiation and influence skills”. Under this programme, specialists undergo various modules and practical exercises for developing communication competencies and influencing and negotiation skills. Employees who have already undergone that training have given positive feedback.

In 2018, RKAS continued in-house training programme, intended for supporting the improvement of the competencies of employees and providing them with an opportunity to keep abreast of important development trends in construction and related areas.

### Level of education of employees







Tallinn European School



# SOCIETY

## Membership of associations and cooperation with professional associations

RKAS makes an effort to contribute to various areas in the society. RKAS has a membership of the following Estonian organisations:

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

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

- make proposals and express opinions concern all issues arising from the Heritage Conservation Act, including 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 international registries and lists.

The opinions of the Advisory Panel constitute 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.

In 2018, RKAS organised accessibility round table with state agencies and representatives of the associations of people with reduced mobility, in order to discuss the principles of improving accessibility of public buildings in general, by the example of the joint building of the ministries (Suur-Ameerika 1, Tallinn).

RKAS organises architectural competitions for new buildings and art competitions for commissioning of works of art for public buildings pursuant to the Commissioning of Artworks Act. The juries of the competitions include the representatives of professional associations and experts in relevant field, who help to select suitable works of art.

Additionally, a representative of RKAS belongs to the professional commission of the Estonian Association of Construction Entrepreneurs (EEEL), and participates in assessment of professional examinations in the civil engineering specialities and in the work of the commission.

RKAS is a 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 public sector real estate in various countries.



PuRE-net unites European real estate companies and ministries responsible for state real estate. This is a network intended for bringing together top level managers and specialists, providing an opportunity for exchanging knowledge and experience regarding management and development of state real estate.

In 2018, PuRE-net organised two workshops - „Efficient Office Space Solutions” in Berlin and „Sales Working Table” in Hague. Additionally, annual conference “Transactions and Transitions of State-owned Real Estate” was held in Prague.



TWN is a global organisation connecting public sector real estate top managers, members of which include both companies, government agencies and institutions from 17 countries. TWN members meet once a year at a conference, where they exchange experience in actual topics faced by real estate managers and policymakers of each country in the world. In 2018, the conference was held in two locations – Dublin and Amsterdam – and it covered two topics „Sales & Redevelopment” and „Innovation and Energy Transition”.

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

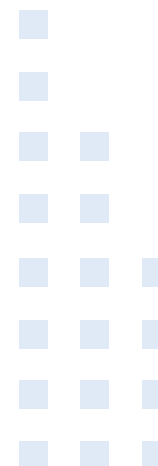
In 2018, we continued Interreg Europe project EFFECT4buildings that started previous year, the purpose of which is to increase the amount of energy efficiency measures implemented by the public sector in the Baltic region.

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.

In 2018, two round tables were organised in cooperation with Science Park Tehnopol for the managers of public buildings. Both meetings focused on current awareness, intent and bottlenecks of energy efficiency projects and, on the other hand, RKAS shared its experience and gave an overview of the activities of EFFECT4buildings project.

In IV quarter of 2018, energy monitoring system was set for five buildings in RKAS administrative portfolio, which will be monitored in 2019 for the purpose of collecting information regarding whether continuous and detailed energy use analysis helps to reduce environmental impact of the building and whether it is beneficial for the owner of the building.





## Supporting research and development activities

Cooperation with research and development institutions plays an important role in raising the competence of RKAS and demonstrating innovative trends in the property sector as a whole. Up to 0.5% of the average consolidated net profit of the previous three financial years is invested in supporting research and development projects. Financial support is granted for research that supports the operating and financial goals of RKAS. In addition to cooperation in research and development, one of the priorities of RKAS is to train competent successors, which is why the allocation of grants to students associated with the area of activity of RKAS, especially in applied, engineering masters and doctoral studies, is also supported.

As a centre of excellence, RKAS contributes to research and development activities primarily in areas that are connected with:

- energy efficiency of buildings,
- environmental sustainability of processes,
- inner climate of premises and its connection to learning success and labour productivity,
- smart building technology,
- innovative technologies,
- modern working environment solutions.

In 2018, RKAS supported the research project of the Centre for Defence Investment „Development of survey of security classes of buildings and applicable security measures and relevant RKAS methodology” in the sum of 40,200 euros.

The objective of the research is to develop methodology that allows using measurable parameters to determine optimum security class or set of applicable security measures for each object of RKAS. Methodology must allow quick and simple identification of security class, evaluate the compliance of existing measures and assess investment need. In the course of the work, the best international practice for determining the security classes of build-

ings will be ascertained and all standards, laws, regulations and procedures regarding security measures, they also describe the requirements that should be met by the level of security measures determined in the methodology.

In 2018, scholarships were allocated to the following students.

## MASTER'S STUDENTS

(2,000 euros each)

<b>Risto Häelme</b>	Tallinn University of Technology	“Efficiency parameters upon application of BIM”
<b>Even Kirs</b>	University of Life Sciences	“Aero photogram-metric surveying of a building with UAV”
<b>Jaanika Sau</b>	Estonian Academy of Art	“(Urban) space intended for blind and visually impaired people”
<b>Karli Aau</b>	Tallinn University of Technology	“Performance analysis of thermoactivated office building at Järvevana tee 7b during heating period based on measurements and dynamic simulations”

## DOCTORAL STUDENTS

(3,000 euros each)

<b>Villu Kukk</b>	Tallinn University of Technology	“Hygrothermal properties of external barriers made of cross-ply laminated timber”
<b>Johanna Liblik</b>	Tallinn University of Technology	“Fire behaviour of wood-based composite structures protected with natural grout”
<b>Nils Kändler</b>	Tallinn University of Technology	“Smart rainwater systems”
<b>Katrin Kabun</b>	Estonian Academy of Art	“Rehabilitation of lamb's wool – potential application of archaic material in contemporary product design”
<b>Martin Kiil</b>	Tallinn University of Technology	“Air distribution methods and free thermal isolation in non-residential buildings”



Tallinn European School

## Heritage conservation and architectural heritage

RKAS first encountered heritage conservation in 2001, when RKAS was established and one of the first buildings delivered was Pärnu courthouse at Rütli 19, which is situated in Pärnu Old Town and resort heritage conservation area. The said courthouse is still in the real estate portfolio of RKAS and it has been restored significantly in ca 20 years in order to ensure authenticity of this dignified building.

Additionally, RKAS has been represented at the Heritage Conservation Advisory Panel since 2015, proposals and opinions of which represent the recommended basis for planning the heritage conservation work by the Heritage Conservation Board and local government and development of heritage conservation principles.

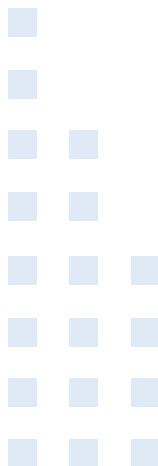
As at the end of 2018, RKAS owns 162 buildings under heritage conservation and in heritage conservation zone and RKAS also provides upkeep service for 94 buildings under heritage

conservation and in heritage conservation zone. This constitutes 16.5% of all buildings owned by RKAS and 3.9% of all architectural and historical monuments under heritage conservation in Estonia.

Similar to previous years, in 2018, repairs were performed in various buildings under heritage conservation and in heritage conservation area, in the course of which the condition of the buildings was improved or preserved. Total cost of such repair works amounted to 4,186,708 euros (plus VAT), which constitute 28% of repair works performed by RKAS in 2018.

RKAS goals for upcoming years include increasing the number of engineers with heritage conservation licence in the company through in-service training, tighten cooperation with the Heritage Conservation Board to find the best technical solutions and to preserve and, where possible, restore the authentic buildings of vocational schools delivered to RKAS in 2018, which in many cases are situated in old manor buildings under heritage conservation.

*Major construction works managed by RKAS in 2018 included Tallinn European School, which consists in an existing building under heritage conservation and new extension.*





## Art as an integral part of quality public space

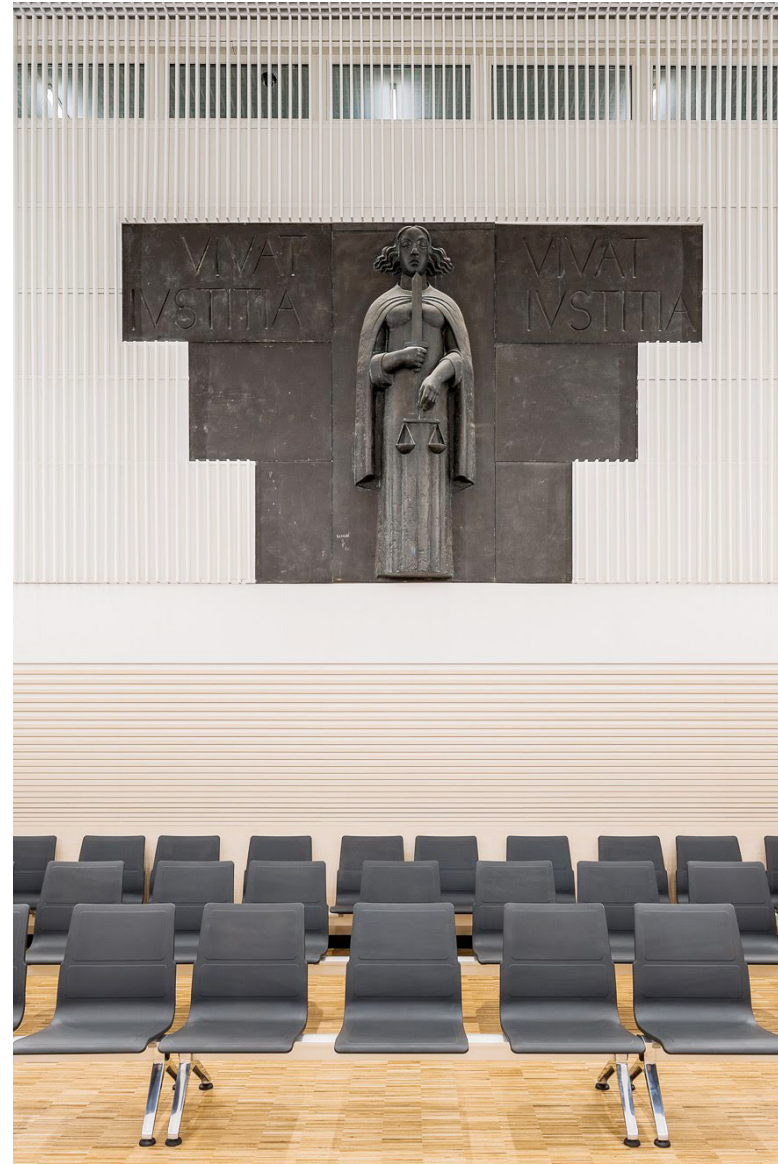
The Commissioning of Artworks Act was adopted in Estonia in 2011, the purpose of which is to enrich the public space with artworks. Since the adoption of the Commissioning of Artworks Act, ca 70 art competitions have been organised, half of them by RKAS. On the one hand, this is an opportunity and thus also responsibility to contribute to creating value added in work environment and in public space.

One of the features of a quality public space consists in versatility, where spatial elements, including experiential art, support the use of such environment. Art in public space increases its value, affecting the image of the environment and the quality of life of people in that space. An environment based on only pragmatic solutions may seem one-dimensional, its enrichment with artworks provides an excellent opportunity to make people think about important issues, because good art leaves room for interpretation.

Art competition organised in order to find the best possible solution helps to enrich the surrounding environment aesthetically, giving it a chance to surprise and inspire people.

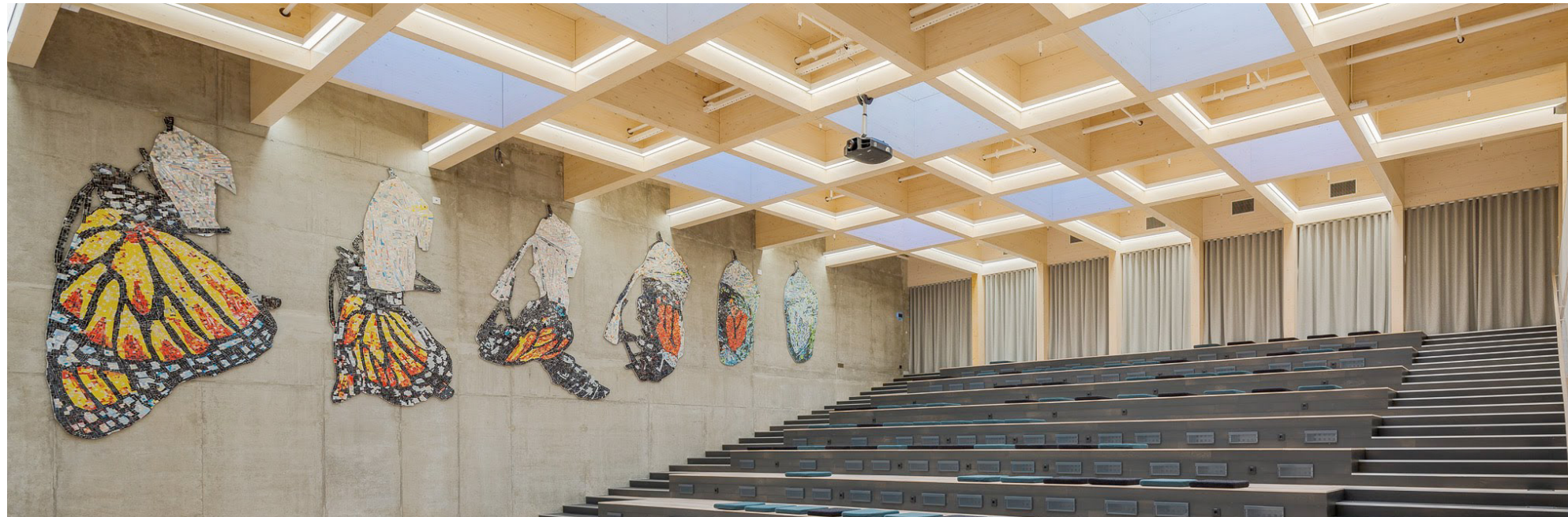
Art in public space can also serve as a landmark and space signifier. Works of art in public space may become an inseparable part of urban space or a building. An example is the sculpture "Justitia" by Aime Kuulbusch-Mölder in 1991, which was moved from the old courthouse to the new courthouse completed in 2018, as a symbol of justice and space signifier.

The purpose of art competitions organised by RKAS is to use public money to commission a work of art with as high quality and artistic value as possible, to be placed in public space. Art competitions with juries composed of artists, curators and art scholars, representatives of customers and architects designing the space, allows the artists to create unique, sometimes even monumental works of art. Thus, art can take its message to a place that is available to the public on a daily basis.



Sculpture "Justitia", author Aime Kuulbusch-Mölder

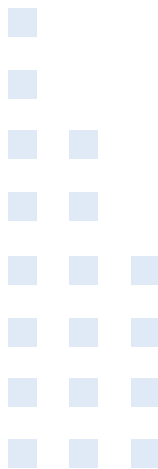




Traditional material-based art still has a place in the world that is becoming increasingly digitalised. E.g. Jass Kaselaan, the author of monumental mosaic panel “Butterfly” that won the art competition of Viimsi Gymnasium last year, engages in giving new meaning to old and venerable ceramic mosaic in modern space. That being said, the result is nothing but old-fashioned and it relates well with modern digital imagery. The work of art depicts the story of growth and development, where school years are seen as preparation for flight, independent life.

A good example of innovative use of materials is the installation “Iceberg” by Maret Sarapu, completed in the main building of eu-LISA in 2018. The resulting sculpture can be viewed from various angles in the daylight, it is layered, airy and constantly changing its colours, which alters the perception of entire atrium. According to the jury of the art competition, this work captures very well the essence of the building of the eu-LISA, which is just a tip of the iceberg. Other parts of the structure are located in Strasbourg and in Austrian mountains with voluminous databanks.

*Mosaic panel “Butterfly”,  
author Jass Kaselaan*



It has been a pleasure to see that the art competitions organised by RKAS are becoming increasingly more popular among artists. For example, art competition for Rapla state gymnasium received 56 works, with the winning work of a painting “Social still-life for advanced class!” by Kaido Ole. One of the most recognised and awarded painter Kaido Ole managed to contribute to the building of new Rapla state gymnasium, a school, in the old building of which he studied in the early 1970s.

Art in public space must function in dialogue with environment, architecture, users and customers. RKAS as one of the major commissioners of artworks aims at the result that is the best for public space and thus the attractiveness and competitive ability of entire country.



Installation “Iceberg”, author Maret Sarapu





Tallinn Prison





# ENVIRONMENT

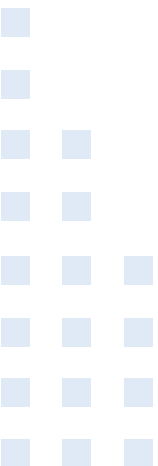
## Energy consumption and energy efficiency

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

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, including complying with requirements arising from legislation.

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

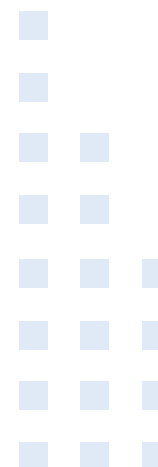
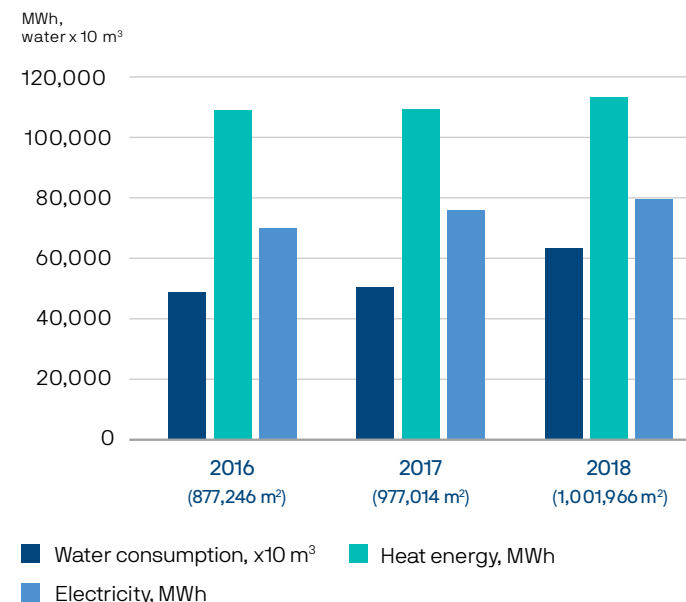
RKAS monitors energy and water consumption of managed buildings on a monthly basis and registers the data in management information system. The department of environmental and technical support analyses data and develops measures for stabilising and reducing consumption.

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 consumption 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.

## Comparison of energy and water consumption

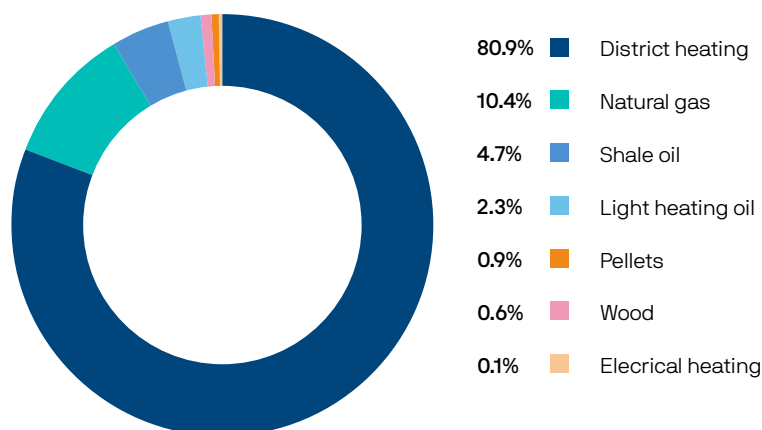


## Heat energy

RKAS portfolio users mainly district heating to supply heat to buildings. Overview of the types of fuel used for producing heat in 2018 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 (including renewable sources such as pellets, wood) is shown on the figure below.

### Distribution of locally produced heat energy



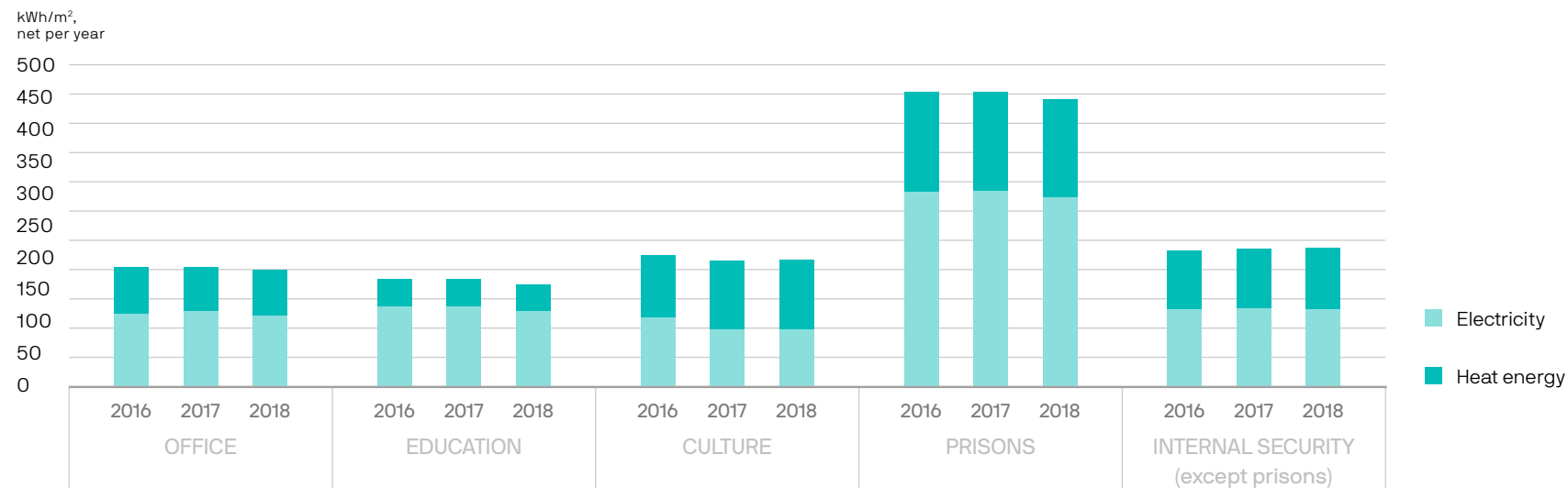
## Electricity

In 2018, all electricity for RKAS energy portfolio was purchased at market price. Due to stricter requirements for energy efficiency of buildings and lowered cost of solar power plants, the construction of local solar power plants is becoming more and more topical. The first solar power plant in the building developed by RKAS is in Põlva state gymnasium. New buildings applying for energy label A that are still under development are all equipped with local energy production system.

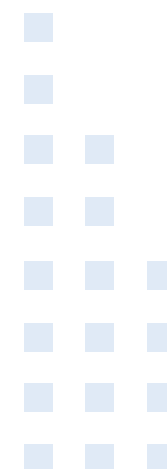
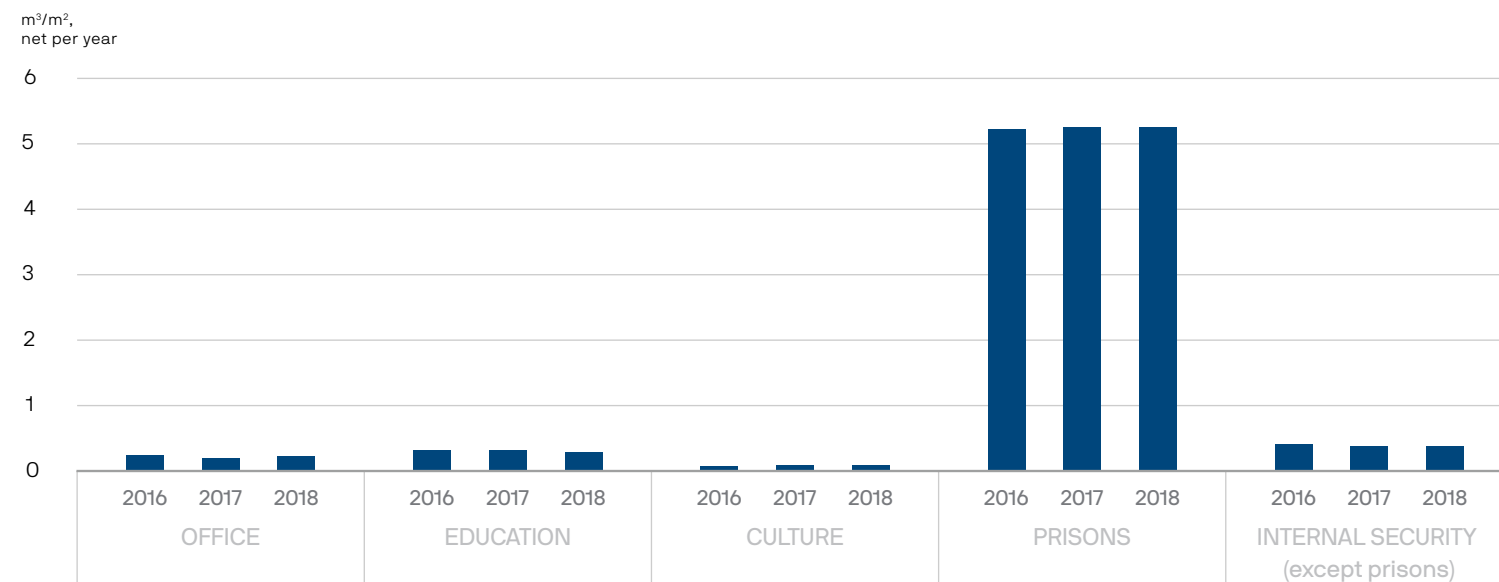
The administrative and service portfolio of RKAS contains immovable properties and buildings with different profile and intended use, which can be divided into five groups: office, internal security (except for prisons), prisons, education and cultural buildings. Intensity of energy and water consumption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



## Special use of energy



## Special use of water





Tallinn Prison

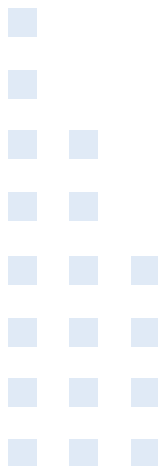
The diagrams indicate buildings that have been in use for at least one full year, meaning that the result is not affected by the buildings completed in 2018 or major renovation projects (e.g. Viimsi state gymnasium, Tallinn courthouse, Vändra rescue depot, etc.).

Special use of energy and water has generally remained stable. The greatest improvement in consumption data occurred in educational buildings. Positive change is primarily due to repair works completed in 2016–2017, but also new state gymnasiums (e.g. Põlva, Võru and Kärdla state gymnasiums that achieved stable energy and water consumption in 2018).

Energy and water use of office buildings has also dropped. The greatest reason for change is the joint building of ministries completed in Tallinn in III quarter of 2017, which ensured remarkable savings on heating compared to single buildings formerly used by the ministries.

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.



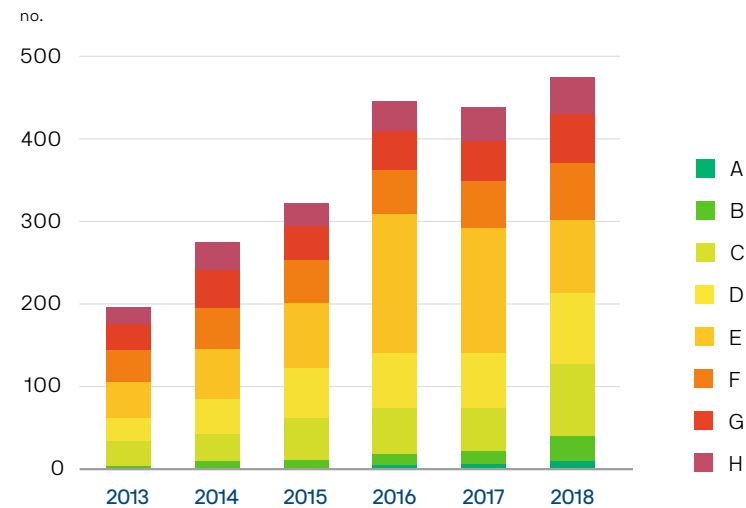
## Distribution of energy-performance labels

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-performance label provides an overview of the energy efficiency and intensity of use of a building (buildings with energy-performance label class A have the greatest energy efficiency and buildings with energy-performance label class H consume the most energy). Therefore, energy-performance label class is an indication of the technical condition of the buildings and consumption habits of the user. RKAS consistently maps the data and issues energy-performance labels to buildings that lack them. Various repair works are planned for buildings with low energy-performance label class (e.g. connecting Tartu Alarm Centre with energy monitoring system due to excessive energy consumption).

Pursuant to the Regulation no. 63 of the Minister of Business and Information Technology „Minimum requirements for energy efficiency of buildings”, the energy-performance label class of an existing building must be at least C or better, in order to meet the minimum requirements for energy efficiency. New buildings developed by RKAS, to be completed after 01.01.2019, are all designed as energy-performance label class A (near zero energy) buildings. The distribution and dynamics of energy-performance labels of the buildings in RKAS management portfolio is shown on the diagram below.

## Energy-performance labels issued for buildings of RKAS

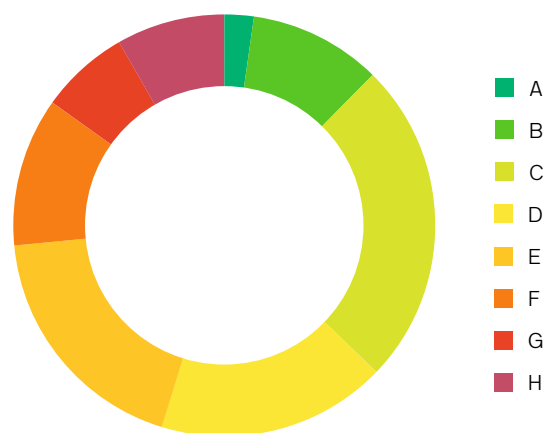




The scale of energy-performance label classes depends on intended use of the building and arises from the Regulation No. 36 of the Minister of Economic Affairs and Infrastructure „Requirements for energy-performance label and issuing thereof“.

Relative distribution of energy-performance label classes shows that 37% of the buildings in administration and contractual portfolio meet the minimum requirements for energy efficiency.

### Distribution of energy -performance labels issued in 2018

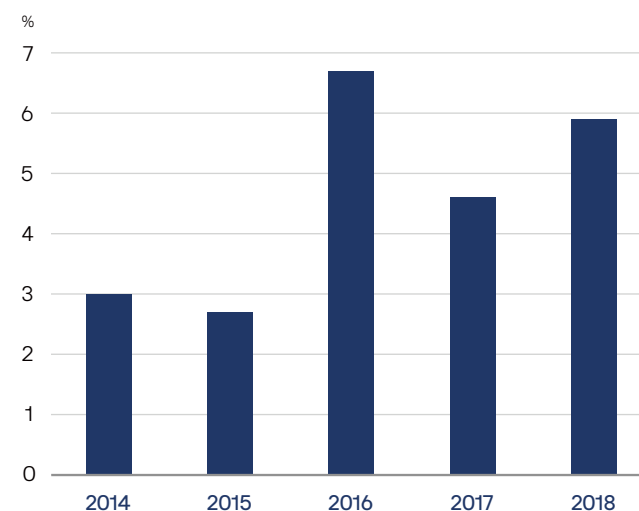


Compared to the previous year, the number of labels increased because takeover of assets, as well as due to constant issuing of energy-performance labels to existing buildings. Energy-performance label is present in more than 97% of buildings in management portfolio that require the presence of energy performance label.

Pursuant to one obligation of the EU Directive on energy efficiency (2012/27/EL), every Member State must bring at least 3% of the buildings used by the central government, that do not meet the minimum requirements and are subject to minimum requirements, in accordance with the requirements, i.e. reconstruct them as at least a building with energy-performance label class C. We adhere compliance with this obligation in our portfolio and we also annually check the impact of improvement works on energy efficiency.

In recent years, we have brought the buildings in compliance with minimum requirements of energy efficiency as shown below.

### Rate of buildings brought in compliance with minimum requirements of energy efficiency





Tallinncourthouse



# GOVERNANCE

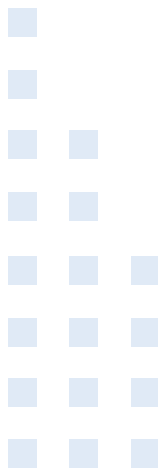
## Management of the organisation

The Republic of Estonia is the 100% shareholder of RKAS and the share capital of the company as at 31.12.2018 was 226,628,800 euros. The shares are managed by the Ministry of Finance and the general meeting consists in the minister of state administration.

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. In 2018, the RKAS group also included the subsidiary OÜ Hooldus Pluss, which provides maintenance service, merged with RKAS on 16.11.2018.

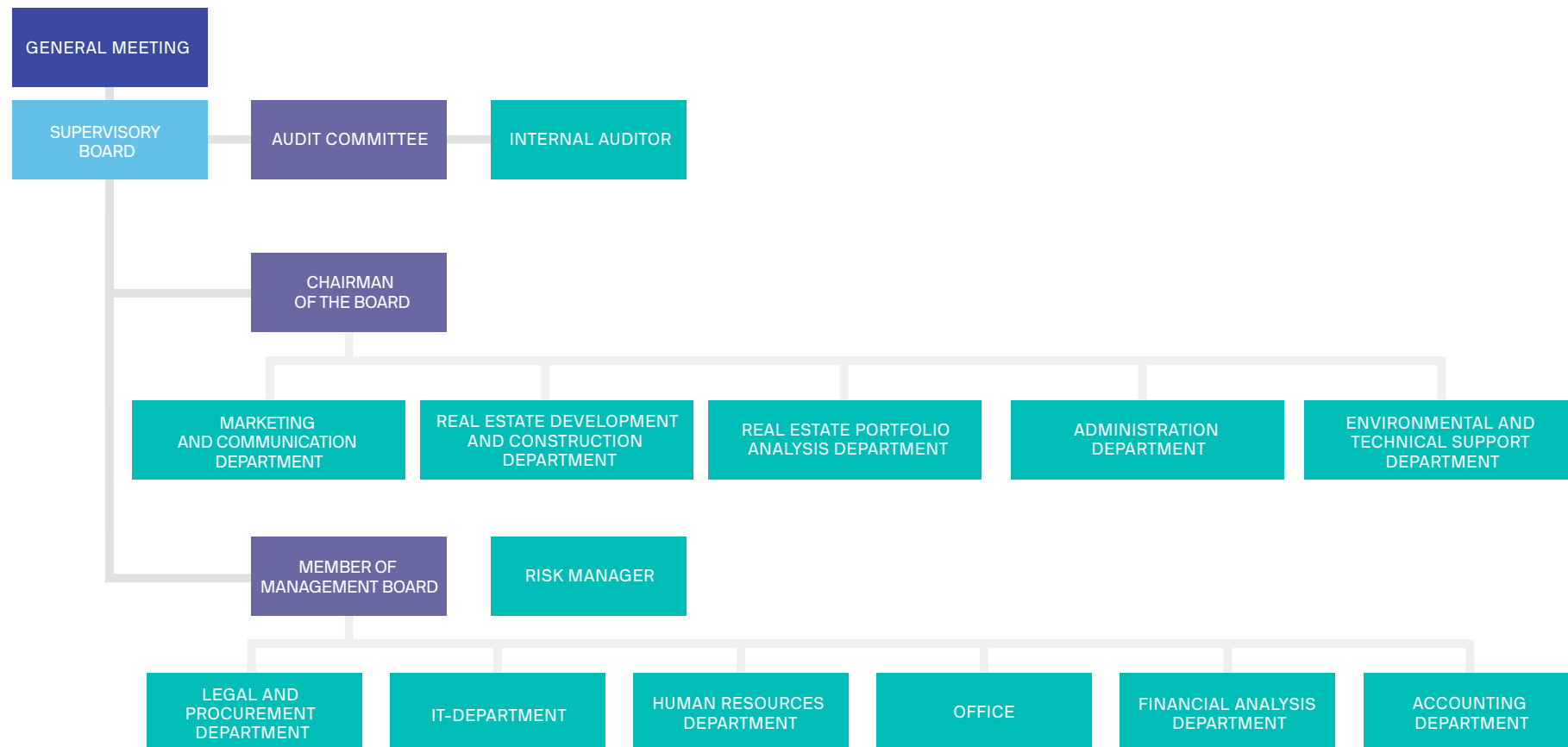


Tallinn courthouse





## Organisational structure of RKAS as at 31.12.2018.



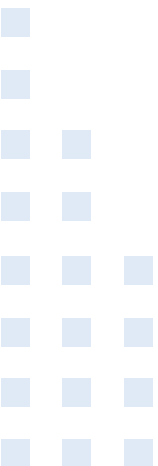
## Report on Good Practice of Company Management

Pursuant to clause 88 (1) 10) of the State Assets Act and Article of Association 10.3.3. of RKAS, RKAS as a 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 Minister of Finance as the person exercising right of the 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.

### 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.



Tallinn courthouse

The management board shall decide and organise the calling of 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 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 2018, the general meeting adopted 16 resolutions, which are published at [www.rkas.ee](http://www.rkas.ee).

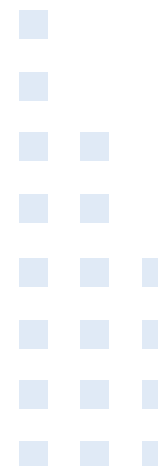
## Management board and management

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 elected pursuant to the Commercial Code for a specified term of up to three years. In 2018, the management board included Tanel Tiits (member of the management board until 13.04.2018), Piia Kallas and Kati Kusmin. At the moment of preparing the report, the management board of RKAS has two members.

During 2018, management held 93 meetings.

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 average 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 the 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 2018, the calculation of remuneration for the members of the management include also the fee granted by the supervisory board for performance in 2017 as follows: Tanel Tiits 59,632 euros (member of the management board until 13.04.2018; includes the fee paid upon leaving), Piia Kallas 88,853 euros, Kati Kusmin 106,383 euros.





## Supervisory board

The Government of the Republic has formed an appointment committee for making proposals 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 on the management of the company. The supervisory board decides on the development strategy and investment policy of the company, the conclusion 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 12 supervisory board meetings held in 2018. 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 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 2018, the supervisory board members included Marek Pohla (the member of the supervisory board until 28.02.2018), Sulev Luiga (chairman of the supervisory board), Tõnu Toompark, Marianne Paas, Kaie Karniol and Ruth Laatre (member of the supervisory board since 01.05.2018), Norman Aas (member of the supervisory board since 01.05.2018).

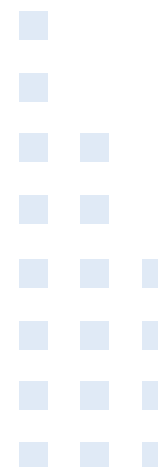
Overview of remuneration paid to the members of supervisory board in 2018:

Marek Pohla 1000 euros, Sulev Luiga (chairman of supervisory board) 12,000 euros, Tõnu Toompark 6,000 euros, Kaie Karniol 6,000 euros, Marianne Paas 6,000 euros, Ruth Laatre 3,500 euros, Norman Aas 3,500 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, five meetings were held in 2018. 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 RKAS and the chairman of the audit committee, who is not a member of the supervisory board, will receive 100% all the monthly remuneration appointed to the member of the supervisory board of RKAS.

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 2018, the committee included Taavi Saat (chairman, not the member of the supervisory board), Marianne Paas and Kaie Karniol.

In 2018, the audit committee members received remuneration as follows: Taavi Saat 6,000 euros, Marianne Paas 440 euros and Kaie Karniol 440 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 (including news and notices) are constantly updated.

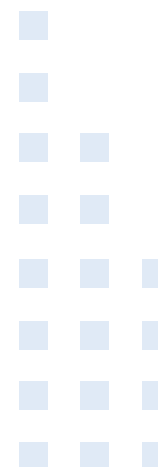
## Financial reporting and auditing

Financial reports of the company are prepared in accordance with the Estonian financial reporting standard.

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 2018 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 report. The income statement, balance sheet and cash flow statement for I and III quarters of the financial year are published by the end of the month subsequent to the quarter at the latest, and income statement, balance sheet and cash flow statement for II and IV quarters of the financial year are published within two months after the end of the quarter;

The members of the management board and supervisory board shall forward signed annual report to the general meeting for approval.



## Quality management

The purpose of RKAS is to be preferred company providing real estate environment to the public sector in Estonia and to ensure sustainable, diligent and effective governance and administration of real estate.

RKAS implements management system compliant with ISO 9001 (quality management) and ISO 14001 (environmental management) standards. Management system covers all areas of activity of RKAS, i.e. property management and maintenance, property development and investment properties, purchase, sales and rental of real estate and project management.

Quality policy provides guidelines to meet the expectations of the owner and goals of the company through satisfaction of customer, cooperation partners and employees.

### Quality management principles of RKAS

1. We are the centre of excellence for the provision of real estate environment and services for state agencies.
2. We ensure good quality, energy efficiency, responsible management of real estate and its compliance with requirements arising from legislation.





3. We contribute to ensuring optimum efficient and sustainable real estate solution and services based on the nature of the duties of state agencies.
4. We provide state agencies with solutions to optimise the use of premises, in order to improve cost-efficiency and sustainability of the activities of state agencies.
5. We develop and participate in implementation of modern construction and property upkeep methodologies.
6. When supplying services and things, we consider the best possible economic use of financial means, including durability and responsibility.
7. We monitor used resources and applied activities in order to optimise costs, increase performance and facilitate responsible conduct.

With environmental policy, we aim at sustainable use of resources, which is part of our responsible conduct. When planning and implementing the activities for environmental sustainability, we take into consideration economic reasonability.

## Environmental and energy efficiency management principles of RKAS

### 1. Safe and clean real estate environment

We create measures for ensuring safe and socially responsible real estate environment (including internal climate, cleanliness of rooms and use of finishing materials).

### 2. Energy efficiency

We reduce environmental impact arising from the energy consumption in buildings through more efficient resource management, we follow the requirements arising from legislation. Optimisation of energy expenditure – we invest in order to optimise the energy expenditure required for ensuring our main activities.

### 3. Water

We reduce the environmental impact resulting from water consumption and expenditure through more efficient use of resources (e.g. overconsumption and consumption of water from wells).

### 4. Waste handling

We optimise the costs related to waste handling. We perform waste handling based on good practice. We follow the principle that waste is a resource and we increase our customers' awareness of waste handling

### 5. Air emissions

We monitor air emissions in order to identify possibilities to reduce the amount of emissions, environmental pollution and possibilities for cost optimisation.

### 6. Procurements

We approach procurements in an environmentally-friendly, sustainable and cost-efficient way (e.g. joint procurement, green public procurements, value-based procurements).

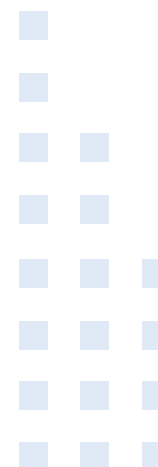
### 7. Construction and repair

Construction, reconstruction and repairs of buildings are based on the principles of energy-efficiency, environmental sustainability (including cost effectiveness), ensuring healthy and clean real estate environment. Design of buildings and assessment of design documentation is based on the ecolabel criteria (e.g. green label).

### 8. Involvement of stakeholders

We encourage and support staff and stakeholders to follow sustainable lifestyle.

One key subject for RKAS strategy for 2017–2020 is the clarity of services and processes. Based on the aforesaid, all processes, procedures, guidelines and other normative documents of the company have undergone methodical renewal.



In terms of quality management, the significant events in 2018 were the following.

### 1. ISO re-certification

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, including 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.

### 2. Certification of real estate management

Estonian Property Management Association has issued to RKAS three-star certificate of real estate management. This is issued to a company, where:

- 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.

### 3. New management system principles

In February 2018, new management system principles were approved, which determine the measures and provide RKAS with guidelines for process management, preparation of company's activity plans, performing reviews and improvements. We also renewed the procedure for performing internal audits of management system and assessment of compliance.

Pursuant to the internal audit plan for management system, real estate portfolio management, real estate administration and maintenance, compliance with environmental and occupational, health and safety legislation were audited in 2018.

Company prepared particular activity plans based on all observations made by auditors, in order to eliminate non-compliances and implement additional recommendations.

### 4. Systemisation of RKAS processes

We continued updating all RKAS processes that was commenced in 2017, based on new principles of process description and visualisation.



## Risk management

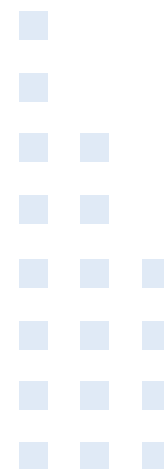
The purpose of RKAS risk management is to understand, assess and manage operational risks in order to ensure success, achieve set goals and reduce potential setbacks. Although risks hinder achievement of set goals, they are natural part of daily work of RKAS – they cannot always be avoided, but they can be managed.

**Possible negative consequences of risks in RKAS include the following:**

- failure to achieve strategic objectives;
- occurrence of errors, damage, accidents or abuse;
- material and reputational damage involved in partial or full realisation of risks;
- impeachment of sustainability of the company.

Risk management of RKAS is based on single framework, which is described in the risk management process of the company. Company's risk manager is the process holder.

All risk management data (risk category, risk holder, effect, probability, alleviation activities, total risk score, document references, etc.) are fixed in electronic consolidated table for risk assessment – RKAS risk register.





As at 2018, the risk register of RKAS identified 97 risks, divided into the following five risk categories.

Financial risk	17
Fraud risk	22
Strategic risk	35
Operating risk	56
External environment risk	2
<b>TOTAL</b>	<b>97</b>

Risk assessment and follow-up assessment are performed by relevant specialists of RKAS (in cooperation with risk manager), the achievement of goals of whom the risk affects (risk holders) and then they will be reviewed by the management in the course of periodic reporting.

Risk manager updates risk register and controls the performance of alleviation activities of conditional and critical risks. Summary of assessment of updated risks of all risk register shall be submitted to the management bodies of RKAS for approval once a year.

Keywords in risk management in 2018 were the following.

### 1. Supervision proceedings of public procurements of the Ministry of Finance

Scheduled supervision proceedings of the Ministry of Finance regarding the public procurements performed in RKAS from January to December 2016. Control report contained positive mentioning of transparent and easily controllable simplified proceedings carried out as 100% online proceedings in RKAS. In single cases, a few shortcomings were detected, which were used as a basis for changes made in the public procurement procedure of RKAS.

### 2. Renewal of ISO quality and environmental management certificates

Recertification of the company in the beginning of 2018 involved renewal of ISO 9001:2015 quality management and ISO 14001:2015 environmental management certificates issued to RKAS. Adherence to the aforesaid ISO standards ensures systemic operation of the company and establishes clear requirements for quality and environmental management system. The aforesaid assures the management bodies of the company and stakeholders that in its business activities, RKAS is committed to ensuring sustainability and constant compliance with the regulations regarding environment.

### 3. Regular internal audits

Contractual internal auditor PricewaterhouseCoopers Advisors AS performed the management audits regarding development activities, human resources, IT development processes and achievement of strategic goals of RKAS. All observations made by the auditors were used by RKAS as a basis in preparation of particular action plans for eliminating bottlenecks.

### 4. Organisation of RKAS processes

We continued the work started in 2017 for updating all RKAS processes based on new principles for preparing process descriptions and visualisation of processes.

### 5. Information security

In 2018, our information security activities focused on improvement of the so-called cyber hygiene of our employees, incl. carrying out two online courses on cyber wisdom, which improved employees' awareness of cyber security and thus the security of entire company. Additionally, IT solutions were established to facilitate common and secure handling of information both in terms of in-house and customer communication.

## 6. Implementation of GDPR

Major preparations and establishment of internal procedures were also required for the General Data Protection Regulation (GDPR) that entered into force in May 2018. RKAS has established the register of processing operations of personal data and appointed data protection specialist.

## 7. Coherent action plans

We continued preparation of action plans based on strategy for 2017–2020 and quarterly reporting.

## 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 – the above is established in the principled of corruption prevention approved by the supervisory board of RKAS.

**The measures for ensuring compliance with the principles of corruption prevention in RKAS**

### 1. Established ethical code of employees

It specifies the principle of equal treatment, legal compliance, sense of responsibility, diligence, accuracy and conditions on using any methods to distort competition when performing work duties.

### 2. Functional hotline

This is a technical solution that functions 24/7 and allows anonymous submission of information regarding events that do not comply with good business practice and generally accepted moral standards.

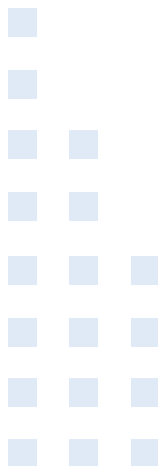
## 3. Valid procedure for declaring business interests and prevention of conflict of interest

The procedure specifies general principles set out in the code of ethics and determines particular tasks of every employee in the event of a conflict of interest, including the terms for accepting gifts and a refusing services. The document also determines the circle of persons who are required to submit, at least once a year, a declaration of personal interest, comprising information on the holdings of the employees and persons related to 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.

## 4. Regular in-house training

In 2018, in-house training on the prevention of corruption was carried out in all RKAS subunits and, in view of major changes in the management bodies of the company, a joint training on the prevention of corruption was carried out for the supervisory board, audit committee and management of RKAS.

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 2018.



# Annual accounts

## Consolidated balance sheet

(in thousands of euros)

	31.12.2018	31.12.2017	Note no.
Assets			
Current assets			
Cash	22,609	35,628	
Receivables and prepayments	7,829	9,715	2
Inventories	24,611	14,962	3
<b>Total current assets</b>	<b>55,049</b>	<b>60,305</b>	
Fixed assets			
Receivables and prepayments	8,754	20,801	2
Investment properties	6,004	7,859	6
Tangible assets	537,216	490,555	7
Intangible assets	2,063	1,441	8
<b>Total fixed assets</b>	<b>554,037</b>	<b>520,656</b>	
<b>Total assets</b>	<b>609,086</b>	<b>580,961</b>	
Liabilities and owner's equity			
Liabilities			
Current liabilities			
Loan liabilities	6,347	51,428	11
Debts and prepayments	21,609	25,659	12
Provisions	0	730	
<b>Total current liabilities</b>	<b>27,956</b>	<b>77,817</b>	

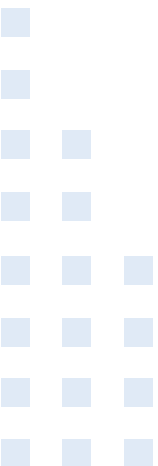
	31.12.2018	31.12.2017	Note no.
Long-term liabilities			
Loan liabilities	128,535	95,453	11
Debts and prepayments	44,458	32,631	12
Target financing	2	0	
<b>Total long-term liabilities</b>	<b>172,995</b>	<b>128,084</b>	
<b>Total liabilities</b>	<b>200,951</b>	<b>205,901</b>	
Owner's equity			
Owner's equity of shareholders or partners of parent undertaking			
Share capital in nominal value	226,629	218,334	14
Non-registered share capital	9,299	1,056	14
Share premium	1	1	
Legal reserve	5,251	4,452	
Retained profit (loss)	150,091	135,242	
Profit (loss) for financial year	16,864	15,975	
<b>Total owner's equity of shareholders or partners of parent undertaking</b>	<b>408,135</b>	<b>375,060</b>	
<b>Total owner's equity</b>	<b>408,135</b>	<b>375,060</b>	
<b>Total liabilities and owner's equity</b>	<b>609,086</b>	<b>580,961</b>	



# Consolidated income statement

(in thousands of euros)

	2018	2017	Note no.
Sales revenue	106,479	106,246	15
Cost of products (goods, services)	-82,523	-82,282	16
<b>Gross profit (loss)</b>	<b>23,956</b>	<b>23,964</b>	
Marketing costs	-1,540	-1,172	17
General administrative expenses	-4,127	-4,222	18
Other operating revenue	42	132	
Other operating charges	-363	-873	
<b>Operating profit (loss)</b>	<b>17,968</b>	<b>17,829</b>	
Other financial income and expenses	-1,104	-1,854	20
<b>Profit (loss) before income tax</b>	<b>16,864</b>	<b>15,975</b>	
<b>Profit (loss) for financial year</b>	<b>16,864</b>	<b>15,975</b>	
Including:			
Share of profit (loss) of shareholders/ partners of parent undertaking	16,864	15,975	



# Consolidated cash flow statement

(in thousands of euros)

	2018	2017	Note no.
Cash flows from operating activities			
Operating profit (loss)	17,968	17,829	
Adjustments			
Depreciation and impairment of fixed assets	20,770	18,342	6,7,8
Other adjustments	653	730	
<b>Total adjustments</b>	<b>21,423</b>	<b>19,072</b>	
Change in operating claims and prepayments	13,933	12,372	
Change in inventories	3,285	6,983	
Change in operating liabilities and prepayments	11,038	-1,947	
<b>Total cash flow from operating activities</b>	<b>67,647</b>	<b>54,309</b>	
Cash flows from investing activities			
Paid upon acquisition of tangible and intangible assets	-68,281	-74,573	
Received from the sales of tangible and intangible assets	662	0	
Received from target financing	0	-35	
Interest received	2	2	
<b>Total cash flow from investing activities</b>	<b>-67,617</b>	<b>-74,606</b>	
Cash flows from financial activities			
Loans received	40,000	48,500	11
Repayments of loans received	-51,955	-5,462	11
Interest paid	-1,094	-1,916	20
<b>Total cash flows from financial activities</b>	<b>-13,049</b>	<b>41,122</b>	
<b>Total cash flows</b>	<b>-13,019</b>	<b>20,825</b>	
Cash and cash equivalents at the beginning of the period	35,628	14,803	
<b>Change in cash and cash equivalents</b>	<b>-13,019</b>	<b>20,825</b>	
Cash and cash equivalents at the end of the period	22,609	35,628	

# Consolidated statement of changes in owner's equity

(in thousands of euros)

	Total owner's equity of shareholders or partners of parent undertaking					Total
	Share capital in nominal value	Non-registered share capital	Share premium	Legal reserve	Retained profit (loss)	
<b>31.12.2016</b>	207,426	0	1	3,782	135,753	<b>346,962</b>
Profit (loss) for financial year	0	0	0	0	15,975	<b>15,975</b>
Share capital issued	10,908	1,056	0	0	0	<b>11,964</b>
Changes in reserve	0	0	0	670	-670	<b>0</b>
Other changes in owner's equity	0	0	0	0	159	<b>159</b>
<b>31.12.2017</b>	218,334	1,056	1	4,452	151,217	<b>375,060</b>
Profit (loss) for financial year	0	0	0	0	16,864	<b>16,864</b>
Share capital issued	10,644	8,243	0	0	0	<b>18,887</b>
Change in other payments to owners	-2,349	0	0	0	0	<b>-2,349</b>
Changes in reserve	0	0	0	799	-799	<b>0</b>
Other changes in owner's equity	0	0	0	0	-327	<b>-327</b>
<b>31.12.2018</b>	226,629	9,299	1	5,251	166,955	<b>408,135</b>

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

The consolidated annual accounts 2018 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.

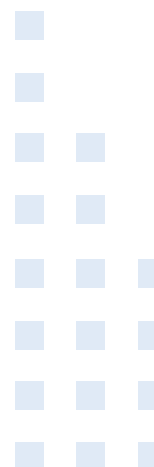
Pursuant to the Accounting Act of the Republic of Estonia, the notes to consolidated annual accounts shall disclose the separate initial unconsolidated reports of the consolidating unit (parent undertaking). Preparation of initial reports of parent undertaking follows the same accounting policies that 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, 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 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-downs) 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 net 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 costs method. If such signs are present, the financial assets recorded at adjusted acquisition value shall be written down to net 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.

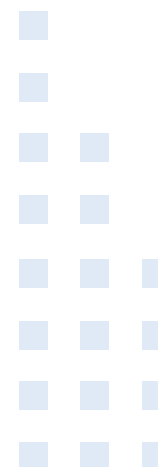
## Cash

Cash and cash equivalents presented on the balance sheet include bank balance.

Cash flows from operating activities are prepared by using indirect method. Cash flow 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 on 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 costs, 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 state (land, 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.

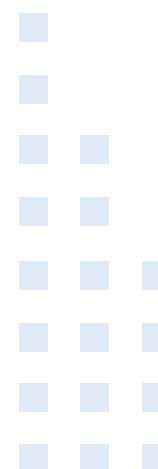
Investment properties are at first registered on the balance sheet at acquisition cost, containing the transaction fees directly related to the acquisition. Later on, pursuant to the public sector financial accounting and reporting guidelines, the investment properties will be recorded at acquisition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





## 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 costs are recorded off-balance sheet.

Tangible assets are first recorded at acquisition 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 a reliable basis.

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

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

Land is not depreciated.

Depreciation shall be calculated as of the moment taking the asset into use for the purpose intended by the management and it shall be no longer be 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 the 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 expiry of the contract. Accounting principles is identical to the accounting principle used by the group for tangible assets.

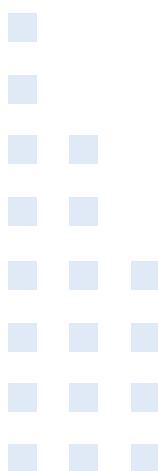
### Registered payments for a right of superficies

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 costs, 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 employment 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

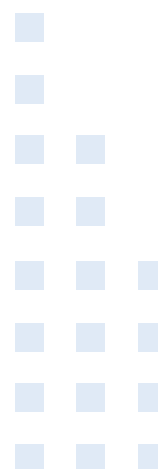
## Lease

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 recorded 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 these 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.

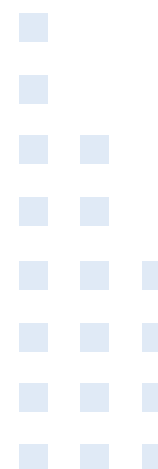
Assets leased under operating lease shall be recorded on the balance sheet as usual, similar to other assets recorded on the group's balance sheet. Leased assets are depreciated based on depreciation principles applied in the group to assets of the same type. Operating lease payments shall be recorded 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 the 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 the 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 obligations 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 a 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 in income statement under entry „Other operating revenue“.

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

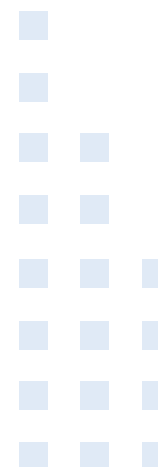
## Revenues

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 or 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 a 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.

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.

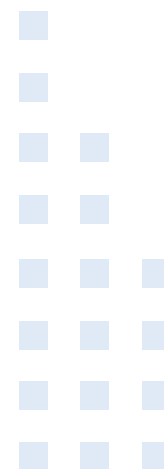


## Taxation

Pursuant to currently valid registration 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 Estonian 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)

	31.12.2018	Distribution by remaining period			Note no.
		Within 12 months	Within 1 - 5 years	More than 5 years	
Trade receivables	6,537	6,537	0	0	
Accounts receivable	6,539	6,539	0	0	
Unlikely receivables	-2	-2	0	0	
Prepaid and deferred taxes	120	120	0	0	4
Other receivables	714	714	0	0	
Accrued income	714	714	0	0	
Prepayments	109	109	0	0	
Expenditure to be charged	109	109	0	0	
Short-term financial lease	349	349	0	0	9
Long-term financial lease	8,754	0	1,384	7,370	9
<b>Receivables and prepayments</b>	<b>16,583</b>	<b>7,829</b>	<b>1,384</b>	<b>7,370</b>	

	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		
Unlikely receivables	-6	-6	0		
Prepaid and deferred taxes	4,487	4,487	0		4
Other receivables	44	44	0	0	
Accrued income	44	44	0	0	
Prepayments	93	93	0	0	
Expenditure to be charged	54	54	0		
Other prepayments	39	39	0		
Short-term financial lease	1,125	1,125	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>	



## Note 3 | Inventories

(in thousands of euros)

	31.12.2018	31.12.2017
Goods for resale	24,611	14,962
<b>Total inventories</b>	<b>24,611</b>	<b>14,962</b>

In 2018, there were write-downs for 614 thousand euros (55 thousand in 2017) due to decrease in net realisation cost of registered immovable held for sale recorded as inventories.

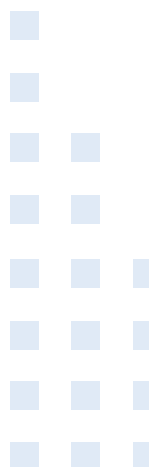
## Note 4 | Prepaid taxes and taxes payable

(in thousands of euros)

	31.12.2018		31.12.2017	
	Pre-payment	Taxes payable	Pre-payment	Taxes payable
Corporate income tax	0	3	0	7
Value added tax	0	741	930	39
Personal income tax	0	192	0	172
Social tax	0	330	0	317
Mandatory funded pension	0	16	0	17
Unemployment insurance premium	0	22	0	21
Land tax	0	-1	0	-1
Prepaid account balance	120		3 557	
<b>Total prepaid taxes and taxes payable</b>	<b>120</b>	<b>1,303</b>	<b>4,487</b>	<b>572</b>

See also Note 2 and Note 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.



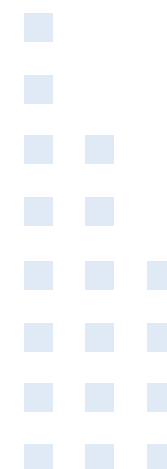
## Note 5 | Shares in subsidiaries

(in thousands of euros)

Shares in subsidiaries, general information					
Registry code of subsidiary	Name of subsidiary	Country of location	Main activity	Holding (%)	
				31.12.2017	31.12.2018
10963751	OÜ Hooldus Pluss	Estonia	Servicing an construction of real estate	100	0

Shares in subsidiaries, detailed information			
Name of subsidiary	31.12.2017	Other changes	31.12.2018
OÜ Hooldus Pluss	3	-3	0
<b>Total shares in subsidiaries at the end of previous period</b>	<b>3</b>	<b>-3</b>	<b>0</b>

On 30.11.2018, Riigi Kinnisvara AS and OÜ Hooldus Pluss were merged. As at 31.12.2018, OÜ Hooldus Pluss was deleted from the Commercial Register.



## Note 6 | Investment properties

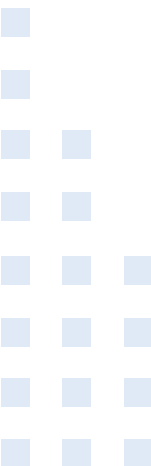
(in thousands of euros)

Acquisition cost method			
	Land	Buildings	Total
<b>31.12.2017</b>			
Acquisition cost	2,847	6,750	<b>9,597</b>
Accumulated depreciation	-415	-1,323	<b>-1,738</b>
<b>Carrying amount</b>	<b>2,432</b>	<b>5,427</b>	<b>7,859</b>
Depreciation cost	0	-236	<b>-236</b>
Re-classification	2	-1,621	<b>-1,619</b>
<b>31.12.2018</b>			
Acquisition cost	2,849	4,988	<b>7,837</b>
Accumulated depreciation	-415	-1,418	<b>-1,833</b>
<b>Carrying amount</b>	<b>2,434</b>	<b>3,570</b>	<b>6,004</b>

In 2018, no investment properties were added as non-monetary contribution to share capital (2017: 450). Additions to share capital are recorder 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 31.12.2017, there were no investment properties pledged as security of loan obligations as at 31.12.2018.





## Note 7 | Tangible assets

(in thousands of euros)

	Land	Buildings	Machinery and equipment	Other tangible assets	Unfinished projects	Prepay-ments	Unfinished projects and prepayments	Total
<b>31.12.2016</b>								
Acquisition cost	39,417	402,816	559	7,099	56,147	1,069	57,216	<b>507,107</b>
Accumulated depreciation	0	-74,282	-469	-3,679	0	0		<b>-78,430</b>
<b>Carrying amount</b>	<b>39,417</b>	<b>328,534</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	75,317	83	75,400	<b>75,400</b>
Purchase of new buildings, new construction, improvements		0			74,825	83	74,908	<b>74,908</b>
Other purchases and improvements			0	0	492	0	492	<b>492</b>
Depreciation cost	0	-16,873	-58	-834	0	0	0	<b>-17,765</b>
Reclassification	-2,428	30,234	0	5,797	-37,225	-277	-37,502	<b>-3,899</b>
Reclassification from unfinished projects	222	31,837	0	5,797	-37,202	-1	-37,203	<b>653</b>
Reclassification as inventories	-2,650	-1,603	0	0	-23	-276	-299	<b>-4,552</b>
Other reclassification	0	0	0	0	0	0	0	<b>0</b>
Other changes	949	7,195	0	0	-2	0	-2	<b>8,142</b>
<b>31.12.2017</b>								
Acquisition cost	37,938	437,760	559	12,896	94,237	875	95,112	<b>584,265</b>
Accumulated depreciation	0	-88,670	-527	-4,513	0	0	0	<b>-93,710</b>
<b>Carrying amount</b>	<b>37,938</b>	<b>349,090</b>	<b>32</b>	<b>8,383</b>	<b>94,237</b>	<b>875</b>	<b>95,112</b>	<b>490,555</b>
Purchases and improvements	0	0	6	0	63,113	153	63,266	<b>63,272</b>
Purchase of new buildings, new construction, improvements		0			63,113	153	63,266	<b>63,266</b>
Other purchases and improvements			6	0	0	0	0	<b>6</b>
Depreciation cost	0	-18,830	-21	-1,181	-136	0	-136	<b>-20,168</b>
Sales	0	0	0	-662	0	0	0	<b>-662</b>
Reclassification	-3,459	140,144	0	7,544	-151,034	0	-151,034	<b>-6,805</b>
Reclassification from unfinished projects	58	143,378	0	7,544	-150,980	0	-150,980	<b>0</b>
Reclassification as investment properties	430	0	0	0	-11	0	-11	<b>419</b>
Reclassification as inventories	-4,640	-2,541	0	0	-43	0	-43	<b>-7,224</b>
Other reclassification	693	-693	0	0	0	0	0	<b>0</b>
Other changes	470	10,489	-11	120	-44	0	-44	<b>11,024</b>

## Note 7 | Tangible assets / continues

(in thousands of euros)

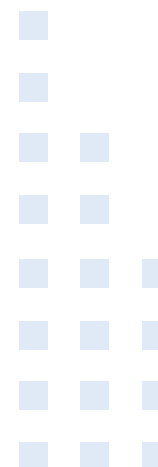
	Land	Buildings	Machinery and equipment	Other tangible assets	Unfinished projects	Prepay - ments	Unfinished projects and prepayments	Total
<b>31.12.2018</b>								
Acquisition cost	34,949	586,214	44	19,110	6,136	1,028	7,164	<b>647,481</b>
Accumulated depreciation	0	-105,321	-38	-4,906	0	0	0	<b>-110,265</b>
<b>Carrying amount</b>	<b>34,949</b>	<b>480,893</b>	<b>6</b>	<b>14,204</b>	<b>6,136</b>	<b>1,028</b>	<b>7,164</b>	<b>537,216</b>

### Sold tangible assets at sales price

	2018	2017
Other tangible assets	662	0
<b>Total</b>	<b>662</b>	<b>0</b>

In 2018, tangible assets for 14,382 thousand euros were added as non-monetary contribution to share capital (8,144 in 2017) and upon delivery of tangible assets, share capital was decreased by 3,251 thousand euros (none in 2017). Additions to and reductions of share capital are recorded under "Other changes".

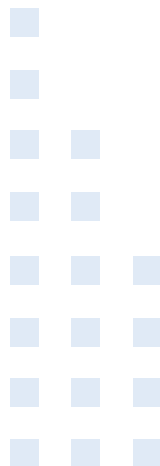
The largest of unfinished projects is the construction of the School of Fine Arts at Pärnu mnt. 59, Tallinn with current acquisition cost of 1.6 million euros.



## Note 8 | Intangible assets

(in thousands of euros)

	Computer software	Unfinished projects and prepayments	Total
<b>31.12.2017</b>			
Acquisition cost	2,056	482	<b>2,538</b>
Accumulated depreciation	-1,097	0	<b>-1,097</b>
<b>Carrying amount</b>	<b>959</b>	<b>482</b>	<b>1,441</b>
Purchases and improvements	7	955	<b>962</b>
Depreciation cost	-324	0	<b>-324</b>
Write-offs	-16	0	<b>-16</b>
Reclassification	1,367	-1,367	<b>0</b>
<b>31.12.2018</b>			
Acquisition cost	3,134	70	<b>3,204</b>
Accumulated depreciation	-1,141	0	<b>-1,141</b>
<b>Carrying amount</b>	<b>1,993</b>	<b>70</b>	<b>2,063</b>





## Note 9 | Financial lease

(in thousands of euros)

### Reporting entity as lessor

	31.12.2018	Distribution by remaining period			Interest rate	Maturity	Note no.
		Within 12 months	Within 1 - 5 years	More than 5 years			
LG schools (option to purchase)	8,858	315	1,247	7,296	0.554%	08.2028-11.2038	
Other with option to purchase	245	34	137	74	0.554%	01.2026	
<b>Total financial lease liabilities</b>	<b>9,103</b>	<b>349</b>	<b>1,384</b>	<b>7,370</b>			<b>2</b>

	31.12.2017	Distribution by remaining period			Interest rate	Maturity	Note no.
		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>			<b>2</b>

All contracts have been concluded in Estonian kroons.

Decrease in financial lease, compared to the end of 2017, is due to the fact that several objects of financial lease were purchased by local governments in 2018.

### Reporting entity as lessee

	31.12.2018	Distribution by remaining period			Note no.
		Within 12 months	Within 1 - 5 years	More than 5 years	
<b>Total financial lease liabilities</b>	<b>462</b>	<b>24</b>	<b>110</b>	<b>328</b>	<b>11</b>

	31.12.2017	Distribution by remaining period			Note no.
		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>	<b>11</b>

## Note 10 | Operating lease

(in thousands of euros)

### Reporting entity as lessor

	2018	2017
Operating lease revenue	64,650	61,013
Carrying amount of assets leased or rented		
Investment properties	5,970	6,220
Other assets	518,567	380,355
<b>Total</b>	<b>524,537</b>	<b>386,575</b>

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 33 thousand euros (1,639 thousand euros in 2017) do not earn revenue, because they are not leased and are waiting for new business solutions.

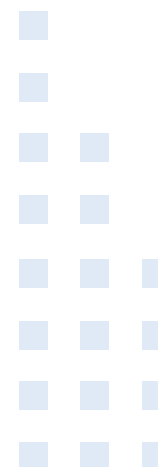
As for investment properties see Note no. 6.

### Reporting entity as lessee

	2018	2017
Operating lease expense	8,047	6,254

In 2018, 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 2018, the lease revenue from the said buildings amounted to 8,130 thousand euros and expense of 7,257 thousand euros (revenue of 6,804 thousand euros and expense of 5,933 thousand euros in 2017).



## Note 11 | Loan liabilities

(in thousands of euros)

	31.12.2018	Distribution by remaining period			Note no.
		Within 12 months	Within 1 - 5 years	More than 5 years	
Long-term loans					
<b>Total long-term loans</b>	85,920	6,323	25,314	54,283	
Long-term bonds					
<b>Total long-term bonds</b>	48,500	0	0	48,500	
<b>Total financial lease liabilities</b>	462	24	110	328	9
<b>Total loan liabilities</b>	<b>34,882</b>	<b>6,347</b>	<b>25,424</b>	<b>103,111</b>	

	31.12.2017	Distribution by remaining period			Note no.
		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	9
<b>Total loan liabilities</b>	<b>146,881</b>	<b>51,428</b>	<b>6,187</b>	<b>89,266</b>	

The interest rate of long-term bank loans is based on Euribor for six months, plus margin 0.34– 0.68% a year. Repayment dates of long-term loans are 2028 and 2038 and interest rate of 6 months of bank loan is 0.102-0.68%.

Fixed interest rate of bonds is 1.61% and maturity is 2027. Bonds of Riigi Kinnisvara AS are registered in the Register of Securities (ISIN-code EE3300111236).

Underlying currency of loans and bonds is euro.

Loan obligation is guaranteed by mortgage established on registered immovable owned by the company and recorded as tangible asset with book value of 37,305 thousand euros.



## Note 12 | Debts and prepayments

(in thousands of euros)

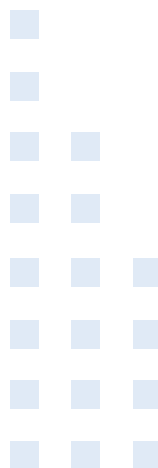
	31.12.2018	Distribution by remaining period			Note no.
		Within 12 months	Within 1 - 5 years	More than 5 years	
Trade creditors	9,234	9,234	0	0	
Employee-related liabilities	576	576	0	0	
Taxes payable	1,303	1,303	0	0	4
Other payables	2,246	2,246	0	0	
Interest payable	30	30	0	0	
Other accruals	2,216	2,216	0	0	
Prepayments received	52,708	8,250	5,514	38,944	
Deferred income	49,020	4,562	5,514	38,944	
Other prepayments received	3,688	3,688	0	0	
<b>Total debts and prepayments</b>	<b>66,067</b>	<b>21,609</b>	<b>5,514</b>	<b>38,944</b>	

	31.12.2017	Distribution by remaining period			Note no.
		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	4
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>	

Prepayments received include securities in the sum of 2,162 thousand euros received by RKAS (654 thousand euros in 2017), construction related prepayments 4,562 thousand euros (2,775 thousand euros in 2017) and deferred income for contractual repair obligations 2,571 thousand euros (3,249 thousand euros in 2017). 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 4,869 thousand euros (5,056 thousand euros in 2017) and prepaid lease for the Estonian National Museum in the sum of 34,477 thousand euros (25,388 thousand euros in 2017).

Long-term deferred income includes the sales of the right of superficies of property at Suur-Ameerika 1, which will be cut-off as revenue during 50 years. Balance of that liability is 5,111 thousand euros (5,225 thousand euros in 2017).



## Note 13 | Contingent liabilities and assets

(in thousands of euros)

### Contingent investment liabilities

As at 31.12.2018, RKAS had investment liabilities (liabilities that are substantially necessary to be performed) in the total sum of ca 86 million euros (127 million euros in 2017). Ca 19 million of it consists in deferred repair liabilities arising from valid lease contracts.

The largest of the investment liabilities related to development projects are (in millions of euros):

Common building of Pärnu Police and Rescue Board	21.7
Knighthood building /SITKE	6.5
Lilleküla station	3.2
Common building of Sillamäe Police and Rescue Board	3.2
New Tallinn Prison	3.0
Nõmme station	2.4
Seed Centre of Estonian Horticultural Institute in Jõgeva	1.9

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 37.1 million euros since 2019, followed by the Ministry of Rural Affairs with 8.1 million euros and State Chancellery with 6.5 million euros.

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

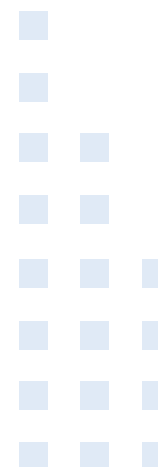
2019 – 36.6

2020 – 27.3

2021 – 2.7

Repair liabilities will be realised according to the need arising during the validity of lease contracts.

In the longer perspective, one third of investments will be financed from own funds and two thirds 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.



## Note 14 | Share capital

(in thousands of euros)

	31.12.2018	31.12.2017
Share capital	226,629	218,334
Number of shares (pcs)	2,266,290	2,183,344
Nominal value of shares	100	100

### In 2018 occurred the following changes:

- 0,558 new shares, all issued in 2017, where entered into the books and registered in Commercial Register.
- 41,076 new shares, all issued in 2017, where entered into the books and registered in Commercial Register.
- 54,802 new shares, all issued in 2018, where entered into the books and registered in Commercial Register.
- 92,994 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 19,650 thousand euros, 5,268 thousand euros of which were recorded as inventories and 14,382 thousand euros as tangible assets. As a result of cancellation of the decision of previous year, two registered immovables were returned to the state in the sum of 762 thousand euros.

- Share capital was reduced by cancellation of 23,490 shares, in the course of which a registered immovable at fair value of 2,349 thousand euros was delivered to the state.

### In 2017 occurred the following changes:

- 109,083 new shares, all issued in 2017, where 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.

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 2018 was 166,112 thousand euros (150,418 thousand euros in 2017). 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 132,890 thousand euros (120,334 thousand euros in 2017) from retained profit existing as at the balance sheet date and the payment of dividends would involve income tax in the sum of 33,222 thousand euros (30,084 thousand euros in 2017).





## Note 15 | Sales revenue

(in thousands of euros)

	2018	2017
Sales revenue broken down by geographical area		
Sales to EU countries		
Estonia	106,479	106,246
<b>Total sales to EU countries</b>	<b>106,479</b>	<b>106,246</b>
<b>Total sales revenue</b>	<b>106,479</b>	<b>106,246</b>
Sales revenue broken down by field of activity		
Income from rent and mediated services	98,085	94,458
Development services	1,317	3,236
Sales of inventories	6,973	8,275
Interest revenue from financial lease contracts	104	277
<b>Total sales revenue</b>	<b>106,479</b>	<b>106,246</b>

## Note 16 | Cost of sold products (goods, services)

(in thousands of euros)

	2018	2017	Note no.
Real estate purchased for resale		7,140	
Expenses related to management activities:			
Management service	611	229	
Utility services	4,341	4,382	
Upkeep	10,638	9,994	
Construction and repair works	7,076	7,727	
Owner's duties	440	385	
Electricity	13,484	12,181	
Heating (thermal energy)	5,449	5,446	
Water supply and sewerage	1,832	1,776	
Support services	1,762	1,449	
Rental cost	7,257	5,933	
Depreciation of managed objects	20,338	17,931	6,7,8
Wages and social tax	4,369	4,321	19
Capitalised labour costs	-61	-101	
Other expenses	307	184	
Expenses of development services:			
Expenses of development projects	726	2,785	
Wages and social tax	556	490	
Other expenses	67	30	
<b>Total cost of sold products (goods, services)</b>	<b>82,523</b>	<b>82,282</b>	

## Note 17 | Marketing expenses

(in thousands of euros)

	2018	2017	Note no.
Bought-in services	437	163	
Wages and social tax	1,703	1,716	19
Capitalised labour costs	-682	-769	
Other expenses	82	62	
<b>Total marketing expenses</b>	<b>1,540</b>	<b>1,172</b>	

## Note 18 | General administration expenses

(in thousands of euros)

	2018	2017	Note no.
Wages and social tax	2,293	2,354	19
Depreciation of office fixed assets	432	356	6-8
Rent and other office expenses	456	449	
IT costs		278	
Other staff costs	157	162	
Other costs	512	623	
<b>Total general administrative expenses</b>	<b>4,127</b>	<b>4,222</b>	

## Note 19 | Staff costs

(in thousands of euros)

	2018	2017	Note no.
Wages and salaries	6,841	6,828	
Social taxes	2,235	2,222	
<b>Total staff costs</b>	<b>9,076</b>	<b>9,050</b>	16-18
Full-time equivalent of average number of employees	250	263	

Wages and salaries contain remuneration in the sum of 6,700 thousand euros (6,660 thousand euros in 2017) and fringe benefits 141 thousand euros (168 thousand euros in 2017).

## Note 20 | Other financial income and expenses

(in thousands of euros)

	2018	2017
Financial revenue	2	2
Interest revenue	-1,106	-1,856
<b>Total other financial revenue and expenses</b>	<b>-1,104</b>	<b>-1,854</b>

## Note 21 | Related parties

(in thousands of euros)

### Balance with related parties by groups

	31.12.2018		31.12.2017	
	Receiv-ables	Liabilities	Receiv-ables	Liabilities
Executive and top management and significant private shareholders and undertakings under their dominant or significant control	42	1,714	9	1,681
Close family members of executive and top management and significant private shareholders and undertakings under their dominant or significant control	0	28	0	27

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.

### Purchases and sales

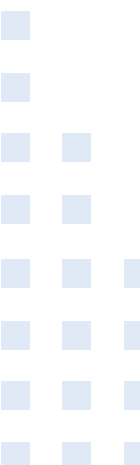
	2018		2017	
	Pur-chases	Sales	Pur-chases	Sales
Executive and top management and significant private shareholders and undertakings under their dominant or significant control	12,731	3,958	11,446	1,875
Close family members of executive and top management and significant private shareholders and undertakings under their dominant or significant control	253	0	261	0

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

	2018	2017
Calculated remuneration	365	315

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 31.12.2018, potential severance payment was 44 thousand euros (64 thousand euros as at 31.12.2017).

Similar to 2017, no write-downs have been formed regarding the claims against related parties in 2018.





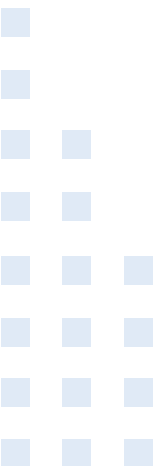
## Note 22 | Events after the report date

(in thousands of euros)

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 9,060 thousand euros at the time of preparing the report. Thus, the share capital of the group has increased to 235,689 thousand euros.

At the time of preparing the report, the company has issued, but not yet registered in Commercial Register shares with value of 0.4 thousand euros.

Registered immovables 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)

	31.12.2018	31.12.2017
Assets		
Current assets		
Cash	22,609	34,882
Receivables and prepayments	7,829	9,712
Inventories	24,611	14,962
<b>Total current assets</b>	<b>55,049</b>	<b>59,556</b>
Fixed assets		
Investment in subsidiaries and associated undertakings	0	3
Receivables and prepayments	8,754	20,801
Investment properties	6,004	7,859
Tangible assets	537,216	490,556
Intangible assets	2,063	1,440
<b>Total fixed assets</b>	<b>554,037</b>	<b>520,659</b>
<b>Total assets</b>	<b>609,086</b>	<b>580,215</b>

	31.12.2018	31.12.2017
Liabilities and owner's equity		
Liabilities		
Current liabilities		
Loan liabilities	6,347	51,428
Debts and prepayments	21,609	25,809
Provisions	0	730
<b>Total current liabilities</b>	<b>27,956</b>	<b>77,967</b>
Long-term liabilities		
Loan liabilities	128,535	95,453
Debt and prepayments	44,458	32,607
Target financing	2	0
<b>Total long-term liabilities</b>	<b>172,995</b>	<b>128,060</b>
<b>Total liabilities</b>	<b>200,951</b>	<b>206,027</b>
Owner's equity		
Share capital in nominal value	226,629	218,334
Unregistered share capital	9,299	1,056
Share premium	1	1
Legal reserve	5,251	4,451
Retained profit (loss)	150,182	134,501
Profit (loss) for financial year	16,773	15,845
<b>Total owner's equity</b>	<b>408,135</b>	<b>374,188</b>
<b>Total liabilities and owner's equity</b>	<b>609,086</b>	<b>580,215</b>

## Note 24 | Unconsolidated income statement

(in thousands of euros)

	2018	2017
Sales revenue	106,486	106,257
Cost of sold products (goods, services)	-82,671	-82,456
<b>Gross profit (loss)</b>	<b>23,815</b>	<b>23,801</b>
Marketing expenses	-1,540	-1,172
General administrative expenses	-4,108	-4,210
Other operating revenue	73	153
Other operating expenses	-363	-873
<b>Total operating profit (loss)</b>	<b>17,877</b>	<b>17,699</b>
Other financial income and expenses	-1,104	-1,854
<b>Profit (loss) before income tax</b>	<b>16,773</b>	<b>15,845</b>
<b>Net profit (loss) for financial year</b>	<b>16,773</b>	<b>15,845</b>

## Note 25 | Unconsolidated cash flow statement

(in thousands of euros)

	2018	2017
Cash flow from operating activities		
Operating profit (loss)	17 877	17 699
Adjustments		
Depreciation and impairment of fixed assets	20 770	18 342
Other adjustments	653	730
<b>Total adjustments</b>	<b>21 423</b>	<b>19 072</b>
Change in operating claims and prepayments	14 223	12 374
Change in inventories	3 285	6 983
Change in operating liabilities and prepayments	10 730	-1 917
<b>Total cash flow from operating activities</b>	<b>67 538</b>	<b>54 211</b>
Cash flow from investing activities		
Paid upon acquisition of tangible and intangible assets	-68 259	-74 576
Received from sales of tangible and intangible assets	662	0
Received from target financing	0	-35
Interest received	2	2
Other cash flows received from investment activities	832	0
<b>Total cash flow from investing activities</b>	<b>-66 763</b>	<b>-74 609</b>
Cash flows from financial activities		
Loans received	40 000	48 500
Repayments of loans received	-51 955	-5 463
Interest paid	-1 093	-1 916
<b>Total cash flows from financial activities</b>	<b>-13 048</b>	<b>41 121</b>
<b>Total cash flows</b>	<b>-12 273</b>	<b>20 723</b>
Cash and cash equivalents at the beginning of the period	34 882	14 159
<b>Change in cash and cash equivalents</b>	<b>-12 273</b>	<b>20 723</b>
Cash and cash equivalents at the end of the period	22 609	34 882

## 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)	Total
<b>31.12.2016</b>	207,426	0	0	3782	135,011	<b>346,219</b>
Net profit (loss) for financial year	0	0	0	0	15,845	<b>15,845</b>
Issued share capital	10,908	1,056	1	0	0	<b>11,965</b>
Change in reserve	0	0	0	669	-669	<b>0</b>
Other changes in owner's equity	0	0	0	0	159	<b>159</b>
<b>31.12.2017</b>	218,334	1,056	1	4,451	150,346	<b>374,188</b>
Net profit (loss) for financial year				1	16,773	<b>16,774</b>
Issued share capital	10,644	8,243				<b>18,887</b>
Change in other payments to owners	-2,349					<b>-2,349</b>
Change in reserve				799	-799	<b>0</b>
Other changes in owner's equity					635	<b>635</b>
<b>31.12.2018</b>	226,629	9,299	1	5,251	166,955	<b>408,135</b>



# Independent Sworn Auditor's Report

## INDEPENDENT SWORN AUDITOR'S REPORT

To the shareholders to the shareholders of Riigi Kinnisvara AS

### Opinion

In our opinion, the consolidated annual accounts give, in all material respects, a true and fair view of the consolidated financial position of Riigi Kinnisvara AS and its subsidiary (together Group) as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the accounting principles generally accepted in Estonia.

The consolidated annual accounts of the Group, audited by us, contains:

- consolidated balance sheet as at 31 December 2018;
- consolidated income statement for the financial year then ended;
- consolidated cash flow statement for the financial year then ended;
- consolidated statement of changes in owner's equity for the financial year then ended; and
- consolidated the notes to the annual accounts, including a summary of significant accounting policies and other explanatory information.

### Basis for opinion

We conducted the audit in accordance with international auditing standards (ISA). Our responsibilities according to these standards are further described in this report under „Responsibilities of the auditor relating to audit of consolidated annual accounts“.

We believe that the audit evidence we have obtained is sufficient and appropriate evidence to provide a basis for expressing an opinion.

We are independent of the Group, as prescribed by the Code of Ethics for Professional Accountants (IESBA code) issued by International Ethics Standards Board for Accountants (IESBA) and the ethics requirements prescribed in the Authorised Public Accountants Act of the Republic of Estonia. We have complied with our other ethical responsibilities pursuant to the IESBA code and the ethics requirements of the Authorised Public Accountants Act of the Republic of Estonia.

### Other information

Management is responsible for other information, contained in the consolidated annual report in addition to the consolidated annual accounts and our respective auditor's report. Our

opinion on the consolidated annual accounts does not comprise other information and we do not draw any assured conclusion regarding that in any form.

Relating to our audit of consolidated annual accounts, it is our responsibility to examine other information and, while doing so, consider whether other information is significantly different from the consolidated annual accounts or knowledge obtained by us in the course of audit or whether it seems to contain material misstatements in any other way. If we conclude, based on the work done, that other information contains material misstatements, then we are required to report this fact. We have nothing to report in this regard.

### Responsibilities of the management and those charged with governance relating to consolidated annual accounts

Management is responsible for the preparation and fair presentation of the consolidated annual accounts in accordance with accounting principles generally accepted in Estonia and internal control deemed necessary by the management to ensure preparation of consolidated annual accounts that are free from material misstatements whether due to fraud or error.

When preparing the consolidated annual accounts, the management is required to assess the group's ability to continue as a going concern, submit information, if applicable, about the circumstances relating to going concern, and use the going concern assumption, unless the management intends to either liquidate the group or terminate its activities or lacks realistic alternative.

Those charged with governance are responsible for executing supervision of the accounting process of the group.



**Responsibilities of the sworn auditor relating to audit of consolidated annual accounts**

Our purpose is to obtain reasonable assurance whether the consolidated annual accounts as a whole are free of material misstatements, whether due to fraud or error, and to prepare sworn auditor's report expressing our opinion. Reasonable assurance is a high, but not absolute level of assurance, and thus does not always guarantee identification of existing material misstatement during audit conducted in accordance with ISAs. Misstatements may be due to fraud or error, and they are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated annual accounts.

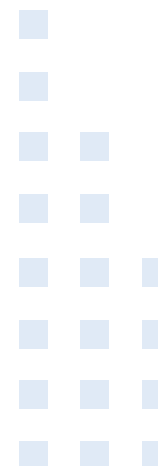
We conducted the audit with professional scepticism in accordance with ISAs and maintained professional scepticism in the course of entire audit. We also:

- identify and assess the consolidated annual accounts for risks of material misstatement, whether due to fraud or error, and design and implement appropriate audit procedures to respond to the assessed risks, and obtain sufficient appropriate audit evidence to support our opinion. The risk of material misstatement due to fraud is greater than the risk of material misstatement due to error, because fraud may stand for secret agreement, forgery, failure to submit information, misrepresentation or ignoring internal control;
- obtain an understanding of relevant internal control in order to design audit procedures appropriate under current circumstances, but not in order to express opinion on the performance of group's internal control;
- assess the appropriateness of used accounting principles and the reasonability of management's assessments and related disclosed information;
- assess, by obtaining sufficient appropriate audit evidence, the appropriateness of management's use of the going concern assumption in the preparation of the financial statements and to conclude whether there is a material uncertainty about the group's ability to continue as a going concern. If we conclude that there is such material uncertainty, then we are required to draw attention to relevant information disclosed in the consolidated annual accounts in the sworn auditor's report or modify the opinion if the information disclosed is insufficient. Our conclusions are based on the audit evidence obtained until the date of sworn auditor's report. Future events or conditions may still cause the group to cease to continue as a going concern;
- assess overall manner of presenting, structure and content of the consolidated annual accounts, including disclosed information, and whether annual accounts present underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient relevant evidence about the financial information regarding economic units belonging to the group or economic activities, in order to express opinion on the consolidated annual accounts as a whole. We are responsible for the management, supervision and performance of the audit of the group and bear sole responsibility of our audit opinion.

We exchange information with those charged with governance, *inter alia* the intended scope and timing of audit and significant observations, including any material deficiencies in internal control discovered in the course of the audit.



Tiit Raimla  
Sworn auditor, licence no.287  
AS PricewaterhouseCoopers  
Activity licence no. 6  
Pärnu mnt 15, 10141 Tallinn  
29 March 2019



2018

# Riigi Kinnisvara

Riigi Kinnisvara AS

Lelle 24, 11318 Tallinn

[www.rkas.ee](http://www.rkas.ee)

*Photos: Maris Tomba and Virge Viertek*